Q3 2011 Earnings Call

Company Participants

- Eduardo Alcalay, Chief Executive Officer
- Rogério Frota Melzi, Chief Financial and Investor Relations Officer

Other Participants

- Analyst
- Bruno Giardino
- JC Santos Pedro Montenegro

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for standing by and welcome to

Estácio's Conference Call to discuss the Third Quarter of 2011 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 respective presentation and the earnings release.

We would like to inform that during the company's presentation, all participants will 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 known and unknown 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 they were made and the company is under no obligation to update them in light of new information of future development.

I will now turn the conference over to Mr. Eduardo Alcalay, CEO. Mr. Eduardo, you may proceed.

Eduardo Alcalay {BIO 1817259 <GO>}

Hi. Thank you and good morning, everyone and welcome to the conference call of Estácio's results quarter, third quarter of 2011. as usual I'll begin today's presentation with the highlights for the quarter and then hand it over to Rogério Melzi, our CFO, who will comment in further detail our results. After that, we will go straight in to the Q&A session. Let's get started with slide number one, which is available on our website as mentioned in our earnings release.

The third quarter of 2011 was very, very positive and confirmed that Estácio was given clear signals for sustainable growth with a value creation. More than 61,000 new students enrolled with us through the intake process the second semester, a 26% growth over the same period of last year. Of that 45,000 were students on our own campus program and 16,000 were on our distance learning courses. Our students base totaled more than 247,000 students, a more than 14% growth over last year.

Therefore, our net revenue increased more than 15% to R$288 million. And as mentioned earlier very important, here at Estácio an increase in net revenues comes together with margin gains and it was no different in this third quarter. The margin expansion was once again due to our successful management model based on centralization and scalability of our business model and the permanent measures pursuing the streamlining of our operations. We posted important gains and personal cost and G&A expenses, which offset our losses in PDA. At the same time, the company's acquired during the year, began to generate significant margin and contributed to our margin expansion in the quarter highlight go to Estácio-Atual in Roraima and Estácio-Fatern in Natal, which both operated above 30% EBITDA margin. Our net income posted a maximum performance up to R$31 million a period, a almost 23% increase over the same period

increase over the same period of last year due to the great EBITDA performance.

Moving now to slide number two. Our comment on an important decision in our disclosure and policy procedures.

Starting this quarter, we are discontinuing the concepts of non-recurring items to determine our EBITDA. We will report and carry out on an analysis based on EBITDA only, adjusted only for operating financial revenues. This means more transparency and straight forwardness in our disclosures and in our figures. Toward a simple thing, one company, one EBITDA. And extraordinary one of items will be disclosed and treated within the exclamatory note and discussed with you well when they take place.

In slide number three, we present pour consolidated EBITDA in such a new presentation methodology that totaled R$47.3 million for the period, a 39% growth from third quarter of last year and a margin expansion of 280 basis for the period. Growth in our insurance base which generated growth in revenues of 15.6% combined to the efficiency fees and synergy that we were able to generate brought to us a very attractive performance in EBITDA.

In the same store sales profit, which means before any impact or our contribution of the acquisitions made throughout the year. We also present a very positive EBITDA performance. EBITDA acquisition was R$43.6 million, a 15.9% EBITDA margin and an increase of 2.3 percentage point in our EBITDA margin. Note that the acquisitions in the first half of the year have already started producing very attractive results contributing through improving and further in a sustainable way our EBITDA for the period.

So, now I will turn to Melzi, who will give further details on our results and then we will go to the Q&A session.

Rogério Frota Melzi

Well, thank you, Alcalay and good morning, everyone. We will start with slide number four to talk about the evolution of our student base. And once again, we are very, very pleased with our results in that matter, because for the third admission cycle in a row, we were able to post an all time record involvement. In this quarter, more than 60,000 new students enrolled in our own campus and distance learning under graduate courses. Without considering involvement at units, they were acquired seems to begin last year.

New own --of 45.5 thousand, we choose 18.1% better than last year. We also had 16,000 in business learning problems which is our 57% more than the same time in 2010.

Considering our involvement renewal rates, which remains pretty much inline with historic average, despite increases the and the strict application of our credit policies. The 10,000 insurance that companies acquired during the year, our term insurance days finishes it quite

which is almost 15% above at the third quarter 2010. It is important to notice that as we already mention the previous, earnings release our base has finally, started growing again, in the year-over-year basis, which a new of expansion for it's class room this time we believe have the

Moving now to slide number five. Which shows our operating revenues, our net operating revenue total 288.3 million third quarter of 2011, due to the 14.6% based via net operating revenue excluding acquisition 274.1 million and a almost 10% growth over the same period of last year in what we call the same -- concept. The old campus that we seek it again to R$530 leverage extend to 430.48 which is a 4.3% increase in relation to the same time of last year. Excluding acquisitions, in the semester and average ticket would have been accusative by 3.7% reflecting our strategic to -- inflation through will prices. Which has been our focusing in recent cycles. We expect the ticket to increase a bit in the fourth quarter against the strategy of the -- we have been - this year, sacrifice the ticket in the quarter, they are -- but make up for it in the following quarter. Average distant learning ticket was a 170.18 for students and increased up 1.6% over the same time of last year. Moving out to slide number six, which deals with this quarter and our -- highlights that the cash cost showed a 2.4 specific point gain, compared with the third quarter 2010 mainly due to the constant evolution of the academic module and to the increasingly efficient academic planning, which is pretty much sizing of the classes and for faster --net for faster allocation. Personnel cost is in third quarter 2011, related to a lay-offs amounted to R$4.3 million, which were significant lower than what happened last year, third quarter, which was around R$7.6 million.

Now on slide number seven, we will comment on the SG&A expenses, excluding the depreciation. Net in expenses were equivalent to 7.6% of net revenue in third quarter 2011, which is stable compared to third quarter of 2010. As a result of a slight increase in the ratio about PGA net revenue around 0.3 percentage points, offset by decrease in advertising marketing expenses. These are slight increase in --reflects a scenario of higher delinquency levels in the first semester as we had already been talking about, which ended up reflecting in our --, all-in-all because of our provision criteria which is during provisions after a 180 days of delinquencies. By the way, we continue to make this provisions or the provision a 100% of over that which are over due for more than a 180 days, which as you see later on. The referral security regards to our receivables.

We are watching an increase in the number of FIES agreement at the end of September 2011, we had nearly 13,000 students in this -- and also greater use of credit cards by students, which have reduced the risk of delinquencies. On the other hand, the scenario of high delinquencies --still hold, we scarifies our cash and increases the PGA risk in the future. To --comparable sense, during the quarter, we launched live scaling kind of compliance to mobilize mobiles on our company around the theme of delinquencies. We are above this future managerial control developing systems to increase the visibility of the delinquency drivers, spreading best breadth for units with the best performance in these issues allowing and as these implication of --socially responsible student involving coordinators and professors in the description of student responsibilities.

Obviously including --on a timely manner. We are also black listing and taking legal action in law suits to recover the debt from delinquent students in order to create an environment that discloses delinquency within a factor. SG&A expenses on the other hand declined 0.6 percentage point in comparison with the third class of 2010, mainly due to the 1.3 percentage point declined in personnel and the 0.7 percentage point decline in our cost of services, which offset the 1.1 percentage point increase in provision for contingencies and a 0.3 percentage point increase in other expenses. Once again, we noticed decisions of our organizational module in the G&A expenses given that the increase in these expenses has not kept base with our revenue growth.

Moving now to slide number eight. We will talk about PDA and receivables. We can see that at end of the third quarter 2011, our average receivable days without considering CS were around 62 days, 60 days excluding our five companies, which is very much inline with the 59 days at the end of the second quarter, but is still much higher than the 47 days in the same period of last year.

The -- of receivable item remains inline with the previous quarter. The increase came pretty much in the guideline which to private expense shows an improvement in gradual gratitude, given by the eliminates the risk for the company. --receivable growth 5.6 million in the quarter, this accounts receivable for --for a students who took up loans from Caixa Econômica Federal and are used by Estácio for the payment of federal taxes. In other words, they represent tax credits without any risk of delinquency. In addition to the credits in accounts receivable, the balance includes additional R$9.7 million that were already converted in certificates and are awaiting utilization or buy back.

The variation in the PDA balance in third quarter 2011 results from the fact that as of fourth quarter 2010, Estácio began to adopt a policy to write-off of gross receivables overdue more than 360 days, as we explain and detail in our last earnings release. Remember that once these receivables are written off, the same amount is written off from the PDA balance, thus creating a neutral effect in net receivables.

Also note that Estácio's policy for provisions for doubtful accounts is not based on estimates, as objective decisions, rather or matured delinquency figures. So, put a three year in --every one have overdue for more than 180 days gas provisions, which gets a hidden in the table we will see on the next slide.

So, moving to slide number nine, we can see the aging of our accounts receivable and our agreement. Starting with our upper table, I would like you to know that the total receivables also do more than 180 days amounting to R$56 million is exactly the amount that few years at the balance of PDA in the previous slides consuming our earlier statement that a 100% of the receivables for should --is a --provisions. The increase in the not yet due line over third quarter 2010 relates to the - to renegotiate with the student and to improve delinquency rate given that for student to renew their enrollment. They should first negotiate their debt according to the term set by Estácio.

They were further down so the aging of our agreement which are exactly the result of these negotiations. We are 16% of total receivables come from student renegotiation inline with the percentage disclosed in the second quarter 2011 around 15% which shows that the period for renegotiation between July and September do not have a significant effect on agreement. Moreover in the license of age of the agreement is crucial to monitor the percentage of is already overdue more than 60 days and Estácio only 20% of the agreement are in this situation.

These scenarios only brought to because we remain very favorite in our credit approval policies, using rules like not allowing debt amount into more than five months durations to be -- for preventing students that are ready to regulate from proceedings to the next semester if they have any amount overdue.

Moving onto slide number 10, we will comment on the results of units acquired by Estácio in the beginning of 2011, as Eduardo Alcalay mentioned. We are also again striving to improved, to increasing our transparency by showing our organic growth separately from growth to acquisitions and more than that by highlighting that the forms of each one of four new units. You can see Estácio-Atual, which is our first acquisition in this new phase and therefore in the most advances phase of integration. It EBITDA margin of 37.9% in this quarter reflecting the excellent performance of new unit -- thanks pretty much -- top class management that they have there also to a smooth and successful integration process and as well as to the benefit of Estácio academic model in the sake of the method for new student something we do in a phase we consider secure for the integration process.

Our operations in Estácio-Atual, Estácio-FAL and Estácio-Fatern close to the positive margin in the period and especially 30% represent an EBITDA margin of almost 40%. Both the unit require a good enrollment and even though they have not initiated the migration the new Estácio academic model. They already benefit from the implementation of why hat we called Natal cluster together with our original unit in the city seeking synergies an economies of scale and thus increasing margins. We have the better service to switch the current model January 2012, which should bring a significant gains in efficiency, quality and margin in our Natal cluster.

But in the end the conclusion is going to several adjustments of --beginning of the transition. But have manage it to breakeven in the quarter after losing money in the second quarter 2011. And they did that by implementing actions to accelerate the migration of its backup to our short-term center and also to stabilize the day activity.

At the same time, it began to --platform for distance learning courses, and is preparing to start a platform of short duration courses that we will consider to revenue generation.

On slide number 11, we have a graph presentation, after 2.8 percentage points gain in the EBITDA margin this quarter with relation to the third quarter of 2010, mainly due to the better management of personal constant expenses, which offsets the step up of the INSS the increase in textbook material cost and our spending expense. That is net income total, R$31.1 million third quarter of 2011 against R$25.3 in the third quarter of 2010. This 22.9 increase in net income is the result of 9.1 million and the 4.1 million improvement in income tax and social contribution line. This was offset by the decreasing financial results, largely due to the results of the cash available for investments and also the 3.1 million increase in depreciation and amortization, which were higher CapEx, that happen in the previous straight years.

Also note, that the --of our product vibration represented in an accounting loss of R$2.2 million, which further resulted our net income in the previous year.

Moving onto slide number 12, in the upper box, you can see our operational cash flow very pretty much or EBITDA was enough to offset the change in working capital resulting from the increasing receivables also investments, may be more --maintenance CapEx, which is pretty much the recurring CapEx. Leading to our positive operation cash flow of R$21.3 million. Looking at the bottom table, we see that discretionary CapEx pretty much the --module replacement our computer network and expansions brings you the --the stock buyback problem and financial results, but the main reasons for 5.9 million reduction on the cash position in the quarter, which ended at R$62.3 million.

Moving slide number 13, we have the same information for year-to-date analysis. We can see that during the first nine months of 2011, operational cash generation -- R$113.8 million, which was enough to meet the demand for working capital in maintenance CapEx reaching a positive equation of cash flow of R$20.7 million. On the other hand, discretionary investment in expansion acquisitions total a R$140 million, which together with dividend payments of R$38 million, but the main reasons for the reduction of the initial cash position which was compensated by a loan from the IFC.

I will now back the call back over to Alcalay, who will finish our presentation.

Eduardo Alcalay {BIO 1817259 <GO>}

Okay. Thanks, Melzi and will just like before jump into the Q&A, I would like to make my final remarks and convey to you all how enthusiastic and happy we are by announcing such good results and the fact that these results are the clear and direct consequences of a very strong and tangible organizational culture that we implemented in the company.

When I mean tangible organizational culture I mean a group of very solid and stable management team. Although, a team together and coordinated towards the sustainable growth of this company based on quality and growing our profitability. That was is one of the major and most important access in the company and of the quality of its people, the quality of its management model and its very disciplined sustainable growth strategy going forward. Because of that, we are very, very confident about the prospects ahead of us.

So with that, we are more than glad to get any questions that you may have.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the Q&A session. [Operator Instructions]. Our first question is from JC Santos Pedro Montenegro of BTG Pactual. Please go ahead.

Q - JC Santos Pedro Montenegro

Good afternoon and good morning. My first question regards to the cost of the tablets, we know that we have 6,000 students with the distribution the tablet in Rio de Janeiro, the law students. I was just wonder if you could explain if this will continue go on the cost line or is it going to be the CapEx, see it's in the --down on the CapEx line and I was expecting it to come as CapEx and then depreciated on the P&L. So just trying to understand a little from that mater?

And the second question regards to all the financial cost we have the taxes on credit cards and the credit card fees and going on the financial, just wondering if you could explain us a little how much is it and should we forecast due to the increasing participation of credit card and it is sort of compressing a little bit the bullet on credit and the deletions of those credits up for distance. So, if you could give us a little bit a glimpse on that? Thanks.

A - Rogério Frota Melzi

Well, this is Melzi. We will try. We haven't met --yet, so good morning for you. It's quite established. We bought our first half tablet, so I think it was around 6,000 tablets from around the world. This cost has not shown in the balance sheet yet, because they are still negotiating in the final terms with kind of -- supplies going to show very soon on the rest quarter so. It is going to be a CapEx, right? It's going to be capitalized over, four years I think we took part into our external auditor -- our external auditor to define how it --. But it wants to have already we are going to show this to you, once it happens. We also have the copyrights, we always be regional expense is going to show is going to flow each of our results. So, I believe that's quite we'll be ready spend to everybody, how it's going to work. So for us just to summarize, we bought around 6,000 tablets, the counter of cost was about R$5.50, this is going to show very soon in our results and we are going to let you know as soon as we have --, it's going to be CapEx for sure. Okay? Sorry, go ahead.

Q - JC Santos Pedro Montenegro

No just, as a compliment, if you're going to put that as, I mean its going to grow as CapEx, the evolution of the cost line with the materials that eventually as you know as the public gain share and the precipitation of the delivery of the materials. Instead of we having the textbook materials we could expect as well that that line would eventually go down before possibly let say impacting your EBITDA or something as I hope. Is there any sort of changes whether we should model that? Because up from a rational perspective of any difference but from Canada of EPS. Not on earnings per share, but probably on the EBITDA margin you see the impact on that right?

A - Rogério Frota Melzi

Absolutely, right. But I can remember around 50% of the total cost of vertical textbooks currently is not related to the machine. Right it has to do with copyright and also shipping cost. So, we are talking about roughly 50% of the cost you see today. You are right, by the time we get a more and more tablets in our systems, yes, we should see a reduction in that line. We have got a lot about the cash flow, it doesn't change anything hopefully in the future is going to improve our cash flow because, we are starting with the company that may buy space in our tablets, generating some sort of extra revenue so it should favor cash flow in this future.

But for the short-term should be near in terms of cash flow as you should see an improvement. However, it has to do with the pace at which we are going to implement the tablet, we are doing that in a very careful way because you need understand how this is going to work in terms of logistics, operations, it is something, absolutely new and --. So, we start to with the law --real and due to the we've just announce that is going to extend that to law and in the new --in 2011 and we haven't decide yet what's going to happen in terms of, how quick we are going to implement that technology, but we would like to know, and we're going to show this in a very open way as you probably wonder. As far your last question, if I understood correctly, you want to know, how much we are paying for the credit card companies? I believe there are three fish tanks, I think it's something red in the marketplace.

I am not 100% sure on that, but I believe it's around 3%. And we have obviously this should some hardly compensated by the bullet of --. The point is not that. The point is of convenience. Our students, who want to use credit card, they ask us why to use credit card. The point that we are not using in a very broadway so far because of technological strength. So, a 100% for you see in term of credit card has to do with renegotiations. We allow our students pay their negotiations using credit card. We hope that by January 2012, they will --they will also be able to use credit cards to make their regular monthly provisional payments.

We think, we will be ready for that in January 2011, 2012, which is good for us not only because of the risks, but also because of the convenience of this channel, okay?

Q - JC Santos Pedro Montenegro

Got it and just trying to understand a little bit clearer. The amount that you have on due on the credit card line on your receivables. You received from the credit card operators as they received from the students meaning it's a very -- on the credit card actually six installments, you git to receive everything upfront in that regular 28 days of the credit card procedure. Do you receive it throughout the six month is that right? I mean just trying to understand all.

A - Rogério Frota Melzi

Yeah, that's the way it works, but again the risk goes entirely to the credit card company, right?

Q - JC Santos Pedro Montenegro

Sure.

A - Rogério Frota Melzi

That's why they have this discount of 3%.

Q - JC Santos Pedro Montenegro

All right then, thank you very much.

A - Rogério Frota Melzi

Nice talk to you.

Operator

[Operator Instructions]. Our next question comes from Nichole Danzie of HNC Capital.

Q - Analyst

Thank you so much for taking my call. I was wondering if you would be able to share the margins that in the campuses as well as the distance learning and how they compare to prior quarter? My - has asked me, what kind of the margin expansion can we expect going forward particularly in the --if you can expand on that, I will be very helpful?

A - Eduardo Alcalay {BIO 1817259 <GO>}

Let me see if I understood, Nicole. But question is a margin distantce learning and on campus operations, is that right?

Q - Analyst

Yes, that's right.

A - Eduardo Alcalay {BIO 1817259 <GO>}

Okay. And second one is about the effectiveness change that we are implementing all of not considering or recurring anymore, we would change our long-term guidance, is that right?

Q - Analyst

Actually my second question is more like, I am just studying the margin expansion going forward. Yeah, so one aspect of the margin expansion is the --the other aspect will be just the mixed shift between distance learning and the campuses. So, --impact on distance learning on actual margin forward?

A - Eduardo Alcalay {BIO 1817259 <GO>}

Okay. As for your first question, I mean very high --this margins between distance learning and own campus, because there is a big mixture here. Let me explain you why, we use our campus as distance learning campus. So, there is a lot of fortifies in both directions. For example, we do not pay rent for our distance learning operation centers, because they are already using our own campuses right. On the other hand, we have a very complete structure for distance learning operation, here in Rio definitely Janerio and this also helps the on capital operationals by providing that 20% on line content that is allowed by reservations.

So there is a lot of cross --going of back and forth and we --here sometime ago not to try to view --managerial way because it will be a big trouble to us. So, the way we measure here we like to look at what is happening on campus by campus basis, right, including how much margin they in terms of distance learning and also on campus education as well. And then have to get the target base --and then we take care at the same time we look here at our corporate costs and our distance learning operations that is centralized and they have their own --we see them as cost --so they have to keep reducing their cost of our campuses keep trying to improve their margins. So, it's a hard for us to exclude, if we were to exlcude, I would say that on campus is operating at somehow close to whatever 25%, 30% in on campus without corporate costs, right? And our distance learning operations is close to 45% EBITDA margin by now.

And then you have to subtract from this margin, our corporate cost is also an our marketing expenses to have it centralized. But I am not sure, if you understood that, but I mean, we don't like to split that because this operations help each other by the large, okay?

Q - Analyst

Yes.

A - Eduardo Alcalay {BIO 1817259 <GO>}

FY margin expansions, I think we've talk it a lot over the last quarters. We are very confident on that long-term margin expansion that we keep talking around 800 basis points that means operating close to 20, 20.5 EBITDA percentage of the margin by 2014. You are right, there will be a part of the contribution for this margin expansion will come from distance learning because it has a bigger margin, so as increase the participation of distance learning our mix. There will be naturally a margin expansion and it is already embedded in our projections for 2014.

And by the way, I think you should rather --when he was talking. This change that we are implementing now in terms of this regarding non-recurring items. So, now we did the calculations does not change our guidelines for 2013. The reason is very simple, we led the confidence of that like looking long-term we need to be able to get to this margin without getting any kind of help from non-recurring items, okay?

Q - Analyst

Got it. Got it. Thank you so much.

Operator

Our next question is from Bruno Giardino of Santander Bank. Please go ahead.

Q - Bruno Giardino {BIO 15974970 <GO>}

Hi, good morning, everyone, I have been successfully applying price increases --. So, I would like to hear from you if you need competition, your peers or competitors have been applying such increases as well or have you been able to offer a differentiated product that is driving this price increases? This would be my question.

A - Eduardo Alcalay {BIO 1817259 <GO>}

Hi, Bruno. It's Alcalay here. It's very dispersed, we compete within 72 locations around Brazil with different competitors in each of those locations and with different competitive positions, right? Somewhere we are stronger, somewhere we are not that strong. The thing is that, as you see in our, as we're speaking, we are addressing right inflation, I would tell you that overall, most of our competitors are now doing that our sentiment and our sort of market intelligence perimeters and mechanisms show that I know most of our competitors are not doing that.

We are doing that by choice, because we want to increase prices, adjust them with inflations and I think the fact that we were able to do that and together with that, reach very strong growth results in terms of our admissions that first demonstrates that the quality of our programs and our services are being very well received by our target public, because it's not that we increase prices in that remains to grow. No, we did the two things together which toward is the great, great element and evidence that we're doing our job well, which is choosing a strong brand, delivering behind that brand, delivering of good product and service to our students and being received and perceived like that and the answer comes growth in volume coupled with growth and places and at very, very disciple acquisition cost. The amount that we spend in sales and marketing are very discipline.

And I think that our acquisition cost is not the low one of the lowest in the industries and to me that's represents the real power of the brand and the image within the market and our target public.

Q - Bruno Giardino {BIO 15974970 <GO>}

Okay. And on non-occurring items of course it's a very good initiative from you guys to do not adjust -- anymore for this kind of expense, but I understand that M&A is too part of your strategy. So, you please give us a ball park calculation of how much you would expect, you normally have from expenses, is you when you do acquisitions in terms of expense per student do you have any kind of calculation like that?

A - Eduardo Alcalay {BIO 1817259 <GO>}

Bruno that's a very important question and the answer is no. We don't have and why is that each and every acquisition is a particular very specific situation. It's a big company. If it's a small company and then you may feel -- first student there could be or there should be a threshold. And my answer and my straight honest to you is still no because a big company organized company that may be very low and a company would not so big sort of a fixings or destructions to be made. May be a company where there is very limited amount of restrictions to be made compared to big company, the same size, but very different in terms of organization, very different in terms of topography, in terms of how big the synergies are there and the cost of determination of contracts, determination of labor conflicts and so forth.

Honestly speaking, we don't feel comfortable about giving out some terms and some benchmarks. I know that, that may do --that may sort of make your job of projection figure until a little bit more challenging but we prefer very, very tell you something, we want and we will pursue the 20-20 something percent margin ind maximum three, four years that we will be and our commitment is to deliver that any and whatever cost of restructuring whatsoever. But that again other the we will and we may have some restructuring cost and whatever and as the time they come, we will very openly disclose that to you and all through the market and that will be within our EBITDA, because again from now on, we are of the belief and strong exercise of the --one company, one EBITDA and within our EBITDA even you're going to see that some one off extraordinary restructuring cost that may go up, that may go down. And we will discuss, we will disclose that through the overall market.

The thing is that as acquisition is such an important part of our strategy and that remains very valid. So, now there --calling non-recurring items. So there is either restructuring items and non-recurring. Quite honestly, we thing is not the right thing to do, because we're going to have non-recurring items for the next four years.

So, that is non-recurring, right? So that is why this will be all into the EBITDA. We will discuss and we will --to do well. And we will treat them and you are going to have deliver them the full disclosure to make your own analysis. And quite frankly speaking an over, it's not even a matter of big track record or small track record in doing acquisitions. It is a matter of each every acquisition has a given amount of restructuring efforts and costs. And that's why, we don't, we prefer not to give out some kind of a theoretical benchmark because again that would be absolutely theoretical with not so much guaranteed alignment with the reality of our real business going forward.

Q - Bruno Giardino {BIO 15974970 <GO>}

Okay, perfect. Understood. Thank you.

A - Eduardo Alcalay {BIO 1817259 <GO>}

Thank you.

Operator

The next question is from Kazo Penaki of Private Capital. Please go ahead.

Q - Analyst

Good morning, guys. How are you?

A - Eduardo Alcalay {BIO 1817259 <GO>}

Fine. --thanks for I hope you got your releasing time, this time?

Q - Analyst

Absolutely.

A - Eduardo Alcalay {BIO 1817259 <GO>}

Yeah. That sounds great.

Q - Analyst

I appreciate that. Hey I have a certain questions, I don't know if you guys want to take it one by one or if I should just go ahead and list them out.

A - Eduardo Alcalay {BIO 1817259 <GO>}

One by one.

Q - Analyst

Okay, very good. So first question, I know in 3Q of 2010, you guys mentioned that your acquisition cost for student was the lowest in the industry to do that about R$345 per student, what is it, what is it tracking? What is it tracking like right now as of 3Q 2011?

A - Eduardo Alcalay {BIO 1817259 <GO>}

That of course is a great question and the issue is -- we don't have it handy now, but it's simple. We define acquisition cost of students by the sum of the marketing spending in 3Q and 2Q. So second quarter and third quarter, the sum of the advertising, marketing expenditures divided by the number of students in newly enrolled. So, I have my IR team looking at me, because I made that question yesterday to them, and they answer me and that now you have the question. So it's just a just matter of calculating that and we may had it handy within some minutes if want to go through next question we may get back to that in few minutes?

Q - Analyst

I appreciate, anyway I can take it offline with Flabia later.

A - Eduardo Alcalay {BIO 1817259 <GO>}

Okay.

Q - Analyst

Number two, can you guys further explain the reduction in student as the --added 2,100 students now enrolled in class --I've read the sentence a few times, but I didn't quite understand that reduction?

A - Eduardo Alcalay {BIO 1817259 <GO>}

You are talking about the students, I didn't understand. Could you repeat the question please?

Q - Analyst

On page four of your release, you mention third line referring the bottom, the strong enrollment volume in three to 11 allowed us to be more efficient, when through opening classes for the semester and orders being crazy average number of students per class, which reduced our base by about 2,100. I just -- I couldn't understand that sentence?

A - Eduardo Alcalay {BIO 1817259 <GO>}

The point is that, now that we are able to attract more students, we can raise the bar and try to allow all requests with more than for example 25 or 30 students to open. Because, every time there is an intake of classes schedule, we need to make this call. As 15 or 16 students up to go, ready to go, are we going to open the class or not. The problem of opening classes with 16, 18, sometimes 20 students is that, it goes well in the first two or three semesters, but then --the drop out over the course these things to give you a lot.

So now that we are getting more students, we are able to be more restricted on areas. Now that you don't have that big pressure to get the students because the students are coming. Instead of taking the risk of opening classes and then find to invest let's do be more restrictive right away, let's open classes with whatever 25 or 30 students. It varies of course but for us basis and also place by place basis. So its our decision, leave this students out for now. Its going to give them some losses in terms of losses of revenue but is going to give us --is going to give us all the savings. Maybe two years from now. Okay?

Q - Analyst

Okay. So, aren't you actually double counting because the enrollment of 45,500 students enrolled. Doesn't that probably indirectly include the fact that you didn't take on the 2100?

A - Eduardo Alcalay {BIO 1817259 <GO>}

I am not sure, how far the --I think --is the total number and then out of this number 2.1 were not registered. So --.

Q - Analyst

Okay.

A - Eduardo Alcalay {BIO 1817259 <GO>}

The points that why we give the information to you. Because we want to show that we were able to attract 45.500 students.

Q - Analyst

Yeah. I completely understand that. Moving on question number three. You are quite something that doing really well. And the EBITDA margin step up from 2Q sequentially versus 7% to 27% now in 3Q. I know, I should look at it on a sequential basis. But what is there any kind of margin target that you guys long-term for this acquired companies? And then also as a follow-up question on that. Is any reason why is just give me one second so I can find the name of the company. Is it, I think you have schedule on page nine is it --or is that included in one of the companies here?

A - Eduardo Alcalay {BIO 1817259 <GO>}

I get your last question, you are looking on table on page nine, right.

Q - Analyst

Yes.

A - Eduardo Alcalay {BIO 1817259 <GO>}

And then what's the point?

Q - Analyst

So your table on page nine has Estácio-FAL, Estácio-Fatern and --is it missing buyback?

A - Rogério Frota Melzi

Oh, yes because buyback is --it starts with --so now we are counting, --but buyback is so tiny with 300 students that we just started to open it's not as yet. But more than that it is --that is okay, so that's the point. For your question on margin evolution. You are right, you should not look at second quarter against third quarter, you know that the risk an already there. However, even if you take --effect out you will see that there is a huge margin proven right? More to --and why is that --was watching December January, not so sure now. So, we had the first semester to make the lot of adjustments in terms of the cost integration.

For example, they now have the same technology systems that we have here, the SAP for example our model if fully implement with that. And also by July, they implemented our

Academia model, right? For our new students, incoming students. So, they are way ahead in terms of margins expansion gains. As for --because we required to go through the shareholders meeting every time there is an acquisition here. At least we've been doing that so far. This ultimately, they don't have in the top of mind here, but I think after all --healthy targets to get to 25% EBITDA margin, but 2014 they are getting more than 30% off. So they are way ahead of their targets and why is that? maybe an exception we will know right? But they have a very good assets there. They have very good people. They were very happy when the deal with Estácio happened.

So there was a very good integration with get along very well with each other, so they are making full uses of everything they can here at Estácio so they are speeding up integration of their cost with our they are speeding up their content module on their own right. As for the artist they are coming after them. We will see eventually in two or three quarters we hope that they can catch up, okay.

A - Eduardo Alcalay {BIO 1817259 <GO>}

This is Eduardo here, I would kindly ask you to keep to some more important questions if I may, and we'll be more than glad to take a call with you afterward, just so we give everybody you know a opportunity to make further questions, right?

Q - Analyst

Absolutely, no problem, let me make this one, is anywhere you guys can start making transcripts available for all of us, I think it sets you guys apart completely from your competitors and you guys provide so much useful information on the call, but sometimes we can only take notes, we can only understand those so much.

A - Eduardo Alcalay {BIO 1817259 <GO>}

Okay. And yeah please don't hesitate to call us after that to go deeper into the --. By the way I have the information of the acquisition cost of new students, which is standing, marketing --divided by admissions. Third quarter of 2010, I have the number, here is the R$3,391 and then again marketing as a --is divided by coordination and the number for third quarter of 2011 is R$390, so incidents are not exactly the same number. So, that means that we have spent the same amount of --per student applied, per student, newly student --newly enrolled and that was what I was mentioning before, we did that and we didn't --and we did that and we increased twice.

So, we are absolutely growing days on the quality and the brand and quality perception of our platform, without making more investments per students or without having to dump our prices in the marketplace.

Q - Analyst

I might be wrong, but the number I have in front of me on page two of three quarters 2010 is R$345.5 per enroll student, how this is follow-up with --?

A - Eduardo Alcalay {BIO 1817259 <GO>}

Okay. Please do that.

Q - Analyst

I'll do. Thank you.

A - Eduardo Alcalay {BIO 1817259 <GO>}

All right. Thank you.

Operator

The next question is from --Investment Management. Please go ahead.

Q - Analyst

Thank you. Good morning. I have two question one related to FIES, I understand that growth on said that 28% of very intakes were had FIES and how that compare to you and why the difference and if you in the future expect and when FIES to lower the increase it renewal rates? That's one question and the other one relates to working capital. - for the seasonality working capital was a bit worse so hired this account receivables a little bit higher this quarter and I want to understand what's going on in terms of why it increase in from the market perspective is it because you are still more lever, it is because of competitive pressures wondering some what's going on? Thanks.

A - Eduardo Alcalay {BIO 1817259 <GO>}

Okay. In terms of FIES, our percentage of either basis students or admission is around 6%, 7% which is not good, which is on far from being satisfactory and we acknowledge that and we absolutely run to raise that. We are restructuring, we are changing our commercial activities. We are training our commercial people and besides commercial people, we are including and involving teachers and faculty leaders in the classes of selling FIES to students be it new students, but most importantly ongoing students in terms of decrease in the delinquency rates and so forth. So, we weren't and we -- the FIES special -- question. Why don't we get back with some --You are talking about working capital and then this is -- about that -- is calculated about that material. Working capital is pretty much inline with what happens in second quarter understand. There maybe some seasonality, because could expect some kind of decreases third quarter because of --and so forth.

However, it's pretty much inline, it's been around 60 days, our average time of receivable this year, which is not, not good, we don't like it is about 10 days higher than last year. If there is one thing that maybe explain that, it is increase of our delinquency. There is a kind of a situation in Brazil, it's not only our business but the bank have been talking about that and retail has been complaining about that as well. So, it is happily of our way it is strange in our country. We are not sure how far this is going to go. But those things should be compared to the year that it has reached a talk kind of a threshold and we should expect some reduction as time goes by.

On the other hand, we are very, very, very active here inside our boundaries, to deal with that situation. So, we had a lot of initiatives that are talking about some of them during my speech, for example black listing students, launching an educational campaign, so we hope that by doing that we will be able to hold this stable around the lads they are right now and then in the second moment as you get more and more efficient -we should expect a decrease in our days of receivable and therefore in our working capital requirement. Now to mention that at some point we need to get some external help to the sense that the delinquency rate in Brazil has to come down at some point.

So, we see this as our biggest challenge as of now we've learnt to do with a lot of situations. This is just another one, they trust, we will be in our way and we trust that over the next quarter or so, we will have a lot of improvement in working capital as well.

A - Rogério Frota Melzi

I think Eduardo is back on track here.

Q - Analyst

I sm sorry, I have some more here on it.

A - Rogério Frota Melzi

So, on --, we are below, what we wanted to be in terms of the percentage of our students base involved in PS, and we are working hard with our commercial fees and our features and our faculty leaders that have stronger contract and day-to-day contract with the students in terms of our bringing them onto the -- program.

We are working very, very closely with the ministry of Education and trying to fix some obstacles or difficulties on the bureaucratic systems in order to make it easier and besides that, we are gradually improving the eligibility of our programs to the FIES. As you know of some programs are not eligible for FIES given their recent evaluation and so forth all-in-all without exception each and every of our program that has been recently evaluated by the Ministry of Education in there on the ground evaluation committees and so forth, we've been increasing the grades that we are taking from this evaluation processes and by increasing those grades, we turned that course into being eligible for FIES. So, FIES let's assure material FIES is a big, big hockey stick here in terms of our one of our goals, one of our priorities in going forward and increasing that.

Q - Analyst

Okay. Thank you.

Operator

And there seems to be no further questions. I would like to turn the floor over to Mr. Eduardo Alcalay for his final remarks.

A - Eduardo Alcalay {BIO 1817259 <GO>}

Okay. Well, again thank you all for being with us in this conference call. As I said, we're very happy and very enthusiastic about the results of the company so far and more especially the prospects going forward. Given the strong fundamentals that we are going through given the strong victories and results long-term sustainable results that we've reached. So, we're very, very happy and very enthusiastic with the prospect of the company going forward. We look forward to meeting you. As we always say, our IR team remains at your disposal in order to clarify any further and more detail question. Thanks again everybody and have a good day.

Operator

This concludes Estácio's conference call. You may now disconnect. And have a good day.