

## Q3 2015 Earnings Call

### Company Participants

- Flavia Oliveira, Investor Relation Manager
- Rogerio Melzi, Chief Executive Officer
- Virgilio Gibbon, Chief Financial Officer

### 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 2015 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 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 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 Melzi {BIO 16212298 <GO>}

Okay. Thank you very much and good morning, everyone. Welcome to our conference call to discuss our results for the third quarter of 2015. Virgilio Gibbon, our CFO and Flavia Oliveira, our IR Manager are with me here today and will be helping me with the presentation of our results for the third quarter. We 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 would talk about the main highlights of the quarter.

Estacio's results in the third quarter 2015 are further evidence that investing is a good strategy. We stay focused on the long view, working hard and patiently and maintaining discipline during the good times usually generate competitive advantages that can help overcome times of intense crisis. Once again, we have shown that it is possible to continue growing and recording efficiency gains even in a sector that has been seriously jeopardized by changing the external environment. Beginning with an expected change of

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the rules of the FIES program in late 2014, and more recently by the deterioration of the economic scenario throughout 2015 in Brazil.

Although our prospects in the students keep showing interest in pursuing their high education degree, it is normal that they have more doubts and uncertainties when making their decisions. In addition, competition for new students is getting fiercer as the higher education players are well prepared and want to maintain or increase their market share. In parallel, the economic scenario makes it quite challenging to keep the retention level at an appropriate pace, since the incentives for students to give up are everywhere.

Therefore, comparing this intake and renewal processes we see very reasonable growth in the number of new students, 5.8% on-campus undergrad and 20.4% distance-learning undergrad, and also in the student base, 9.7% on-campus undergrad and 8.5% distance-learning undergrad has a special meaning to us. Our efforts aligned with all the initiatives we talked about in our recent interactions took us to 14.8% student base growth over the previous year, amounting to a base with approximately 530,000 enrolled students.

Net operating revenue came into BRL724.6 million in third quarter '15, 16% more than in third quarter '14, while EBITDA came into BRL202 million up by 23.3% followed by 1.7 percentage points improvement in our margin. Net income reached BRL157 million, 18% more than in third quarter 2014, and earnings per share came to BRL0.50, up by 19%. It is also worth noting, that in the third quarter '15 we recorded positive cash flow of BRL83.5 billion, 28.2% more than in the same period last year, when the FIES payment flow was taking place on a monthly and regular basis. While we keep growing our on-campus and distance-learning undergraduate base and never failed to develop non-negotiable initiatives like our culture, our management system, innovation, advancing, corporate governance, relationship with the students, and employability, we continue implementing strategies that have been defined in our planning back in 2012.

In this sense, our continuing education, our new business area, whose current flagships are our graduate program, but which also covers other products, such as corporate solutions and short duration vocational and preparatory courses, continues to grow and occupy more space. Our graduate student base increased by 37.3% year-on-year in third quarter 2015, showing that the segment has enormous opportunities and help us to implement our diversification strategy to transform Estacio from a post-secondary education company into an education company.

As part of our determination to expand in strategic locations and to consequently increase brand awareness in the entire country, we registered nine Greenfield projects in four different states, three in Minas Gerais, three in Parana, two in Pernambuco, and one in Para. In the meantime, we continued paying attention to inorganic growth opportunities. Recently, we concluded the acquisition of FNC in Carapicuiaba, Sao Paulo and recapitalized our company in order to follow with the expansion and through targeted business strategies, defining our strategic planning in 2012 always aiming at our vision 2020.

In a nutshell, we intend to show our students, we will be next to them, so they can overcome this moment of crisis in our country, and we also intend to show our

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shareholders that it is possible to grow even in a very adverse scenario. In other words, using Jim Collins' analogy, we want to show you, we are able to match our 20-miles even across the hazards we have been facing.

I'll now hand over to Flavia Oliveira, our IR Manager and Virgilio Gibbon, our CFO, who will go into more detail concerning our results for the third quarter. At the end of the presentation, I will return for my closing remarks.

### **Flavia Oliveira** {BIO 20130905 <GO>}

Thank you, Melzi. Good morning. First, I would like to call your attention to slide number three, about our operating performance. The first chart shows our students base figures for the third quarter of 2015. At the end of the quarter, we had 536, 800 students, 14.8% above the third quarter 2014, 379,000 enrolled in on-campus programs and 145,400 in distance-learning as well as 12,400 students from acquisitions in the last 12 months. Excluding these students acquired from FNC and CEUT, in the same-shops concept, we recorded a solid organic growth of 11.3% in their on-campus segment and 14.3% in distance-learning. The 5.8% increase in their on-campus undergraduate students intake process underlines the success of the Estacio commitments campaign showing to our students that it is possible to study even in this course time.

The campaign also focused on primarily in the unemployment insurance. It is also worth mentioning, that the on-campus undergraduates renewal rates fell by 1.2 percentage points due to the economic scenario, and the reduced participation of FIES in the student base, given that those students have higher renewal rates.

Estacio continues to make great efforts on the retention project. We adapted the management model so that local management and course coordinators are able to monitor students' performance and motivation on a daily basis. Our retention agents have presented models and systems, and because of that they are able to propose immediate solutions, such as tutoring classes, supervision alterations to the number of credits, financing opportunities and vocational analysis among others.

We also implemented retention goals into our management model, including these indicators in the incentive program of the operational work force, and we expect these initiatives to bring results in the coming quarters. We continue to develop tools, such as a predictive model based on big data technology in order to better control this indicator through the addition of technology and best management practices. Our successful undergraduate distance-learning intake in third quarter 2015, which increased by 20.4%, is explained by a higher demand for more affordable average ticket courses. And the offer of a 100% online product in UniSEB centers.

The distance-learning renewal rate fell by 6 percentage points in the third quarter 2015 due to the tougher economic scenario and the large students volume in their first and second semesters, given that new students have lower renewal rate. As a result of the launching of 21 new distance-learning centers over the last 12 months and also as a result

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of the intake cycles growth in UniSEB centers. Thanks to Estacio's campaigns and commercial strategy.

As part of the integration process, we also adopted a stricter criteria to UniSEB senior students' renewal, limiting the number of due tuitions requiring guarantees to the negotiations and restricting the renewal out of the established criteria. The graph on the right shows our net revenue, which increased by 16% year-over-year to BRL724.6 million as a result of the extension of the student base and the 2.8% increase in the on-campus average tickets.

Considering only the on-campus undergraduate segment, the average increase was 3.7%, due to the increased share of courses with a lower average ticket. Also, a reduction in the number of subjects studied per semester, and the intake campaigns with an increase in the exemptions granted.

The third quarter 2015 distance-learning average monthly tickets reached a BRL160, a decrease of 3%, mainly due to the following aspects. An increase in the participation of graduate students in our base, an increase in the number of students enrolled in our partners' DL centers, which have a lower average tickets than students in our own centers, due to the revenue sharing with the partners.

The evolution of first and second semester students after the price repositioning we did two years ago in the main locations we operate, and also the third quarter intake campaign. If we exclude the effects of the graduate courses and the partners' revenues, the distance-learning average tickets would have been inline to the one presented in third quarter of 2014.

Moving to the slide number four. We can see a vertical analysis of our operating costs and expenses. The cash cost as a percentage of net revenue ratio increased by 1.5 percentage points over third quarter 2014, as a result of the 1.5 percentage points margin gain in salaries and payable charges, reflecting the better management of our faculty cost and increase in participation of the distance-learning segments in our operation.

The 0.7 percentage point gain in rentals due to the renegotiation efforts and also the 0.5 percentage points gain in text books materials due to the increased use of preparatory books, migration to the digital format and better inventory management. The other lines remain flat with a reduction of 0.6 percentage points in the social security margin, due to the recognition of a credit totaling 7 million in the third quarter 2014. Excluding this effect, we would have 0.5 percentage points margin gain in this line. Also 0.6 percentage points in the third-party services and other lines basically due to the increase in electricity costs.

Selling expenses represented 9.8% of net revenues, representing 2.5 percentage points efficiency loss as a result of the 1.7 percentage points reduction in marketing, mainly due to the launching of the new Estacio commitment campaign. The PDA/net revenue ratio recorded as a loss of 0.8 percentage points, mainly due to the fact that third quarter 2014 has already been positively impacted by the large volume of recoveries due to the insourcing of collection procedures.

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General and administrative expenses corresponded to 12.1% of net revenues in the third quarter 2015, a 2.6 percentage points improvement over third quarter 2014, mainly due to the 3.6 percentage points margin gain in personnel, explained by a reduction in bonuses provision, lower stock options provisions than in third quarter 2014, when we launched the Sixth Stock Option program. And by the restructuring process of our headcount, which began to generate more relevant results.

As you can see on slide five, EBITDA grew 23.3% over third quarter 2014 to BRL202 million accompanied by 1.7 percentage points upturn in the margin. This improvement was largely due to the 16% increase in net revenues and efficiency gains in personnel, both in terms of costs and general and administrative expenses. We recorded another quarter of consistent margin expansion underlining our discipline in controlling costs and expenses and continuing to show operational efficiency. Net income for the EBITDA increased and grew by 18% to a BRL157 million.

I will now hand over to Virgilio Gibbon, our CFO, who will detail our accounts receivable and operating cash flow.

### **Virgilio Gibbon** {BIO 16679141 <GO>}

Thank you, Flavia. I'd like now to move on to slide number six, to present our accounts receivable. In this period, our account receivable, including FIES receivables and FIES revenue, stood at a 130 days, 47 more than in the third quarter 2014, due to the new FIES transfers and repurchase scheduled for 2015.

Excluding FIES revenues and FIES receivables, the average receivables period was 95 days, an improvement of three days over second quarter 2015. The 16-day year-over-year increase was due to, number one, a change in the retroactive amendment rules for FIES agreements. At the end of 2014, the FNDE limited retroactive amendments to FIES agreements, accordingly around 10,000 Estacio students lost FIES support after the end of last year. Consequently after renegotiating their debts and migrating to non-FIES student base in their first semester of 2015, a portion of these students left while others continued studying.

Second, a campaign for students who didn't obtain FIES support in the first semester of 2015, in a year of economic crisis, Estacio launched a special campaign for students who couldn't get FIES in the first half, allowing them to renegotiate their debt with fixed installments, generate a negative impact of around 12 million in our accounts receivable this period. Worse macroeconomic scenario. It's also worth noting that non-FIES students have been recording higher delinquency rate this year, either due to the impossibility of obtaining FIES or due to the financial difficulties that many Brazilian families have been facing, given this worse scenario and the decision not to adhere to our debt renegotiation campaigns. Given this context, Estacio contracted external assistance and reinforced its in-house credit and collection team in order to provide a specific input for the Company's management model with the aim of substantially improving this indicator in the coming quarters.

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As you can see in slide seven, FIES accounts receivable increased by BRL394.6 million over the previous year to BRL616.8 million, reflecting the new FIES transfer and buyback schedule disclosed in December 2014. In addition, the significant days in the contract amendment process in the first semester of 2015 made a substantial contribution to the build-up of FIES receivables due to the lower numbers of certificates transferred.

At the same time, discussions on the so-called preliminary amendment contracts, whose price increase exceeded the ceiling initially established by the Ministry of Education, have also delayed a significant portion of the certificate issues, further impacting FIES cash flow. As a result, the average FIES receivable term stood at 199 days in the third quarter 2015, an increase of 91 days over third quarter last year. Consequently, of the BRL1 billion in total FIES revenue in the first nine months of 2015, Estacio received transfers corresponding a BRL120.4 million related to December 2014 and January, February, March, April, and May of this year.

Slide eight shows our operating cash flow. We recorded positive operating cash flow of BRL83.5 million in the third quarter 2015, due to the receipt of FIES transfers related to the end of the first semester and the year-on-year reduction in CapEx, as explained previously. We recorded a negative operational cash flow of BRL142 million in nine months 2015, mainly reflecting the negative variation in working capital due to the new tuition payment cycle for FIES student, as defined by Ministry of Education Ordinance 23 announced in December last year. In addition, the BRL18.7 million year-on-year increase in CapEx had a negative effect on the operation cash flow.

Moving now onto slide nine. Here we talk a little bit about FIES. We closed September with a FIES base of a 137,400 students. represented 39.3 [ph] of our on-campus undergrad base. It's worth noting that the intake cycle in the second semester of 2015, totaled 2,600 students, representing an occupancy rate of 44.1% of the places originally offered by Estacio. With excellent new student enrollment result, despite the reduced number of new FIES contracts, only 2,600 new students versus 22,100 in the same period last year, underlined the efficiency of the strategy of not using FIES as the main sales pitch, always emphasizing Estacio's attributes and advantage to attract new students. In the second semester of 2015, the enrollment of non-FIES student in undergrad on-campus programs increased by 43.1%, more than offsetting the 17,000 student reduction in FIES enrollment over the same period last year.

I will now hand you back to Melzi for his conclusion and final remarks. Thank you.

**Rogério Melzi** {BIO 16212298 <GO>}

Thank you, Virgilio. The slide number 10 brings me to my closing remarks on the coming cycles. As of now, in addition to putting even more emphasis on our management model, our organizational culture and our corporate governance. We have a series of initiatives that should gain more relevance in our strategy, and then help us on our journey including the following.

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The creation on October 3 of our Relationship Center with the implementation of our CRM, Customer Relationship Management software as well as a brand new and complete contact and relationship strategy for prospects, students and alumni. The development of a new educational technologies under the 2020 Academic Model framework taking advantage of the entirely integrated academic model created and implemented over the last five years to improve the experience of our students and to enrich their learning process.

The investment to increase the value of Estacio brand with all our stakeholders, aiming to strengthen our capacity to attract and retain students, while increasing the value of their diplomas. The continuous measurement and management of our students' employability with the adoption of KPIs and the use of our management system, as well as the promotion of a shift in our mindset provided the importance of monitoring their entire progress until their job opportunities and even afterwards throughout their professional careers.

The development of hybrid products with different price points also leveraged by the total alignments of our online and on-campus platforms remembering that our integration is so deep that the final exams for each subject are taken from the same question base, regardless of whether the subject in question is online or on-campus. The development of new businesses aiming to take advantage of our student base for cross-selling and up-selling opportunities, but also including the entrance into new markets, and the monetization, sale and licensing to third-parties of assets created for our own internal users.

The effective management of our costs and expenses through the use of benchmarking and the improvement of our technologies, such as our software to optimize, the allocation of classes and physical space, which has been used for almost two years in our partnership with three of them, a Gapso spin-off, a Company specialized in the planning of complex operations. A substantial improvement of our credit granting, our campaigns and our billing and collection processes through the intensive use of our management model backed by the pursuit of external expertise, and by the creation of our brand new team with high expertise in collection processes.

A great attention to opportunities for inorganic growth resulting from the adverse economic scenario. I also want to highlight another great achievement by Estacio, which took place last Wednesday in Sao Paulo. At that date, we won two categories of the Sparks Awards, an award organized by the Brazilian Startups Association with the support of among others, Microsoft. The prize considered by many, the Brazilian Startups [ph] entrepreneurship aims to recognize the initiatives that have the biggest impact in the development of an innovation and entrepreneurship mindset in our country.

To our joy, Estacio was chosen as the best university for entrepreneurs and also the best business accelerator in Brazil. In this contest, we are aware that 2015 has not been an easy year for anyone, and I believe 2016 will be no less challenging. Nevertheless, while not underestimating Brazil's economic crisis in any way, we believe we have all the necessary weapons to cope with the difficulties ahead, thanks to our people and to our management model, to our commitment to our students and to our long-term vision. All

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these boosted by the attitude adopted by Estacio in recent years, not getting carried away by the temptations of growth and shortcuts and instead preparing for an uncertain future.

We know that in order to continue our march in these adverse times we need to maintain a positive attitude, focusing on every detail of our operation, delivering the best possible service, and doing everything to ensure that our students, together with and in the same way as our Company, get through these difficult times, continue to pursue their dreams, and keep growing and prospering, thereby generating outstanding returns on their investments in education and as a consequence building outstanding returns to our investment in Estacio.

That brings me to the end of our presentation, and we can now move on to the Q&A session. Thank you very much.

## Questions And Answers

### Operator

Thank you. We will now begin the Q&A session. (Operator Instructions) All right. There are no questions at the present time. So, I'd like to turn the call back over to Mr. Rogerio Melzi for his final remarks.

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

Well. Thank you very much. I hope the lack of questions implies that we had a very good call. So no questions whatsoever. I'd like to thank you very much for taking your time and participating in our results call. I think to finish off, I just would like to emphasize that we remain really, really confident in our capacity to generate significant results even in hard times. Thanks to everything (inaudible) during those years when the scenario favored the education segment.

I'd also like to emphasize that it is precisely in these arduous times that we shall be able to show the results of all our work as we proceed with our 20-mile march in a determined and disciplined manner. Our Investor Relations team is always at your disposal to help you with any questions you may have and so am I. We hope to see you again in our conference call next quarter, and we wish you all the best.

### Operator

Thank you. This concludes Estacio's conference call. You may now disconnect and have a good day.

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