

## Q1 2021 Earnings Call

### Company Participants

- Adriano Pistore, Vice President of Teaching
- Eduardo Haiama, VP of Finance & Investor Relations
- Eduardo Parente Menezes, Chief Executive Officer
- Marina Fontoura, Vice President, Premium Operations
- Unidentified Speaker

### Other Participants

- Caio S. Moscardini, Analyst
- Leandro Bastos, Analyst
- Lucca Brendim, Analyst
- Lucca Generali Marquezini, Analyst
- Marcelo Peev dos Santos, Analyst
- Unidentified Participant
- Yan Cesquim, Analyst

### Presentation

#### Operator

Ladies and gentlemen, thank you for waiting. Welcome to the Earnings Call from YDUQS for the Results Presentation for the First Quarter of 2021. We inform you that all participants will only hear the presentation and thereafter, we will start with the Q&A session. (Operator Instructions)

And we would like to tell you as a disclaimer that anything that might be said during the teleconference regarding the business perspectives, projections and operational goals are premises and based on premises and beliefs of the Board of Directors based on information that is currently available. These are not guarantees of performance and we have premises and uncertainties, and it depends on circumstances that might or might not take place. Investors must understand that industry conditions and other operational factors might affect the future results of the company and might lead to results that are materially different.

Now, I would like to give the floor to Mr. Eduardo Parente. Please, the floor is yours.

**Eduardo Parente Menezes** {BIO 16707188 <GO>}

Thank you very much. Good morning. I hope all of you are feeling well, healthy. So we have another quarterly presentation, I'm going to go over the numbers with Haiama, and then we have -- we are available to answer your questions. Let's see how we see this first quarter. It's a quarter that after -- actually it's our fourth quarter at the time of the pandemic. So when we compare this quarter with the previous three, there is a very big difference and the adjustments -- and the necessary adjustments, everything that was -- well, that was mandatory that we do with the pandemic. So we had a very positive advancement.

Second thing about this quarter, this is a quarter that when you see facing the other quarter, which was the pre-pandemic quarter, these are numbers that are similar, regardless of the time that we had a drop here in the -- well, in the intake and we had -- regardless of that, we can see the solidity of everything that we were saying. We fixed everything in terms of costs, and we are working with the growth levers. We have M&A and medicine, and very efficiently, we could fight against the problems and then we have results that are similar to the pre-pandemic times. So we understand that this is the strategy and these are the adjustments that we have and always looking for new things in these three segments for digital and on-campus learning. Well, as we say in Brazil, we have to sometimes forget about the brakes and just move on, and if you remember the FIES three, six months in even the pandemic, we understand that our future perspective is very positive and so, down the road, we expect great results.

So when we look at the intake once again, this is fully aligned with what we have discussed. And we have an organic growth, that is very strong in premium and digital learning. You can see here, 44% and 27% respectively. When we see the M&As, these numbers are even more impressive. On the on-campus, we have obviously the drop in 30% in the delta and remember that a year ago, we had the biggest intake in our history, however. There is no surprises from what we've seen from specialized consulting companies of the sectors, analysts, they are seeing the behavior of the students, looking for a delay. And this is a very important number to highlight. We have 40% of our students, when they get into our courses, our universities, our -- well, they have two years already that have worked with -- that have studied in the higher education and many of our students also come from the public sector and we understand that there is bureaucratic delays or there's well -- then we see that we have ways, we have two, usually one good intake, one poor intake. The trend now is that it's going to be a positive intake. And then at one point, you will see the numbers.

Let's go to Page 4. What we do have is quarterly highlights. Within premium, as we commented, we expected to get to 7,500 students. We already got to 6,000 students, undergraduate medical students. So 6.2, 6.6 -- well, 6,200, 6,600 students, medicine students. The average ticket increased 5% and EBITDA margin 53%, the renewal rate higher than the experience, in a very strong movement, if you've seen it. There was a good report in Valor Economico, which is a specialized publication, we're taking medicine to a higher level brand, that is differentiated, that speaks about medicine to medicine for those that do medicine, IDOMED.

When we look at digital learning, we have the -- well, it looks like premium, we have the doubling of the net revenue. We have the under graduate student base, but it's still good

and we are still accelerating in the centers. We are going to the interior of the states, it shows our intake. We are having new centers, we grew therefore 58% comparing to first quarter 2020 regardless of the period -- of the pandemic itself. Therefore, we should get to 2000 centers expected for 2021 year and no on-campus, the big issue. The average ticket increased by 4%. If you compare it to first quarter 2020, we would think that there is a higher intake, there is more competition. This is what actually happened in the market. And you will see this up ahead, after the competition announce the results.

We actually have stability in price, it doesn't come from this quarter, but the first quarter of 2020. This is a good news. And when we look at the on campus average ticket, with or without the FIES financing, it's a marginal influence, I should say, it doesn't really affect us and we have an intake level that is very good. There is a great increase. We've got a small loss in -- well, in last year, but remember that we also invested and we now have a renewal that is normal. The students are working with that and we think that Aura has a great influence in that and we finished with 43% of the students -- well, and we already mentioned the scholarships and this renews is reflected in the NPS, the renewals and therefore, we have this very good renewal rate even in the context of the pandemic and still on campus. We are really -- always working and seeking, as you can see, an increase in productivity, profitability having a more sustainable business.

We have worked for many years in healthcare, of course, and the result which was a third of our base, we go to 42%, rising from 30%. We're doing very well in those healthcare focused courses, they are more profitable, this is the market trend. And it's very resilient even in the context of the pandemic, and this is very special, in the context of epidemic and the post FIES world. And remember, we had a lot of mandatory discounts, this really affected the accounting results. We had the adjustments of cash flow. What we see is a residual, really of these mandatory discounts.

In the fourth quarter, we had orders of magnitude of BRL80 million, now it's less than BRL10 million. It really shows that the world is going to a post pandemic world. Well, about that BTD in Portuguese, we are -- have 11% comparing to the first quarter of last year, which was 12%. It's a great advancement, a number that was lower than what we had in the pre-pandemic, the NPS, advancing very with that digital learning, we are growing in the digital learning. We are increasing, well, the payment renewals and when we work with the digital world in the core business, this really is -- well, we see the reflection in the NPS. And here we can see 17 points, even though 80% are still having classes via Teams, only 20% -- well, on-campus plus 17 points and digital learning 21 points plus.

You can see that we have a capital structure that is solid. I think that we should highlight this point, this is generating cash, low leverage. Every quarter, we tell you. There has never been actually a quarter where we say that the cash flow hasn't been solid, every quarter let's call it, it is solid. Acquisitions and integrations we have more than BRL95 million captured in synergies, BRL95 million. Once you implement the M&A, it starts running and then the results are down the line, the total results 12 months down the line. It's a long-term investment, BRL95 million is the 12 months that was already captured. One thing that is important to highlight is that, we have the premium and digital, totaling 46% of the net revenue, and we should get to 50% in the first quarter, and well, as I told you 46% now.

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Let's talk about Ensiname, the new backbone of digital learning and how we are using technology to get to our students, we have a great NPS. The experience of the student, this number is reflected in NPS. But also in the result of the tests that we're doing. The increase of the base, the student base, we had 17 point increase in NPS and 21% in on the campus, so 17% is for the digital learning. And we do one statistics for statisticians and one statistics for those people that, you know, we optimize the base that we use and everything that's while label. So we acquired cantinas and a series of others and immediately, we have the content of Ensiname. This really helps us capture the synergies. Today, we have 100% of the first year students are digital and now, we are taking Aura to several courses; 100% digital, you can see the investment here and we are going to the post graduate courses that we believe that there is still a lot things that we can do. And this has been great successful, a lot of success.

So let's talk about premium. And here the big message that you can see, on premium is the revenue and based on the student base, growing strongly in regards to last year, so the revenue in comparison to the first quarter of 2019, we came from -- well, it was from BRL86 million to BRL110 millions. I don't know if we really showed the organic growth, that was really good. There is just a dark green, which is Medicina Estacio. We went to, well, first quarter '21, BRL144 million, so two -- almost two times the first quarter of '19, two years, this student base growing 50%. So there is a growth, there is a little clock that has been working very close to our plan.

Here, when we go to the quarter, BRL112 million, we have a better number than last year for the EBITDA. When we are locating the cost per business unit, we have something that when you have a slide from one quarter to the other, we have to see there year-on-year. And here we had the late intake we preferred for the first time and only time, because of the time, we had a guidance for the quarter. So you can see the math and of course, we look at the semester here, the premiums are now going to have a margin of 53%. It will be a number close to 50%, maybe a little bit below that.

What do we have for news? We launched the IDOMED brand, Instituto de Educacao Medica. And we already have the undergraduates from 6200 to 6600 students. That's what we expect for the second semester, the base and adjusted average ticket growing year-on-year adjustment 5%, this quarter we had BRL8 million in losses of the mandatory discounts by court orders, but this quarter, this discount will not be enforced anymore and then therefore the -- we will have new numbers and new trends. Ibmecc, we really launched a new logo and we had good numbers for intake. Ibmecc as well as IDOMED, the intake is closing much earlier, and we had late intake and on premium, we closed very early -- much earlier than the premium, what -- on the premium, we closed much earlier than the regular. So today it's -- premium is a third of our EBITDA of YDUQS. And we have a renewal rate that is very strong, but now it will be very strong. You can see the 96.5%.

Now digital, Page 7, what do we have? It looks like medicine, the student base is doubling. If you look at the first quarter '19 to first quarter '21 as well as revenue. Here, we have an effect on EBITDA of this late intake. So you can see the numbers of intake in the first box, referring to October -- from October to April. And we got the students getting into the system in April. The numbers would have been higher, should we have -- well, take into

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consideration the numbers of late April, but we decided just to show you this reference, this guidance for the quarter.

And here the effect that is on the contrary, tremendous and you can see a drop, what we can see not like medicine. We had 40% of it -- last year, it's 45% as we closed the semester. It will be closer to 45% on the EBITDA, as I just commented. Also EBITDA, this EBITDA is a third -- digital learning is a third of the total adjusted EBITDA. We can see the number of centers growing. We had 1500 and now at the first of this quarter, we had 1600 centers and we are strong to finish this year with 2500 centers. Once again, this is a great number of centers, we still -- many of them haven't gotten to their fourth year, they're still maturing average ticket. As I have told you, very -- several times the -- have -- what the -- there was a drop -- a slight decrease of 1.8% year-on-year decrease. It's expected, it's that is BRL240 a month on average for the first quarter of 2021 on digital learning and we are very satisfied. It's still a strength and a good bet that was done many years on the cellphone are in the cheapest model of teaching centers and I believe that this has been expanding, and if you get the margin, the corporate and the salaries, it's above, say 50% and this has manifested itself many times.

Let's talk about Page 8 on campus. We have a drop in the revenue of 2% in comparison to last year. Nonetheless, in this number, we have all the M&A, so all the acquisitions that we've done on campus and this year is Wyden plus Athenas. So this number, if we just got the universe that we had, Estacio UniToledo, from the first quarter of last year, this drop would have been 19%, which is this orange number on the left.

Next acquisitions, so the numbers without FIES, the number is stable. You can see, there is a little bit of FIES right there, and then adjusted EBITDA up 17%. For the quarter, for the adjusted margin of EBITDA, you can remember that last year it was 24% and now we are very impressed with the resilience of this operation when we see that we had the end of FIES. We have the financial crisis, regarding the COVID 19 pandemic, but we still got the 17% EBITDA margin down below. Undergraduate average ticket, there is an increase of 4%, if we remove FIES it's 6%. It's the last time that we are going to talk about the loss of FIES. It's not making sense anymore. If you look at the student base, we have the variation for the first quarter of '19 '20, '21, a variation of 2% from last year, but we can see the base of what we had -- and what we have the drop is higher than the 2% that we can see.

It's important that we show you, on the next Page 9, what we are building on campus and why we are so positive with the future. At the top, at the left is the distribution. Well, the structural evolution of the YDUQS and we have the courses that have -- the mix of course is on campus. We have an evolution here. Of course dark blue is healthcare, we are working with that. We really like to work and show you the results. We can see up ahead the expectations and we can see the direction that we are undergoing. We've been doing this with many -- for many years, with a lot of success. When we look at the renewal rate on the right, it went up in regards to 2020 year-on-year and this year, year-to-date. Once again, a very difficult moment here, a very difficult year and with our big courses -- big costs.

In the middle, we had the cost of Estacio com voce but that's it. Down below, at the left, we can see a very important number, very impressive when we see the student per class

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ratio and occupancy rate. We can see from 35 to 46, on semester in comparison to 2018 and 2021. So there is a growth -- up to 73%. A lot of spreadsheets, a lot of science do get to this number and a lot of logical analysis. We need to -- well, of course, this is very important for a business and we have given this understanding that and we have from really during the pandemic, we can see how the teachers are committed and the numbers during the pandemic, well actually trying to -- there is a growth, this is very good. There is a lot of work for people to understand and now they understand clearly the beauty and the importance of having done our homework in 2018-2019 with a lot of effort in health and this number on the left that we dropped from -- that we came from 35 to 46, when you look at the number of -- which is the NPS, you get more people in the classroom. And then the evolution of the NPS variation and here you can see the options a semester.

It's more flexible and we can increase the NPS year-on-year in the on-campus and especially in this year of the pandemic, as I told you on the right, we finished the -- well, with 37% of the students with -- at Aura, the expectations to close 2021 with 61%, we are doing a great work with technology that engages the student. So we have a content, a short video or podcast and it's a content that before we needed to get the info, and it's very strong with Fortnite and the digital content has been very didactic. And the students are coming much prepared to the classroom, and I will have the statistics of well, it's like 65% of the students are ready to watch for example my class, and that transforms completely the dynamic, helps with the preparation and it really helps us to have that standardization that guarantee of quality with all the campuses or the (inaudible) that we have.

Page 10, Eduardo Haiama will talk about the revenue boosted by digital learning premium and M&A.

### **Eduardo Haiama** {BIO 7279971 <GO>}

Thank you, Parente. Let's talk about the numbers. Our total net revenue grew year-on-year almost 20% and as you can see, as Parente has said, this is the last quarter that we are going to show you details of FIES. As we have seen and have been telling you for a few quarters, the FIES, the impact will be minimum. It would be BRL100 million, BRL150 million maybe on this year and this quarter really shows this, a reduction of BRL28 million. The intake really had an impact on the --well, on the campus. The -- we can see the three levers of growth that we have commented. Digital, BRL44 million premium with a delta of BRL20 million and the acquisitions BRL200 million. So we can see the revenue year-on-year. We have 17% and then you have that adjustment by court orders, we can see the numbers.

Now consolidating the guidance for the quarter and remember, the issue of the quarter, because in fact, the late intake it generated a -- the sourcing of seasonality, we'd rather show you the number as we are expecting for the quarter, the adjusted revenue, given that the intake and renewal basically are done. So we are expecting a growth of 16% adjusted numbers, if you compare it to the reported numbers, it's higher. Now, last but not least, in the graph below we can see how these levers of growth are per segment, that digital and premium, we can get the space or -- that they are gaining or throughout

the year '18, they represented 21%. So -- and plus 14% and now they finished this first digital learning and premium with 46% of our revenue.

Now, Slide 11 adjusted costs and expenses. I'm going to do the breakdown and just highlighting three items. We have bad debt, BTD in Portuguese, advertising and G&A depreciation. Actually this is when we do an acquisition, we -- well, we acquired a talent, but all the other three, what is important thing? Bad debt. In the graph down below on the left, even though we are growing year-on-year total percent, when we look at percentage wise of the net revenue, the bad debt plus just kind of drops from 12% to 11% of the percentage of net revenue. Remember that in the first quarter of last year, we didn't have the pandemic, the pandemic really started to impact us on March -- around March of 2020, and this is something that we have commented that since June, July, the numbers have been improving.

Second item in the graph above, which is advertising, marketing. Advertising basically in this quarter, we had an expectation which was the market expectation. We did market research in November-December last year that it seemed that we would have a normal year or a normal scenario for the on-campus when it was in January, we saw that actually the scenario was more difficult than what was projected. But we had spent money with that February, we realized that the trend is -- was changing. And we might have more digital, well, that's why we had the campaign, Estacio Ta Pago, it was a success, we had an indication and that our intake year-on-year digital might have been 10%, 15% but it was 31%. Our strategy in fact, we changed very quickly. This is a market that is changing and it's paying for itself. And the last cost item that I wanted to mention, D&A, depreciation and amortization. There is a delta of BRL29 million as you can see on the graph, but half of that delta is related to the amortizations of acquisitions, these are non-cash effects. We will see this in the revenue up ahead that impacted here. The rest is just, regarding the assets that we acquired.

Slide 12, if you take a look at the EBITDA, now let's look at the adjusted, year-on-year, adjusted it's dropping about 7% and as it was mentioned before in the previous presentation, on-campus suffered a lot because of the intake, the pandemic, but our levers of growth and the acquisitions that we've made, have in fact kept us at a level at the same level of last year, the highlight, the real highlight besides the one on the right, well, it's basically and -- well, when we see the revenue comparing the Qs, it's zero on zero. But the nonrecurring, it's BRL160 million, that was last year, non-recurring items, and now, the nonrecurring effects, we are at BRL13 million and BRL8 million of these non-recurring effects are just individual causes that well, impacted the court order is BRL8 million, you should remember.

So if you look at a very clean number, we haven't shown them for a few quarters. But anyway, the next slide, talking about the adjusted net income. The income that -- well, that impacted the EBITDA, we are doing an adjustment for the cash profit. Well, basically the amortization here of the acquisitions and here the adjusted net income was BRL73 million, almost 60% in comparison to last year. And remember that last year -- now with the acquisition is the financial result that was impacted in BRL13 million and here the impact on the income, and if you have EBITDA and the D&A, well, amortizing the assets that have

come from the depreciation and the reported income you can see it reported, but in cash generation.

Next slide, we can see that the cash flow and generation. First, we have to -- well, it would have been a drop, if you look at the CapEx, we had an operational cash of BRL409 million against the operating cash flow, which is BRL189 million which is on the table on the left, but this doesn't really reflect a reality of the recurring cash flow. Why? Because on the first quarter of last year, which is the last line in the table, we've had a delay in the FIES receivables, I should have -- what we only got it in January of 2020. It should have -- we should have received it by December '19. So BRL136 million of that would really get a good approximation through the reported year, well, quarter-on-quarter revenue. And by the IFRS 16, I have to show the interest rates as an operational expense. And I didn't have that, but now I have that.

That delta impacted another BRL30 million. Last but not least, the big item that was completely launched on the liabilities was the contract termination fee. It was an old discussion for rent and now we have the payment of BRL45 million, but this is one-off. There will be no further payments. Looking at the adjusted cash, we are aligned with last year, and still keeping cash conversion that is very high. The cash position BRL2 billion, well, that's the accounting, the high liquidity, cash generation ability to raise funding BRL1.3 billion in cash position, we can see the -- next quarter, we will have everything together.

For CapEx, the graph on the right, there is a reduction of 20%. Nonetheless, we need to highlight that we have documented for the first -- for the previous quarter, the expectation for CapEx for this year is a similar level to the standard of CapEx that we had through -- all throughout 2020 and the opening of this CapEx still will be based on everything that we've called digital transformation plus IT. That's the important part that will keep the company updated for the changes that we believe will change -- will improve on the quality even more. In terms of indebtedness, we finished here with the EBITDA, that was a very healthy, the low debt, net debt over the adjusted EBITDA at 1.3 times. And this is one of the strong basis for growth in the future.

With that, I will give the floor back to Parente.

### **Eduardo Parente Menezes** {BIO 16707188 <GO>}

Thank you. Now, if you look at the recent acquisitions, we did three over the last three years. UniToledo is concluded. The integration was a landmark for the first time in our history. Now we kept the brand of teaching of the acquired higher education company. This has been very differentiated in the comp -- in the region and it was the first time that we launched the brand. We did that in 90 days, Adtalem. Still hasn't been one year since we had the inception of the integration. It should be one year soon and the process is doing very well. We have a great deal of the synergies captured and we can see the integration of this system and we concluded the integration of over 60 systems. This gives us a great relief that most of the problems are gone and knowing '21 O.I, the -- we have the teaching matrix implemented in the first post closing intake cycle of '21. And these are synergies that will appear after about 12 months. It's not the 88 that appears in the first quarter, that was captured.



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Athenas is a very nice case. We acquired, we are looking at regions that we are less present. This has a very big impact in our remote learning. Well Athenas, we did all the analysis at Wyden, Adtalem, we have a lot brands and we wanted to you keep the local brands, except UniToledo, we kept it -- now we have Estacio. But just with that, we opened 46 centers, 46 Estacio centers in this region, Mato Grosso, Acre, that are doing very well. We had 50 medicine seats anticipated and there are good things happened. And there is a record intake, historic in 2020, 0.2; 2021, 0.1, two times the all-time high of pre-closing intake and you can see the great success in the acquisition on NPS very high, teachers very satisfied and this capture of synergies is a little bit lower, there we see maturing the medicine seats. Therefore, from the standpoint of integration, we're doing very well.

And now we're going to go to Page 16. I thought it was very interesting to show you. On the left, we have what was discussed before -- pre -- well three months ago, what do we expect for the future. I believe we have a really precise expectation. In premium, we were talking about this, the base and medicine. The expansion is happening, the capturing is working. When we look at digital, we are saying, look, there will be a strong base increase, this is what's happening. The intake would be relevant growth and that took place. We're moving along to the 2000 centers and 2500 in 2022, this is taking place on campus, where we are saying the loss of FIES will be a fraction of what it was last year. We are talking about a challenging H1 intake. H2 is going to be a better perspective, stable prices. The perspective of the margin re-composition starting in 2022. Synergies of recent acquisitions impacting the results of '21 and '22.

In general, marginal effect of the laws and court decisions orders for Q1, good M&A perspectives with robust financial situation. This is what we have and M&As might have good interesting things up ahead. Positive re-enrollment, digital transformation impacting the NPS, digital and premium reaching 50% of NOR in '21, and lifelong gaining traction in all BUs. Everything is -- people were asking about 2021, while the first quarter, many of you remember it's the one that is the most uncertain. But even in this world of uncertainties, we are doing well and we have the conviction, that in the future, life will be better and this quarter.

We can go to the next slide, on the side what we see in the world of the pandemic, if we look at the semester -- at this quarter comparing to the previous ones, this one is much better and in the side of the results, the adjustments that we were -- there was mandatory to do well, but that was dropping in this quarter when we compare it to this world and the epidemic and it's a different reality. Second point, look at our strategy, medicine M&A it's paying for itself. From three years, we are building on a very strong base, very efficient base. And we have been building that in '18, '19 when you look at that all the cash generation. The margin of EBITDA, we are a reference in the market and this shows resilience, very strong one and this is very important.

Today, we are doing -- we have a very difficult transition moment. And when we look, we can deliver the EBITDA of course and when we look up ahead, we can see in the third point, all the growth that we have in digital and premium. The growth, while stable and financial situation with the generation of cash and EBITDA and a cash position, we can see

the assets that are -- well, 1.3 net debt over the adjusted EBITDA and the cash position, BRL1.3 billion. This is strategies that are paying for itself, good perspectives.

Thank you for your trust, for your attention and of all the messages that we've received this morning, we know about the on-site but thank you for your solidity, your resilience and everything that is up ahead. Thank you and now, let's go to the questions.

## Questions And Answers

### Operator

Thank you. Now, we will start with the Q&A. (Operator Instructions) First question from BTG Pactual.

### Q - Yan Cesquim

Good morning. I wanted to ask a quick question here about the on-site ticket. You commented on campus ticket, you commented that this quarter we had something more residual in the terms of discounts, which impacted positively the average ticket of the on-campus and can we use, therefore the standard to annualize our numbers and consider this as the new base level of passing the price as I should say on the on-campus? Thank you.

### A - Eduardo Parente Menezes {BIO 16707188 <GO>}

Thank you, Yan, I hope that everybody is healthy there. I believe, yes, yes. You can see this resilience that had been shown on the ticket since 201. We are looking in this universe, I think that this was a question that we got in the fourth quarter we came from the world of discounts, mandatory or not, taxes and the question was, how is it going to be on the next quarter. Once these discounts will be removed, what we've seen is that we removed the discounts, we increased the price for the students I have been studying for some time, and we saw the resilience of renewal and the base.

I believe that the demonstration that we have here and the moment, a very difficult moment here, and we will see the big ones. And when we are looking at the small ones, it's a very -- well, the price is going to be stable. So it's probable, we're very efficient and as I told you, we have a big size, we have a lot of technology involved and we have our online and on-site at 40% and we have 17% of margin at the moment. So you can imagine, well, what's happening with the small one. And I'm telling you about the diligence, very difficult to find a positive EBITDA in a small competition. So we see that we've reached a breaking point. There is a moment of drop in the price and we think that we got you that level. And of course, this is our expectation for the market. Nonetheless, there are no guarantees that this trend will be kept. Now we can see that the market is restructuring itself as we told you in the consideration of the fourth quarter of 2020, we can see a recovery from the second semester and the beginning of next year 2022. Thank you.

### Operator

Next question, Marcelo Santos, JPMorgan.

### **Q - Marcelo Peev dos Santos** {BIO 16605663 <GO>}

Thank you. Well, I wanted to talk about the premium. If you can talk about the difference between margins of Ibmecc and Medicine, since Medicine has an expansion that has been procured should we see our margin changing because of this mix over the next few years and discussing the marketing advertising this year. As you commented, it was a bit different. What should we expect on that line?

### **A - Eduardo Parente Menezes** {BIO 16707188 <GO>}

I'm going to start and then I'm going to call Marcelo. I think that you're right. The trend of expanding Medicine is stronger than Ibmecc, remembering that we have a lot of things starting. So you have an operation that has 50 students, it's not different than the operation that has 150. So we see a trend in increasing the margins, and the recovery of tickets. And we can see some differentiation here in some classes, this is happening. And we can see a lot of the competition, keeping the 30% discounts from last year. And we can see a clear differentiation. This train of thought of the premium margin up ahead is completely valid.

In regards to the marketing here, I'm going to let Marcelo complement. Well, we started the year, that was a very interesting year. And we had a lot of insights in this, in this intake and also operations, I wanted to say that everybody was -- worked very diligently. We thought that we were going to have a NIM and we said let's hold on, because of that, we have to wait for the result of the ENEM test but on the other hand, we started to test. We tested campaigns and it wasn't working.

So we invested the money in January, that did not reflect in -- well in enrollment and this is the money that is gone and that's it. Of course, looking the past is very difficult to say, oh, we shouldn't have done that. But on the other hand, it gave us -- there is a lot of research and consulting companies are talking about this, there is the insight that -- well, we shouldn't wait just for the ENEM if we were just waiting here and there is, it's -- we have a campaign that is very brilliant and we had results and we had a peak, this for this quarter, that is not normal for this quarter. But once again, this is the -- I wanted for Marcelo to give us a little bit more details. Well, thank you, Marcelo.

### **A - Unidentified Speaker**

And just to complement what Eduardo said what's happening. We've learned with the story of January and February, for the rest of the year, we will repeat, well, what we believe was a success. So following up on the tracking of the market that we had very important insight to the market, for example the campaign in Ta Pago, and reinforcing the media actions for a message that is very strong with financial offering that for the company was very positive.

Therefore, the expectation for the rest of the year, we're fighting to be aligned with last year, the numbers to keep the numbers of last year, but once again we reinforced that on our side, it's very important to follow up on the market and we are ready, we have a

machine that is formatted to capture these values here. So we can have a flexibility and agility that is much quicker to readjust the positions and the investments, depending on the rhythm here of the capture. So what happened in January was bad, was a bad scenario for investments without intake and then the launching of Ta Pago was positive in the way that we are replicating this for the rest of the year. And it should be aligned with last year.

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**Q - Marcelo Peev dos Santos** {BIO 16605663 <GO>}

Just to clarify, when you say in line with last year, is the percentage of revenue in the financial volume is that it?

**A - Unidentified Speaker**

Well, yes in the financial aspect, yes.

**Q - Marcelo Peev dos Santos** {BIO 16605663 <GO>}

Thank you.

**A - Eduardo Parente Menezes** {BIO 16707188 <GO>}

Thank you, Marcelo.

**Operator**

Well next question, Leandro Bastos from Citibank.

**Q - Leandro Bastos** {BIO 21416405 <GO>}

Good morning. First about intake. Well, you're talking about the intake, we are following up on the evolution of the numbers. What can we expect for the middle year cycle in the different units? That's the first question. Second, the drop in value that Parente commented at the beginning, how do you see the alternatives -- strategic alternatives of this operation? Can you comment a little bit more on that and Medicine. That's it thank you.

**A - Eduardo Parente Menezes** {BIO 16707188 <GO>}

Leandro, I'm going to answer the first one and then I'm going to let Marina answer the second. The intake in the second semester on -- in Medicine, Ibmecc and it's -- the expectation is that it's going to be good, medicine is doing very well and as I mentioned, digital is also doing well. Ibmecc, things are doing well, and in digital, the expectation is to continue to grow. The on-campus, there is the point here, it's very early to speculate. The numbers are better than last year. And what happens? The difference with last year, it's not the same difference. We had an intake that was record on last year -- on the first semester and there was a drop in the second semester. So it would be a surprise, if there would be a new drop. This is now what we are expecting, but here, the curves of COVID is what will show the curves of vaccination because at the end, the behavior of on-site is, that well in the expectation of going back to campus, on-campus is what will make this

number grow again. At one point, we are going to -- we think that this is going to work, but Marina, we think that is going to go back to the numbers of last year, but yeah, if you can help me?

### A - Marina Fontoura

Well, we did this movement of separation of the operations on Medicine and of course we have the launching of lbmec that once has to connect more and more to the public with the students of medicine and having a value proposition that is differentiated, everything that we're doing, not only the physical separation but also giving more transparency of the numbers and doing the internal movement looking at this in a separate way. Medicine as we have seen it has a very focused growth, and we can see the multiplication of the student base two times, 2.5 times just with the operations that we have and more and more we can see the universe here for what we are building the products and acquisitions and we are very optimistic. And in the -- we've always given a preference for medicine, and we believe that there is a great story. And we will be connected and segmented with the student.

### Q - Leandro Bastos {BIO 21416405 <GO>}

Thank you, Marina. And you were talking about the premium in lbmec right?

### A - Marina Fontoura

Yes, it's been separated. Yes internally, we have premium that involves both things in lbmec.

### A - Eduardo Parente Menezes {BIO 16707188 <GO>}

Thank you and let me just talk about that. Just to clarify, we separated here the operation of medicine, which is on the campus Estacio because it's, we did a great investment here, that was a very -- we increased the ticket very, very much and the other operation, which are the two more important things. We will have the campus Estacio year here at the center of Rio de Janeiro and then we will do an exclusive IDOMED. These are things that are not only symbolic, we have something that has a different segment, everybody with their expectations and needs. There is a lot of things happening. And you can see just the tip of the iceberg. There is a lot of the good things that will happen up ahead. Thank you.

### Q - Leandro Bastos {BIO 21416405 <GO>}

Thank you, Parente.

### Operator

Well, next question is from Itau BBA.

### Q - Lucca Generali Marquezini {BIO 21102315 <GO>}

Thank you for accepting my question. Well, I just wanted to understand how will you continue with the bad debt and discounts? Will this impact the student base? Thank you.

## A - Eduardo Parente Menezes {BIO 16707188 <GO>}

Thank you, Luca. Right. Well, I'm going to let the -- these interesting questions to you, Haiaama.

## A - Eduardo Haiaama {BIO 7279971 <GO>}

And well, what do we wanted to show you with the premium and everything? Yes, the trend on the medium term, and as the time goes by is helping in a very positive way in terms of -- but in this, but even on the one on-site, which was the slide, let me get the presentation here, Slide 9 when we look at the mix per course, we noticed an improvement in the revenue, in regards to what we've seen for example, a year before. And this is because of the mix of the courses and with that we have the ticket and by the ticket is different. So since we are capturing more in this area that are growing and yeah, the trend is to improve.

Now on the very short term, I cannot affirm because this year we had the pandemic, so very, very short term is very difficult. I think that in the first quarter, yes, there isn't a whole lot of oscillations here but we hope that it will improve, it will improve on the factors, the NPS, the EnsiMe, IT, and the quality that the student is perceiving the engagement, every single time that we improve on these factors, we improve the dropout and we improve renewal, which are the big points, so heavy duty point on PDD. So everything that we're doing to improve the student engagement and for us to in fact to have that quality in teaching, we believe that it will help to improve on the numbers.

I don't know if I answered your question, but --

## Q - Lucca Generali Marquezini {BIO 21102315 <GO>}

Yes, it was very clear. Thank you.

## Operator

Next question comes Lucca Brendim from Bradesco BBI.

## Q - Lucca Brendim {BIO 21345319 <GO>}

Hello, good morning everyone. Well, first of all, I want you to talk about the court orders and I wanted to just understand up until when will you see an impact in the premium side? And second, M&A if you can talk a little bit more about the window of opportunities that you believe that we should start getting, and also, if you can talk about the quality, if we can focus on those processes as well?

## A - Eduardo Parente Menezes {BIO 16707188 <GO>}

So, let me just understand, you're talking about the military discounts. Okay, I believe that, well, we've seen that in the second quarter, but not the third. And the second M&A, you can notice that we have discipline. We don't do things out of hand, I think that there are three businesses that we've done are clearly very good. You can look at the EBITDA picking a variation between three and six and the synergy, these are smaller numbers,

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well to pay more expensive, we rather re-buy our shares, and we have the opportunities that are very good and we need to seize the moment.

Well, this plan is really migrating and besides that, we can see this working, we are thinking that this is a fair access looking at the market perspectives, but there are other things that are going to come up in the radar, of things that are not necessarily of undergraduate and there are some premium things that might let us -- to lbmec and, well, there are digital things that we look at. When we look at our digital world, not only on-site, well our digital world, it's not just of the -- well, we have EnsiMe, it's not just digital. We have quality and this will be distributed through several channels.

The -- in the middle, we have teams, we have a digital way that you visit on campus. There is the semi on-campus that we just re-launched the product with a lot of success. There are many things here that when we look, we can see people that are copying our centers, our model of teaching and the cellphone and copying this fight to quality in the system as a whole and we want to keep -- we understand that there are many things that are part of the digital experience. And then we see smaller companies that can help us skip a few steps, incorporating tools and even people and things that we would -- that it would take too long to do.

And we found absolutely fantastic people here and we shouldn't destroy their business really. We've had everything is very strong here, the trend in these companies has not to incorporate them. And we can see the start-ups that are fighting with us today and everything that they say, is well, I won your market, well, then we won -- then we are having the conversations that our efforts [ph] -- that are evolving very -- in a very interesting way, and there are things that we are very excited to do. So it's a very nice question. We come from a universe that has had a lot of success with UniToledo and the environment that we didn't have before. Adtalem is bringing us fantastic operations, plus lbmec that has generated content for the entire mass of students that we are working. Athenas, that has really increased our strength in a world where Brazil has never stopped growing in.

And now we are looking at things down this direction, a little bit different, looking to accelerate or gaining some space in this, a big advantage that we have, in having a very good content that is being distributed all through our different channels and a model that shows that our margin or EBITDA, if you get all the rating is very superior and our rate of growth in the centers, well, people cannot follow up with us. We have a very efficient model for this.

Well Lucca, once again thank you very much. It's a little bit different than what we commented and as I said Medicine digital and M&A, we are always evolving should to be ahead of the market.

**Q - Lucca Brendim** {BIO 21345319 <GO>}

It's very clear. Thank you.

## Operator

Next question from Goldman Sachs. You may proceed.

### Q - Unidentified Participant

Well, good morning. Thank you for accepting my questions. Two questions. Actually the first is, do you still see space given the substantial improvement that we've seen. And the second question on our side, is in terms of digital learning the -- there is a lot of initial investment. In that context, could you reevaluate a little bit more on the strategies and also, if you can talk about this part of the M&A?

### A - Eduardo Parente Menezes {BIO 16707188 <GO>}

I'm going to let Adriano really answer your question. Thank you. Well, good morning. In regards to this, we see the space and the first point is that if we look at the occupancy, we can see 73% occupancy. It's a very high percentage, but there is a possibility for improvement. And the second factor is that the -- our model of teaching has greater integration, and we can see today, we hope to close the year with 61% of everything that is presented to our students and we are expecting an improvement here. Arnaldo [ph]?

### A - Adriano Pistori {BIO 20655758 <GO>}

Well, good question. About our whole strategy, lifelong learning, well talking a little bit in a broader way, we have advanced with our strategy to increase our portfolio and we have restructured our entire portfolio from Estacio. We have the cost more attractive. Ensineme is in a postgraduate world. In a graduate world. So we can see the results of Ensineme in graduate -- in the post graduate courses and student satisfaction. This is very important. And well, dealing with the partnerships, we also have had partnerships with a few institutions for courses and we start to look at technology. We have two courses of MBA in partnership and this business continues. Specifically for -- well, free courses we have grown the portfolio and we are understanding more and more this market and we are getting into this market stronger and specifically about your question, about how we would impact and how would we grow with this material, we can see in the first quarter the 43 new courses have been done fully with materials that have been produced with Ensineme and the marginal cost of production is zero. And that's it, so we are starting to have an impact of this production of white label, and that is more scalable, also in the free world courses.

Now I'm going to comment on the strategy. Well, I don't want to give you a spoiler of something that will happen up ahead, but we are really thinking a great deal of our time is thinking about this, how do we get very strongly capturing a big chunk of this market. Well, a little bit of this world and M&A is a very relevant part of our strategy. Can you tell us a little bit more about medicine?

### A - Eduardo Parente Menezes {BIO 16707188 <GO>}

This has been a pillar, that is very important and we have invested strongly. The concept really brings a lot of strength on the one hand. We are leveraging all the capacities of Ensineme, and thinking about new products. We spent a lot of time understanding the

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market and identifying the trends that are very important, not only we launched 18 graduate courses -- post-graduate and specialization of medicine in the last six months, but we are also planning new products to support residency. And all the trends that we're seeing, well, I think that the inheritance that we got from and tell them, we are doing a complete reformulation of the portfolio and repositioning. This is another vertical that we think that is a lot of space for evolving, but we're looking at M&As. In their center, there is a universe and skills that we are bringing players from outside and as it might strengthen and we have a lifelong learning and medicine. And this is something that we are very actively taking a look at and might accelerate our curve. We are working organically, but also looking at the future.

**A - Adriano Pistore** {BIO 20655758 <GO>}

Thank you.

**Operator**

Next question, Caio Moscardini from Morgan Stanley.

**Q - Caio S. Moscardini** {BIO 20856018 <GO>}

Hello, Parente, hello Haiana. I have two questions. In regards to lbmec, I wanted to understand how scalable is lbmec? What is the size, that this brand has? Do you have a specific number of cities that you want to have? And I was very impressed with the average receiving performance and there is a small decrease worsening with the M&As. So I wanted to understand what can we expect from the future, and what are the main initiatives that you will have to -- well, they actually delivered this great performance in the semester -- in the first quarter.

**A - Eduardo Parente Menezes** {BIO 16707188 <GO>}

Well, thank you Caio, I'm going to call Marina, Haiana.

**A - Marina Fontoura**

Hi, Caio. Thank you for the question. In regards to lbmec, I believe that we have operations in Rio de Janeiro, Belo Horizonte, and Sao Paulo. And we have the year that we are opening in Brazilia undergraduate. This is a niche product and it will continue to be a niche product. But yes we see opportunities. For opening new operations, I don't believe that there will be more than six, seven maybe max out throughout next year. One thing that we've seen that might be a very interesting strategy will be through the acquisition of a local player that has a very strong brand and it's centered in one of these segments of lbmec might be, we start from this platform, this is something that we're looking at the future and I believe that the post-graduate lifelong learning of lbmec, is very fertile. And this is a very relevant platform.

Whether -- if it's content, we are not going to go to online, but we can do postgraduate and free -- and well, we have corporate solutions and we are servicing the B2B market. So even though we see that this is a player, a niche and we are not going to have hundreds of thousands of students that we can see in Estacio. We can see fertile opportunities for

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growth for undergraduate as well as the lifelong learning operations, that are using lbmec as a platform.

### **A - Eduardo Haiama** {BIO 7279971 <GO>}

And Caio, in regards to your accounts receivable question, I would just like to add one more point. We had the bad debt, that is dropping. So in terms of -- it was a good quarter and remember that the previous year we didn't have a pandemic. So it was very concentrated in the period that we didn't have the pandemic from that quarter.

What is behind us? First of all, the first quarter of last year we had reformulated our process and if we haven't taken into consideration the pandemic, the bad debt would have dropped. And we are improving the processes. They are more precise. This continues and from the first quarter to the second quarter, we suffered. However since the first quarter, this has improved, and it will continue to improve.

Therefore, one part of this, once again, our products of financing is something that where I am not commenting anymore because it's very small. The -- it's dropping. It's little -- it's just a little bit of our base. So we have deadlines and products. The third point that I had answered about bad debt and discount, we can see that the mix, I remember that at the beginning of the pandemic, a lot of people were calling and saying, oh, you're going to suffer, you're going to have a lot of students in the digital segment, it's the most difficult one. And at that moment, it was the best revenue and so the mix in fact, when you look at digital, the more premium, and the mix has also helped on the on-site, that has really helped a lot. So I cannot affirm that this trend is dropping in the accounts receivable, because I believe that we're going to start growing again. And here when there is an increase in revenue, until you normalize, but our expectation is improving the accounts receivable, and bad debt and the process is -- well, the loss of students is improving.

### **A - Eduardo Parente Menezes** {BIO 16707188 <GO>}

Let me ask -- Let me add one thing. This is a very important point. And when the person does to -- know the sector and you to do some analysis of EBITDA, and you have to look at the accounts receivable to look at what's happening. And what we're seeing is our accounting conservatism is paying for itself. So we've had a series of laws, and in fact legally it was viable to charge for that, for that student retroactively. And we knew that this was going to be difficult, as it was. So we rather not have accounted for this. If we had accounted for the revenue nine months ago, then we would say that the accounts receivable was growing and now, the PDD is very different. So we have very rigid criteria for -- and when the student is 100% provisioned, once they have a dropout, so this is stable throughout the pandemic. And this is for the Board of Directors. It gives us the safety that what is here is here and the trend is for improving on the evasion.

### **Q - Caio S. Moscardini** {BIO 20856018 <GO>}

Thank you.

### **Operator**

Since we do not have any further questions, we have Eduardo Parente for the final considerations.

## A - Eduardo Parente Menezes {BIO 16707188 <GO>}

Once again, I would like to thank you for your trustworthiness, your attention here. Once again, we had three difficult quarters. This one will be better than the previous ones. We have a quarter comparing to the previous one, with similar numbers, the revenue higher, the EBITDA lower, a little bit lower, but showing the resilience that we have in our portfolio that we built. And we are looking up ahead. It's something that is very interesting that we know it is. Eventually we had people that had more resilience in this -- on-campus world because we had a set of students that maybe were more middle class, but here, the growth that are -- is going to be in the C and B social stratas. And we are very well positioned and we are very excited for this in the future. It's an issue, it's a matter of timing. The second quarter has been defined and we have had comfort.

To work with the needs at the moment, and that issue of separating the EBITDA of the business, the numbers are smaller, from one quarter to the other. There is one thing that in the premium that we want to change in the -- among the digital, the quarter has been improving and the big highlight is on-campus. 37% margin with the intake of -- at 30% in a moment of regrowth, it will happen. This growth will be in the C and D classes and we are ready to receive all the students and go -- and without having to deal with the FIES. Let's just talk about 2021 and 2022 as the loss of FIES and COVID not affecting us anymore. And this is the good positive reality for 2021 and 2022.

Thank you very much. Please keep healthy, use your mask, have a wonderful day.

## Operator

Thank you. The earnings call of YDUQS is closed. Thank you very much. Have a wonderful day.

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