Y 2020 Earnings Call

Company Participants

- Adriano Pistore, Education Vice President
- Eduardo Haiama, Vice President - Finance and Investor Relations
- Eduardo Parente Menezes, Chief Executive Officer
- Jose Aroldo Alves Juior, Vice-President of Distance Learning
- Marcel Desco, Executive Director of Marketing and Sales
- Unidentified Speaker

Other Participants

- Fred Mendes, Analyst
- Leandro Bastos, Analyst
- Marcelo Santos, Analyst
- Mauricio Cepeda, Analyst
- Thiago Bortoluci, Analyst
- Vinicius Ribeiro, Analyst

Presentation

Operator

Ladies and gentlemen, good morning to everyone and thank you for waiting. Welcome to the earnings call of the Fourth Quarter of 2020 of YDUQS. The presentation will be done by the CEO, Eduardo Parente; and the CFO, Eduardo Haiama, and the other Members of the Board will also take part. The audio and the slides of this presentation are being transmitted on the website of investor relations of the company www.yduqs.com.br, and it's being translated into English. (Operator Instructions) This audio conference may contain predictions about future events, which are subject to risk and uncertainties that can make such expectations to not fully come through or be substantially different from what is expected. These are of the opinion only of the company at the date that we have this publication, and we do not have the obligation to update it.

Now I would like to give the floor to Mr. Eduardo Parente, the CEO of YDUQS. Mr. Eduardo, you may proceed. Thank you.

Eduardo Parente Menezes {BIO 16707188 <GO>}

Good afternoon, everyone. I hope that everyone is healthy. I believe that any result you hear, you will take in consideration a difficult year 2020. And when we look at the year, we are certain that the -- we are only comparing ourselves to ourselves in 2019 and I am sure that the results will be great.

I'm going to go to Page 3 to see the 2020 highlights. I believe that there is consistency over two years. And we have shown our investment, our opportunities for growth with digital learning and medicine and M&As. And we will look to the future perspectives, we are certain that this is making us ever stronger. From the left to the right, if you look at the digital learning expansion, we have a growth in the student base, 70% year-on-year, over 577 centers opened and we are growing 59% year-on-year for the digital learning. In Medicine, we had over 244 seats added. We have a perspective of another 250 seats for new operations for 2021. 150 of them were announced through the Ministry of Education and we are going to get the rest by the second semester. We had an adjusted Medicine net revenue of 37% and M&A we had the acquisitions of BRL2.3 billion in the year, which represented almost BRL800 million 12 months NOR and we captured over BRL70 million in synergies.

Let me look at these perspectives, the digital learning, and we have a lot of centers maturing. We have procured growth and medicine also we have a lot of centers maturing, there is a perspective for the increase in seats. And we have a really good perspective, very natural on everything that we have been working over the last years. When we look at the third box M&A and then the fourth on the right, cash generation, we have a financial situation that allows us to be very optimistic. Considering this lever in the future, near future, we have cash availability of BRL1.6 billion, we have an operational cash flow BRL1.1 billion and the net debt over adjusted EBITDA, 1.4 times. These three financial levers are very important and fundamental for the result of this year. And we have to have a good perspective continuing with the levers up ahead.

Now at the bottom of your screen here, you will see a highlight. Everything that we have done in terms of digital transformation and IT. We've done a very relevant update in our hardwares. We are taking into account data centers and everything that is in the background, we're not just thinking that digital learning depends on the system, but every single student depends on this because of the AURA model, we are taking the elite digital content that is done for all of our students, but also when we have the digital transformation, it's not just the improvement of the ticket, the Boleto here in Brazil, our core business is teaching the student this is our future and a lot -- there is a lot of excitement for the future results that I will talk up ahead.

And in digital learning we had growth, I mean, we had a little bit of a drop in the on-site, but of course it was a very difficult moment for on-campus and we understand that our technology mindset will provide us with great results and we will continue to grow in the market. And this increases the NPS even though we had the pandemic, we can see the great example here, digital 10 points and on-campus 8 points.

Page 4, we had a lot of demand. I mean whenever we mention on-campus there we have to give more visibility about our business. We work incessantly and we want to show that we know what we are talking about. We do not like to do projections and provide you with a perspective on things that are baseless. We try to use data and we believe that we have a maturity in our business that will show. Everything that is happening here, we have an origin of course, we started the inception is on-campus. And once we moved outside of the umbrella of the on-campus, 3, 4 years ago, we had a different business, but we have a size that represents actually different businesses, different perspectives, different growth rates and different cultures. We are thinking about efficiency and how can we fit in the possibilities for the payment -- monthly payments for each student, but we are thinking about an expansion and thinking how can we make our centers -- well how can we make these franchises actually be profitable and we have a product that is absolutely digital. And based on that we were built upon those basis. And we are trying to decrease the size of on-campus, our mind-set is that we start in the cellphone and then we move on.

The other part is focused of course on absolute quality and excellence and making -- and being a market reference as a whole in education. When we created YDUQS we had that in mind. And we wanted to be sure of the numbers, the ratings. And we do not like to reveal our numbers. We always like to be based on surety on real numbers and here we see a little bit more details and everything is detailed to the best of our abilities, the sum of the EBITDA is the sum of the total EBITDA. Here representing the two business -- the three business unit, I am sorry, we had the names of course. And we have a business solidity and then we would do a deep dive in the details in differentiating each business to be more consistent to have a better communication. Our on-campus, I believe that many people associate us only to on-campus, it's a very important business. And once the economic crisis has gone by, the drop in FIES and the COVID-19 pandemic has gone, in the past we had the margin of the EBITDA 318,000 students, 5% growth versus 2018 is a business of low growth, because of the moment that we are facing with the pandemic we had crisis after crisis.

Total NOR of 60% of the total YDUQS and an EBITDA almost BRL600 million, which is a little bit less than half, 44%. We like to see this as an upside as fixed income. And we see M&As when we look at the on -- it's not just on-campus, we see a lot of opportunities of -- some of our competition is even operating with negative EBITDA, but we created a system that works well. We were very responsible. And we from the peak actually of the FIES financing we had 300,000 students and now it dropped to 300,000. And one of our secrets is to keep the profitability that is very good and really believe in our business.

The second vertical, digital learning. That encompasses not only the undergraduate, but also lifelong studies. The graduate courses. We believe that this is a very important feature for us and we won't present each business individually. We still have very robust growth rate and we are improving on our approach. It's an opportunity and we're focused from one year year-on-year we're focused on the good results. We can see 334,000 undergraduate digital learning students. We see an adjusted net revenue of almost BRL1 billion and an EBITDA of BRL441 million and a margin of EBITDA is 45%.

When we look at the typical high growth and we saw a combination of the sum of EBITDA in the growth sometimes 40%, 45%. We have 45% of EBITDA here without the adjustments in the year-on-year. This is something we really need to take into consideration and we need to focus, and people understand our business and we can show them in numbers. We have also the premium business units on the right. We have our reference centers. It encompasses medicine and also IBMEC, the business school, the growth of medicine you can see it in numbers. 5,400 students and we have attached information showing the expansion of medicine. The idea is to get to 6,100 students by the end of the year, that's the growth. IBMEC, 4,800 students; revenue BRL625 million; and EBITDA BRL310 million, 50%. It's very predictable business with a strong cash generation and a growth that is higher, let's just say, until the end of the year.

Let's see Page 5. Let's talk about the digital learning. From left to the right. I can see the student base. I already mentioned it, growing 106% 2018 to 2020. Undergraduate, digital learning, the growth is actually 150%. We are growing for 10 consecutive quarters. Very strong growth in regards to the previous year. I believe there are three issues here. One, clearly with the end of the FIES financing, a lot of students do not have the money to pay for the monthly fees. And certainly the FIES students are migrating from the on-campus to the remote learning, to the digital learning. The second type of student, they didn't have a center in their city, but now we are expanding all throughout the country and we have practically one center in every city that has over 100,000 inhabitants. And third, the people that do not have time. They say, look, I am 35, 40 years of age, there are many of these type of students and it's working very well. And we will continue to expand. We are talking about 2,500 centers by the end of 2021.

On the right we have the retention rate growing strongly. We believe that the digital transformation is behind us, of course. This is our core business. And the way that the student learns, the way that they have their experience with us is, even during the pandemic we managed to do a leap of 4 percentage points and we are very proud of that. The net revenue is growing, 106%, and here we have a very important issue. We have courses that are BRL5,000 to BRL25,000 per year courses. And we are serving the three tiers. And we have partnerships such as XP, Empiricus and Microsoft. We have 70% of growth, therefore 40-some EBITDA margin. And these are impressive numbers. I'm very proud of our work. The idea is that we start with a cellphone and then we grow on that first contact. And we can see the growth for the education market in Brazil as a whole. We are talking about also the classes C and D. When we think about the C and D classes which is a growth that you expect. And classes A and B, it's a very limited number of people that are not -- that do not hold, for example, an undergraduate degree, but C and D we have a great growth. And we have the digital learning and we have a great margin to service this 45% with a ticket, that is good for our students, they can pay for it monthly and a perspective of growth that is very good for the future.

Let's go to Page 6 to our premium business unit. On the left, you can see the adjusted premium net revenue, almost a double from 2018 to 2020. Gray is IBMEC and it's an M&A that we concluded last year. Even without IBMEC, we would have had a substantial growth here. And we can see that there is a good predictability for growth. This is a sector that was directly hit by the mandatory points, the court decisions and the laws. And from 2018 we had 8% of the total adjusted revenue. And in 2020 we've had a growth to 15%. And this year we introduced something that we believe it's a great competitive advantage to be able to operate as a single business unit in medicine, we did a national Vestibular, the entrance examination, our average ticket for Medvest or for a medicine, we had adjusted average ticket of BRL8,700 per month in 2020. We grew 244 seats and we have an expectation for 250 this year.

Looking at IBMEC, the student base on-site, 6,200 students, a renewal rate very high 95%, adjusted average ticket, BRL2,800 per month and a very important issue with IBMEC is the platform. We are using technology to do elite teaching all throughout Brazil and this has a very important role in this process. We have a completely different units that is separate from our own building. And it's here that we generate the content for the on-campus and the digital learning on IBMEC. And IBMEC -- the inception of IBMEC, the idea is -- the expectation is that IBMEC will provide us with knowledge.

Let's see Page 7, on-campus. Certainly we have a situation that all of you know, the loss of the FIES financing, we had loss of BRL1.5 billion in revenue over the last few years and this we can show it to you in blue. We left with 64,000 student and now we only have 20,000 from 2018 to 2020, but we grew in terms of student IBMEC, the acquisitions in grey. We have Toledo, Adtalem, Athenas, IBMEC is not in this math actually but IBMEC, the M&A is actually compensating for the loss of the FIES students. It's important to notice as well, when you look at the dark blue, its our organic growth. We are growing from 2018 to 2020. And we realize that this is a great demonstration for servicing the market. And you shouldn't be measured by the loss of the FIES financing. For us and the competition this is something that will be marginal this year in comparison to previous years. The trend for the on-campus market is a specific growth you can see the census of INEP, there is slight organic growth and it's a very difficult time, of course, three back to back crisis.

And when things improve, we have the perspective of having a robust growth. We do not think that there is a direct correlation with the GDP, no. We -- the growth will be 5 percentage points as the economy improves. The retention rate, you can see that there is a drop of 3 percentage points versus the same period last year. We consider that this is a victory. There is a big part of our students that work. We want to -- well we had the renewal comparing with the first semester and the second semester. We wanted to understand our students, help them if they lost our financing. So we did that in the middle -- in the beginning of the year we didn't do it at the end of the year, we had a drop in 3 percentage points, but the numbers are very good considering the pandemic.

On the right, we have the adjusted net revenue, it drops -- it drops 12%, without acquisitions it drops 22%. But once again, we look at all the numbers excluding the FIES we have a growth, the lighter blue on the right, 13% 2018 to 2020 or 2% without acquisitions. And we understand that the trend is good. In regards with the ticket, which is a concern of everyone, we have had a stability in 2021, the market is very rational, we hit rock bottom. But when we look at our ticket, the reported, it dropped 5% and the adjusted by the laws and court decisions, here we can see that, here we have Estacio, YDUQS, we don't have IBMEC and we don't have medicine. And when we look at the consolidated growth a little bit, the tickets of the acquisitions had a higher average than what we had in Estacio. But when we look only at Estacio, we have the perspective for stability we can see here up ahead that we're going to have a positive evolution.

I'm going to let Adriano talk about the financial part.

Adriano Pistore {BIO 20655758 <GO>}

Thank you, Parente. Let's see Slide number 8, let's talk about the revenue. And let's see how the impact of FIES was developing out throughout the years. On the left graph on the top, we see that we have the adjusted net revenue without FIES where the growth -- where the revenue should have grown 34% from 2018-2020. And below we have the subdivision on how the revenue is taking into consideration FIES, of course, FIES represented 26% in 2018. And now it represents 11% in 2020. The two big vectors for growth over the last years, which is digital learning and the premium. Well we have digital from 14% to 24% and premium from 8% to 15%. And on-campus when you exclude FIES, it's relatively stable. In terms of participation of throughout the last few years. On the right, looking at the year and the semester, once again, I think that this is the last time that we have an impact that is relevant of the Board decisions. In the year we have BRL218 million related to discounts and laws and court decisions. When we compare the evolution of the revenue of '19 to '20, adjusting to these court decisions, we would have had a growth of 14%. And this is because of the third growth, third lever for growth, which is M&A BRL500 million almost of revenue.

On Slide 9. Talking about costs and expenses. We can see -- without looking at M&As, they really support the numbers year-on-year. In the fourth quarter, specifically when you look at cost, and since COVID, there were negotiations of debt of students and other issues, it impacted bad debt PDD in Portuguese. And here is, you can see the impact in the discounts. So to facilitate the lines, we summed both bad debt and discount, and we saw the global cost. Here our cost grew, as you can see 26% up ahead, but below we see the evolution of the bad debt plus the discount, it's 30% in the consolidated, but here we have the acquisition. When we eliminate the acquisitions, we see one part of course, we are changing the mix, the drop of the FIES still relevant in 2020 comparing to 2019, but also we have the effects of COVID-19. And there was more delays in payments in the second quarter and less renewal in the first semester -- from the first to the second semester. And now we can see the impacts in terms of bad debt and discounts.

Now when we compare in percentage points, bad debt plus discounts, we have an increase of 2 percentage points from 12% to 14% adjusted in 2020. Getting into the non-recurring effects details. This is what happened all throughout the year. It is clear that in the second and the third quarter, but also focusing on the fourth quarter, the BRL160 million that we understand that are non-recurring effects, BRL84 million is the discounts granted by law and court decisions. From this year on we don't have this anymore or very specific, very small impacts. The other one, we were reviewing our legal premises in the second quarter, but there was still a part missing, which is labor issues that we reviewed and this is also over. We got another BRL20 million. The other big block, which is related to our growth with operational improvement, which is the cost with organizational restructuring in this quarter was BRL21 million, part of this is related to the restructuring of our acquired companies and the expenses with M&A and integration. Basically the cost with integration were in the fourth quarter, in December we had adjusted our systems, everything is integrated and we can affirm that this is a single company that is working in a uniform way.

Slide 11. We see in a more deep analysis of the non-recurring effects the two big ones of this year are over, which is the review of several legal proceedings and the FIES renewals. We had a drop of BRL60 million in the second quarter as well as the legal proceedings are also done and also the effects of the pandemic. And I can affirm -- I cannot affirm that it's a 100% over, but now it's going to be marginal. We can see that this is getting over. Of the others, you can see other non-recurrent that are dropping year-on-year and the two last slides I commented on the previous slides. We have an improvement in the operational efficiency and growth, which is M&A and the operational efficiency where it is expected is that the cost will drop year-on-year. And this will be translated into gains, whereas again, here, down below where we left from a cost of personnel on on-campus here. And we can compare without M&A of 3,240 to 2,877, a drop of 11% nominal. But it would be a drop of almost 20% since 2018 in the main line of cost of the company. And on M&A, we consider that we are going to be adding value with more M&As.

Now Slide 12, EBITDA. Our adjusted EBITDA slight drop 0.7%. I already commented the impacts of the non-recurrent. And then this quarter we had a drop of 5%. The main offenser was the bad debt plus discounts, PDD Portuguese, it was -- we had more difficulty negotiating this that had -- that translated into this drop this -- but that is basically due to the non-renewal that happened in the first quarter to the second quarter that is impacting, we're seeing the impacts right now.

Slide 13. You can see net income and dividends, adjusted net income IFRS it should be BRL567 million, BRL20 million is a fee that we pay. And we were analyzing an asset and a bullet point that we want to highlight is that here below the BRL567 million, the BRL624 million, which is the adjusted net income without the IFRS 16. Since we are removing the depreciation of rentals and the income and the interest rates and the math is not so precise with the interest rates. These are nominal interest rates and they are not indexed to the contracts. They end up generating a distortion, they show a worsening of the income in the first years and an improvement in over the long term, if I do not take into consideration the IFRS. So it shows that our net revenue should be better. The reported income you can see here, the proposal -- the reported net income is BRL98 million, the idea is to pay BRL142 million in the payment of dividends because we generated cash.

We can see in the next slide, our cash flow generation was very strong. And we are very comfortable to -- with everything that we are doing. So, the proposal is to pay BRL142 million in payment of dividends. And in Slide 14, talking about cash flow now, our operational cash flow year-on-year grew 40% as you can see in the quarter is more than 70%. And comparing to the EBITDA that is reported, which is well below the net debt or with the adjusted EBITDA 1.4 times. This is aligned with the history of the cash flow generation of the company. So even in a year that is extremely challenging and we can preserve the financial health of the company in such a way that even trying to compare how we were generating cash, and the impact with the competition, our generation of cash flow for the last 3 years and now we stop over the last 9 months of '20, not everybody had published the results here, we have the sum of the three main competition that we have.

We finished the year with a very healthy position, BRL1.6 billion in cash position and a low debt, we can see once again net debt over adjusted EBITDA 1.4 times. And once again, the investment issue. Where this year the investment allocated for the digital transformation in IT in general represented almost 40% of the investment, total investment, which is where we really trust that we need to invest. This is where we're going to get the growth and the improvement of our indicators. But also what we highlighted, the expansion in medicine, almost 10% of investment of this year, which is a lever that Parente mentioned that we are still going to see maturing of this business unit of almost a decade.

Next slide. You can see the recent acquisitions, capturing the synergies, we an expected schedule Adtalem. We had captured already BRL71 million and we already saved BRL70 million from May to December. This is the value that will be generated in an annualized way and this was already captured. We are aligned with what we had planned and displayed. In Athenas we captured BRL7 million and you can see BRL60 million and BRL80 million until 2027, remember that Athenas, the big gains are from the seats of medicine that today we understand that, we will still obtain and then mature, bringing gains for the company, all throughout many years.

Now I give the floor to Parente once again.

Eduardo Parente Menezes {BIO 16707188 <GO>}

Once again, thank you, Haiama. On the right here, you can see the predictions, the prospectus for the future. Now the subsequent events that we have the debt issuance and BRL1.85 billion, the sixth issuance of simple debentures maturing the 5 years after the issuance date. This leaves us with a lot of flexibility and we have a very robust short term.

Second one is, once again the authorization of -- for the 150 medicine seats that the Ministry of Education already authorized. On the left we see up ahead the perspective of the business, the digital, we are moving on very well, 75% of the DL centers are still not matured. We had a strong growth over the last 3 years. And we had a great expansion in the centers. We have an expectation for the increase in the base, the capture is done very well, the intake. And the prices as we can see, we see a light fall in the semester, former one. And the expectation is to get to 2,000 centers in 2021 over 2,500 centers in 2022. And we are still accelerating our business. When we look at the premium, once again we have the details in the annex. The expectation is to increase the medicine base in 2021. We still have seven units maturing, we still have now graduated the first class, we have five new unit, three that will start the first semester and two processes for increase in seats. And this is what let us talk about the growth in over 6,000 students at the end of the year. Strong H1 intake, medicine as well as IBMEC volume and price. Great perspective for this year.

On-campus. The NOR on FIES impact is a fraction of last year. We see as Haiama has mentioned, this year we are looking at a very small impact. We have had a challenging H1 intake, in this semester, we still have a NIM up ahead. But we've done a lot of investigation, and on H2 we are going to have a good perspective, a lot of the students are -- we are doing research and the intake of this first semester, we still have a lot of challenges in the market as a whole and we can feel that. Perspective of a price that is stable, but we are not reducing the price and we can see. And once we have a strong intake, we can see the perspective of having a margin re-composition starting from 2022, as Haiama has mentioned, we have the synergies with recent acquisitions impacting the results. So on-campus the perspective is to, in the worst-case scenario, we believe that we still have in the first quarter a challenge, but up ahead the perspective is very good.

In general, as Haiama mentioned, the margin effects of laws and court decisions in Q1 are once again marginal. We have a good M&A perspective. And we are looking at a positive re-enrollment, there has been a lot of decrease in dropout and we have a great agenda. The digital transformation has a good impact in the NPS and retention. We believe that this is the year that the digital and premium will reach 50% of NOR in 2021. We have a margin that is superior to our average margin. And we can see the life-long gaining traction in all BUs. We can see that the first quarter is still challenging. However, it will -- we will have a potential for an improvement in the next year and we have to turn the page and move towards the future that we believe that is going to be a strong growth.

Thank you very much. And now we can do the Q&A session. Marcelo, do you -- can you help me? Okay.

Questions And Answers

Operator

Ladies and gentlemen, we will have the Q&A session. (Operator Instructions) We have a few questions. The first question will be from Marcelo Santos from JP Morgan. Marcelo?

Q - Marcelo Santos {BIO 17186991 <GO>}

Hello everyone, thank you for accepting my question. First question, the discounts, the mandatory discounts, there will be marginal losses in the first quarter. What do you believe is your capacity of in fact charging the full ticket without the discounts, because if people are paying less for a time, the economic situation is difficult, I imagine that you will have to accommodate a smaller discount or will you think that this is the basic ticket that should be charged, the discounted ticket, will that have an impact? And I just wanted to discuss that issue.

Second point, M&A, I know that you have mentioned that you're focused on M&A. And you have the cash for that, were you thinking about small deals, or do you have a big deal in the pipeline? Those are my questions.

A - Eduardo Haiama {BIO 7279971 <GO>}

Thank you, Marcelo. Haiama here. Talking about discounts. It's good that you asked that because maybe we really didn't pass on the message that is clear during the presentation. Our re-enrollment is doing very well. No discount that is mandatory so the value that is readjusted in a normal for the monthly fees. And when is interesting, when you compare year-on-year, the amount of credits that has been hired, that has been bought by the students is aligned. And it's the time that is before the pandemic similar to that. So we are very comfortable. And this is translated, of course, we discussed that all throughout the presentation is that we have a better cash flow than last year and better than 2019 because we didn't have Adtalem. So this is a reflection of something that was temporary and disappeared, the problem went away. Maybe we didn't make it very clear, but thank you very much for asking.

In regards to the M&As, we have seen a lot of sizes, of course. The larger ones are more complex. We cannot affirm that we will invest. What can we tell you is that in the medium and small size, we have more, but the trend is one that we already mentioned since the third quarter, which is when people have already gone through the total desperation of the effect of the pandemic as a whole, some people found out that post pandemic the FIES is losing relevance. And two years of economic crisis that is very strong in '15 and '16, we cannot withhold anymore. And we are working since then, we are bearing the weight of several institutions actually want to talk to us. And this is on-campus where we believe that we will see the whole, we can couple the digital learning. So it's a global analysis. But we looked at other things that can also accelerate everything that you were talking about the levers of growth life-long, whether if it's premium. So we believe that it seems that '21 and '22, these will be very interesting years for M&As.

More details. Me and Haiama, we look at the details and the revenue Estacio without FIES versus the previous years. The numbers are much larger in 2020 and much larger than 2019 without considering Adtalem.

Q - Marcelo Santos {BIO 17186991 <GO>}

Thank you, Parente. Thank you, Haiama.

Operator

Next question will be from Vinicius Ribeiro from UBS.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Hello, everyone. Thank you. Thank you for the breakdown of the margins. I believe it helped a lot. I wanted to talk about digital learning, the perspective for growth is very aggressive. So I want to understand, after 2022 when you get to 2,500 centers, are you going to mature these centers or is there more expansions up ahead?

Second question on-campus. And we can see that all the education segments are being pressured by changes in online classes due to the pandemic. So what is the strategy for the second semester to make this revenue be positive. And for the intake to be great, how do you see this dynamic and the students that were not captured by digital learning and the competition couldn't capture as well. I want to understand how do you see or how should we see this on-campus segment from the second semester of 2021? And that's it. Thank you very much.

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

Thank you, Vinicius for the question. I'm going to let Aroldo and the others answer.

A - Jose Aroldo Alves Juior

Hello. Aroldo. So it's a good question. We have to think on the future, basically the amount of centers depend on our capacity of what we believe that these are point of intake that are local points of intake, they're not points of study. We review for each brand, for each of the 5,000 cities in Brazil, how many centers fit in each. And we can see that, as we develop the centers, it's important to mention that the structure is very lightweight. And it's part of our business structure, our first version, that was already implemented in the strategic plan of last year, which was to achieve 1,900 centers between 2019 and 2020. And we anticipated that 2023 -- to 2021, the numbers of 2,500 and we might see even more as we are actually leaving the centers as a center for intake and more on the online side. On the online side as everything becomes more digital, it's possible to reach more cities and therefore the amount of centers might increase a lot. So light structure, light infrastructure, we don't have to graduate the students. And to continue, we will get between 1,900 and 2,100 up until 2023.

Yes, we have very old numbers. And it was half of where we are today, the prediction. We are extrapolating that what was to be done by 2023 is already achieved by the end of the year. This is our day-to-day and we want to become ever more agile and ever more digital. In 2017 we did a plan with half of the students and half of the revenue last year, we would get to 1,900 centers in 2023 and we are getting to 2021. So we are being surprised by our own growth. And yes, we will have over 200,000 students. Last year 200,000 for an EBITDA with the criteria for adjustment. And this is the number that we are predicting for -- since '17, '19 we reviewed and now we are reaching the numbers.

A - Adriano Pistore {BIO 20655758 <GO>}

Vinicius, this is Adriano. In regards to on-campus, we need to highlight that we still have for this year a very strong work to capture the acquired synergies, not only when we talk about costs, but also operational efficiencies from the sales force and for the intake, and here is a great potential to be worked. We are focused on that. And with a base information we have to highlight the point, by Parente and Haiama, our renewal is doing very well. We can keep a renewal for this first semester that is very much aligned with the best scenario possible, with an average ticket without the core decisions. And this gives us a great perspective for an improvement even the middle of the year. So taking the consideration of that the pandemic is very similar to the previous semester and without the readjustments. And the renewal is more comfortable with this behavior all throughout the year. And well the intake, we can see a trend of delaying decision of the first year student to get in into higher education. We had publications in the market, but we have our own research that points that about half of our target audience is leaving the decision until after the pandemic. And then we can talk about this thereafter, this is very important for us, but also the expansion for the second semester. The expectation is to be able to capture part of this public that is interested in higher education.

Marcel, do you want to comment?

A - Marcel Desco {BIO 18634268 <GO>}

Yes. And just a compliment, M&As, it was a very important investment on the part of the company of everything that is a digital channel, our intake, everything that we do as marketing online and media, this is something that after we have the publication of the official note, we have two types of audience: the one that we have mentioned that naturally will start in the second semester. But we will strongly work to try and still bring them on board in the cycle. How do we do this? All of the digitalization of the intake process that happened in the end of last year, it decreased the intake of the students, so we saw much better rates for the conversion in our website and the submission of documentation. It's a very specific process for this sector, and this accelerated and it makes the capturing of the students much easier, the intake. And we will see this more so from the 29th onwards. We believe that these tools will help the intake and then we will capture the numbers and see this audience in the second semester.

Now the other point is that our brands are national. So we end up gaining a lot of visibility when we go to the market, using all of the brands for this semester and the next one. This facilitates the intake in all models.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Thank you very much. Thank you for the answers.

A - Unidentified Speaker

Thank you, Vinicius.

Operator

Next question will be from Fred Mendes of Bradesco.

Q - Fred Mendes {BIO 17221617 <GO>}

Good morning. I have two questions. First, thinking about CapEx, mainly in digital transformation that Haiama spoke very quickly. What is the definition for you to find the CapEx and also, if you can focus and give us more for the bad debt in 2021, if you can maybe do give us more details.

A - Eduardo Haiama {BIO 7279971 <GO>}

Thank you, Fred. CapEx grew a lot from 2019 to 2020. Here we have the full content, which is a different standard. It's something that we are doing to improve the quality of all the segment, all the brands. A part is here, but it's the smaller part, the big chunk here is all the investments that we're doing since, doing an update of our entire technology hardware and software to allow us to provide new leaps in the use of technology for all of our segments. And this is where we believe that we will continue to expand and new developments. Squads that are specific to develop, for example, an improvement in the way to renew intake. So literally, these are investments that we are doing as of now. And they will bear fruit up ahead. These are investments that are purely annual. We started last year, the year before, and we are still doing investments this year and the next one until we can conclude it.

And then the consequence will be, to have a line in our DRE and it can be a cost of maintenance itself. Now do you want something specific?

Q - Fred Mendes {BIO 17221617 <GO>}

No. Perfect. I just wanted to understand how do you classify improvements. So how would you classify it now?

A - Eduardo Haiama {BIO 7279971 <GO>}

Here we re-did our entire CapEx, we are changing the systems, so we can be more modern, light-weight, we have a data lake and we are doing a lot of things to make the company more updated and allow for different applications in the future. In bad debt as I mentioned, the percentage was from 12% to 14% and a part of that is because of the pandemic, and a part of that is the mix that FIES is more than we had a boom and we have demand of offer and we have FIES, but ex-FIES we are suffering with the tickets over the last few years. And we had a very good time of the sector. But FIES, we had a different advantage. When we change the revenue this impacts the percentage points.

When we see that we will have stabilization, the question is more difficult to answer in what you believe probably the long-term. Why do I say this? What is happening? From the structural standpoint of the company, the premium segment as we mentioned, we have a higher growth for the next decade. And bad debt PDD in Portuguese, this segment has generated, I don't know 12%, 13%, now it's 15%. You try to extrapolate how can PDD grow, it will have a big weight in bad debt of the company. The other one that is very -- a consequence of these investments, whether if it's content and a way that I deliver this and the investment is retention. And more than reducing, well the investment that we need for the student, you decrease the bad debt, the PDD that you will have all throughout the years.

So, how can you have that stability over time? And how do you project the growth of each of the business units over the next few years? And you have to take into account the dynamic that during the pandemic, we improved on a few percentage points for renewal for digital learning. On campus we had more bad debt in the first year students than the last year students that did well. And this was aligned with the situation itself of the pandemic.

For 2021, what do I believe that we will have? Something between the 12% and the 14%. If I can guess on the short term, it would be that interval, but the trend on the medium, long-term, if everything that we believe that we're doing will bear fruit in the future, well, premium is less. We have more -- we trust more today in the mix. But the trend is to have a drop in the bad debt.

Q - Fred Mendes {BIO 17221617 <GO>}

Thank you. Thank you very much, Haiama.

A - Eduardo Haiama {BIO 7279971 <GO>}

Very well.

Operator

Next question will be from Mauricio from Credit Suisse. The floor is yours.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Thank you. Good morning to everyone. I think that everybody already talked about the more important strategies of the business. It might seem like a mundane question, but we see that the cost, the base cost with expenses with the acquisitions, the base of depreciation and amortization grew disproportionately. If you can comment why that happened, why do we have that effect in 2020? Thank you.

A - Unidentified Speaker

Here, Mauricio, apart because of amortization that we have the M&As that we do, but another part is cost related on how the IFRS, the leasing is applied, the curves are not the same, unfortunately. And that's why we highlighted in the net revenue, the discrepancies between the net revenue IFRS and the non-IFRS revenue, just so you can know of what would be our number per se our rental cost leasing, which is in '19 was 250 if I'm not wrong, rent expenses. And real estate in general, we see that it grew to 280 with Estacio. And with Adtalem alongside, it would be everything 300 and some, low 300s. So there is a lot of IFRS that contaminates this overview. That's why in the way that we wanted to show in the presentation, we excluded and I -- there is a specific part, and I don't like to look at it this way, because it distorts things. And I need to a VPL, pre-fixed rate, that is a nominal that we hired with industry inflation, and everything is too contaminated by these oscillations. But we had the non-recurring effects.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Well, thank you.

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

I think that nobody likes the uncertainty, the effects that -- non-recurring effects that is not very clear, of course. But there is an amortization of the liabilities of these larger acquisitions.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Yes. Thank you.

Operator

Now we will have Leandro from Citibank.

Q - Leandro Bastos {BIO 21416405 <GO>}

Good morning. Hello, everyone. The questions were asked. This is a follow-up and a comment on capture. I wanted to understand on-site, in this cycle, what is different in a commercial strategy. What are you doing that is different to navigate this environment? And here, talking about discounts, adjustments in the marketing strategy may be, in that context, this scenario with all the challenges, what is different in the cycle? What are you doing in that sense? Thank you.

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

Thank you, Leandro. Marcel?

A - Marcel Desco {BIO 18634268 <GO>}

Leandro, thank you for the question. We have launched on February 22nd, a program that is called (inaudible), which is focused on Estacio. Basically here we are providing two benefits for the student, first, a payout in the semester of three installments of BRL49. And we released in January, February, and March we gave them -- to the student these three payments were BRL49 and when they renew, that they should do in July, they received a BRL147 back as a discount for the renewal. We got a strong campaign, media campaign from February 22nd. We had a good positive feedback in all models, not only on campus, this is a program that we are controlling in detail to be able to provide this to the correct students. But we had a good impact in the intake of all models. We are working with this campaign and waiting as we just commented the result of the NM [ph] examination.

Quick follow-up then. I think that we had a lot of agility and we have a good domain of the intake, and before the consulting companies were talking about the delay, we felt that this is a strong possibility. And what we have done and that's why people would need, the answer was, well can you do it for free? And we said no, we cannot do it for free. There is no possibility of doing it for free because you do not know if you have the student or as you say, as a positive intake or not. And the campaign has a brilliant communication behind it. And the student is paying for the three full installments. And there is a lot of competition, that is a foreign exception, but 70% of you know discount and they are much more expensive than (inaudible). And in the end when you're giving exception plus another percentage, the value that you're charging in the semester is 1 or 2 full monthly fees, but we had great success, we had a very important impact here. And we trust in this quarter. It doesn't mean that there will not be a drop in the on-campus, there will be a drop on the on-campus. The premium is doing well. The digital learning is better than the previous year, and on-campus yes, there is a drop versus the previous year, which is important.

Q - Leandro Bastos {BIO 21416405 <GO>}

Thank you. It's very clear. Just a quick question in (inaudible) that program, the difference in the ticket for what the person pays and will be -- it will be payout throughout the course?

A - Unidentified Speaker

Yes. The difference will be diluted in the three installments. So maybe in the second quarter of the next year, it will have a better impact -- bigger effect. Makes sense? No, there will be an impact, right now. First and second quarter, depending on when the student gets in. It's just that usually it happen in the odd -- yeah, odd semester and then we have the even semesters.

Q - Leandro Bastos {BIO 21416405 <GO>}

Okay, it's clear. Thank you very much.

A - Unidentified Speaker

Very well.

Operator

Next question will be from Thiago of Goldman Sachs.

Q - Thiago Bortoluci {BIO 20909105 <GO>}

Good morning. Hello. Thank you. We wanted to actually do two follow-ups. First, in the on-site, there is an upside of M&A that you didn't comment. And specifically with the evolution of COVID, and a very challenging scenario, do you see any need to review the structure of the company itself right now, this is the first question. The second with digital learning. You mentioned in, expansion in the number of centers, we want to understand how is the integration of our talent with that project of using their content to leverage the data capturing operations?

A - Unidentified Speaker

Hello, Thiago. I'm going to answer both. With a worsening of COVID, what we've seen is a lot of people suffering. Specifically people that did -- that were directly impacted and the competition that did a big expansion, there was a reduction in the student base. I believe that there was a conference that I actually is published, there is a comparison between the competition and ourselves, is that, we shrink less on the on-campus than the competition. And the number of students per on-campus, now we have the double than the competition. So we are in a position that is comfortable.

We do not have something a very strong. We plan for expansion in this year, we have the natural sequence. So once you join two campuses and you can make it just a single one. But these are things that are not going to affect our portfolio. And we are very satisfied with what we have, we are very satisfied. We work with the semi on-campus and this has really contributed with the result, with this adaptation. So there isn't -- well after so much, so many crisis and we have the great margins and the EBITDA, it should improve. But then we have the solid position for that, we see M&A. Well, answering the first question as a relevant lever and we see that the competition is suffering and they need help to continue with their legacy. And they need to associate with somebody stronger. And we are having several talks on that idea with companies of all sizes.

Now the integration of Adtalem. I believe that there is an issue that is very important, which is the integration of systems. We got it done by the end of the year. And this integration is the main point of concern. And we have done it in a very competent way. A single company, as Haiama had said, we have our digital learning, we have all the materials, it's been 3 years that everything is a white blank page, so everything can be adapted. Not only we have a content that can be provided to every level of student, we have a structure that we have a student that comes from an elite school. A lot of the things they already have seen it, but students that come from a deficient base of learning, they will have a lot of things that will help them. And we will fill in the gaps in their training. And all of this can be adapted.

We have a single mold. And IBMEC is very strong in this. And this is where all of our brands, Athenas has started. And we can see that there is a quality that the evolution when you look at these small institutions that we acquired, it's very difficult -- well on average, we see that they have 3% online. So we are always using digital learning as a lever. And with AURA, that we implemented, with that high quality material also it's 40% of the students that are using this and an increase of NPS with the students shows that it's working very well, that our teaching system is working very well for all levels and all brands of our Group. And we are taking quality and profitability for all.

Q - Thiago Bortoluci {BIO 20909105 <GO>}

Thank you.

Operator

Now we close the Q&A session. Therefore we return the floor to Eduardo Parente for the final thoughts. Eduardo, the floor is yours.

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

Once again, thank you very much. Thank you for being with us this morning. Thank you to all that invest in us for your trustworthiness. It was a very difficult year. Nonetheless, I thank you. And I hope that I could provide the information that is relevant and you can trust our robustness and we will leave this very difficult moment for the market as a whole. And we hope that we could provide you with the excitement and the perspective that we have for the future. Thank you for your attention. Have a nice day.

Operator

Therefore, we close the earnings call of YDUQS. Thank you for your presence. Have a wonderful day.