Q1 2013 Earnings Call

Company Participants

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

Other Participants

- Bruno Giardino, Analyst
- JC Santos, Analyst
- Ruben Couto, Analyst
- Thiago Macruz, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, thank you for standing by and welcome to Estacio's conference call to discuss the first quarter 2013 results. This event is also being broadcast simultaneously on the internet, via webcast, which can be accessed on the companies' IR website, www.estacioparticipacoes.com.br/ir, together with the respective presentation and the earnings release. We would like to inform that during the Company's presentation, all participants will only be able to listen to the call. We will then begin the Q&A session and further instructions will be given. (Operator Instructions).

This conference call contains forward-looking statements that are subject to risks and uncertainties that could cause the company's actual results to differ materially from those in the forward-looking statements. Such statements speak only as of the date they are made, and the Company is under no obligation to update them in light of new information.

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

Rogerio Frota Melzi {BIO 16212298 <GO>}

Well, thank you very much and good morning everyone. Welcome to our conference call to discuss the results of the first quarter of 2013. With me here today are our CFO, Virgilio Gibbon, who will be helping me with the presentation, and our IR team. Just to remind you that we will have a question and answer session just as soon as the presentation is over.

Beginning with slide number two of the presentation, which is available on our website. It is with great satisfaction that I comment on the highlights of the first quarter of 2013. For the sixth time in a row, we saw an all-time record high intake, again with a growth rate of more than 20% on the previous year, with more than 117,000 new students enrolling in our on-campus and distance learning undergraduate programs. This figure does not consider the graduate segment, which has its enrollment process still underway.

As a consequence of this success, plus the better renewal rates this year, our total student base grew by 16.8% over first quarter '12, under the same shops concept. Such great numbers pave the way for another year of solid and promising results. This increase in our student base, coupled with the average ticket increase that Virgilio will comment later on, pushed our net revenue to R$413.3 million in the first quarter, a 25% increase over 2012. As a direct result, and once again confirming the scalability of our business model, our results improved significantly in comparison to the first quarter of 2012. Our EBITDA climbed to R$87 million, a 50% increase on the first quarter of 2012, with an EBITDA margin of 21.1%, 3.6 percentage points higher than in the same quarter last year. Net Income came to R$66.6 million in 2013, 67% higher than the figure recorded in 2012. Earnings per share climbed from R$0.49 to R$0.69, a 41% increase despite the growth of our shareholder base given the recent follow-on offer.

Moreover, our operational cash flow moved from R$12.5 million to R$21.7 million, a 74% growth year-over-year. Given the characteristics of our business and our quarterly cycles, we believe that the first quarter results are a good indicator of the potential we have for this year. In this context, we are very optimistic with the possibility to deliver another series of satisfactory results to our shareholders throughout the year.

At the same time, we keep carrying on our expansion projects in a constant, steady, and gradual pace and as our organization feels more prepared, we progressively increase our growth speed, always without jeopardizing our quality and service levels. In this sense, we began the year by opening our third campus in Fortaleza, in the district of Parangaba, with a total capacity for 9,000 students in the three shifts. In January and February alone, our new unit attracted 910 students for the programs beginning in the first semester.

In April, we received another piece of good news with the publication of the ordinance that accredited our two new units in Angra dos Reis and Teresopolis, in the state of Rio de Janeiro, to begin their operations in the second semester. At the turn of the quarter, we announced the acquisition of FACITEC, in Brasilia, marking our debut in Distrito Federal with a first-tier institution that has excellent staff and standards, fully aligned with our vision of growing with quality.

We have a series of initiatives being carried on right now that seek to increase even more our growth pace. At the end of presentation, I will come back to shed some light on these topics.

I will now hand you over to Virgilio, who will comment on our results in more detail.

Virgilio Deloy Capobianco Gibbon {BIO 16679141 <GO>}

Thanks, Melzi. Good morning everyone. To begin, I would like to draw your attention to slide three, which deals with our operational performance. As you can see in the first chart, which gives our student base figures, we closed the first quarter of 2013 with 334,000 students, 19.9% over the same period last year, with the same-shop student base growing by 16.8%.

Our on-campus student base climbed to 261,800 students at the end of first quarter 2013, including the 8,700 acquired in the last twelve months. In the same-shop concept, the on-campus base grew by 14.6%, underlining the trend of sustainable organic growth of the student base following six record high enrollment cycles in a row. Our distance learning student base ended the quarter with 63,700 students, 26.9% above the figure recorded in the same quarter last year, reflecting the higher growth of the distance learning segment.

As you can see from the chart on the side, net operating revenue increased by 25% this quarter, totaling R$413 million, as a result from the expansion of the student base and the average ticket increase. The average on-campus ticket increased by 5.8%, while distance learning average ticket climbed by 11.6%, in line with and above inflation, respectively, aligned to our expectation of increasing prices at least in line with inflation.

These increase show our capacity to adjust prices in a sustainable manner, at a pace similar to the one recorded in 2012, which was only possible due to the students' higher perception of our quality. It's important to notice that, even with the increase in scholarships and discounts which is normal given the higher enrollment level when compared to the previous cycle, we've managed to show meaningful average ticket gains.

It's worth noting that the 5.8% increase in the on-campus segment would have been even higher if we did not -- if we do not have the operating revenue reduction from FIES FGEDUC, remembering that we began to adopt this accounting criterion in the fourth quarter last year.

Moving now to slide four, we can see the vertical analysis of our costs and operational expenses. Our Cash Cost recorded an efficiency gain of 2.1 percentage points, resulting from the following gains. One, 1.6 percentage points in rentals, due to our increasing rigor in negotiations over contractual increases and the cost dilution with the student base growth. Two, 0.4 percentage points in third-party services, showing again scale efficiency gains in this account.

The G&A expenses represented 12.6% of net revenue, with a margin gain of 0.5 percentage points, as a result from the gains in, third-party services 0.6 percentage points due to sourcing initiatives in this category and the provision for contingencies 0.4 percentage points. It's worth noting that 0.2 percentage points gain in personnel, even with the creation of the new Continuing Education department, which has not yet began its operation scheduled for the second quarter and the higher level of labor severance and agreements in the period. It's also worth mentioning that $6 million increase in the Others account, basically resulting from the increase in civil convictions due to a stricter collection process $2.3 million, IT equipment and software maintenance R$1.2 million and fines from contract terminations R$0.3 million.

Selling expenses represented 10.4% of net revenue, generating a margin increase of 0.9 percentage points over 2012, due to the 0.6 percentage point gain in market and the 0.6 percentage point improvement in the PDA/net revenue ratio, offsetting the impact of the Provision for FIES line minus 0.3 percentage points.

In this context, it is important to note the organic improvement of PDA over the previous year, which reflected the drop in delinquency we saw in 2012, even considering the impact of the Provision for FIES, which was included in PDA in first quarter of 2012. It's worth noting that the Provision for FIES refers to the provision for FIES students, most of which had already been recognized, remembering that now we are booking the contribution to the Guarantee Fund as a deduction for net revenue. More details on the Provision for FIES can be found in our earnings release.

Moving now to slide five, we present our accounts receivable. Our net days receivables, excluding PDA and including FIES net revenues and receivables, averaged 85 days in the first quarter 2013, two days above than in 2012. Excluding FIES net revenues and receivables, our day's receivables averaged 84 days, 10 days above 2012. The increase in the average day's receivables in the first quarter is directly related to the process of freshmen contracting FIES and the delinquency growth.

In March, we had around 6,000 students in the early stages of the FIES contracting process, who did not pay the regular tuitions for the first quarter, as they were waiting for the FIES contract to be formalized, thus causing a significant increase in our Accounts Receivable. This fact results for our increased rigor in the FIES contracting process, ensuring that all revenues booked to the FIES freshmen student has the proper contractual coverage.

In this sense, while the contracting student does not formalize its FIES contract, we bill the student as we normally do and, at the same time, intensify our efforts to accelerate contract formalization. With the conversion of nearly 4,000 students to FIES in April, and the increased collection efforts of active students, we already see significant improvement in our days of receivables for the second quarter.

As you can see on slide six, FIES carry-forward credits fell by R$0.7 million in the quarter, even lower than the fourth quarter 2012 level, as a result of the repurchase auctions and tax payments which have been happening as usual. FIES accounts receivable increased by R$26.5 million over fourth quarter 2012, due to the increase in the FIES student base and mainly, the contract amendment process, which is concentrated in the first months of the semester.

As we had mentioned in 2012, the concentration of contract amendment processes in the odd quarters tends to increase the average terms of FIES accounts receivable, as you can see in the comparison with fourth quarter 2012 in the table below. Although there are no delinquency risks on FIES receivables, their increase impacts our working capital. However, it is important to underline that our average FIES days receivables was 89 days, a 105 days shorter than in first quarter 2012, despite the substantially higher student base, which shows the significant improvement of the contract amendment process.

In the next quarter, we shall notice the expected improvement in the cash flow from FIES, as the contract amendment process continued in April and May. We believe the level of our FIES accounts receivable, around R$82 million, or approximately two times the monthly FIES net revenue, is appropriate for the sustainable expansion of the FIES base in our operation.

Slide seven shows the aging of our receivables. As shown throughout the year, this breakdown demonstrates that we remain firm in regard to our credit policy, refusing to allow an expansion of the student base at the cost of credit negotiations that are unfavorable to the Company, thereby risking the future solvency of these receivables. Thanks to our adoption of rigorous debt renegotiation policies, in first quarter 2013 only 7% of total receivables came from renegotiations with students, 2 percentage points lower than in first quarter 2012.

In addition, the percentage of receivables from renegotiations overdue by more than 60 days accounted for 24% of total agreements, or 1.7% of total accounts receivable. It's worth mentioning this figure it is not consider credit card agreements, which do not represent credit risk for the company.

Slide eight shows our first-quarter cash flow. In the small chart on the right, you can see that the variation in working capital was a negative R$51.6 million, due to the R$67.7 million increase in accounts receivable. It is important to notice that the accounts receivable was chiefly impacted by the R$26.5 million increase in FIES receivables, which do not have credit risk and which were impacted by the seasonal effect of contract amendments in first quarter 2013. With the normal progress of the contract amendment process, we can see positive trends for cash flow generation in second quarter.

The working capital variation, together with the R$13.8 million of CAPEX, consumed only a portion of our R$87.1 million EBITDA, generating positive operational cash flow of R$21.7 million. In this quarter, the R$21.7 million positive operational cash flow and the proceeds from the follow-on, held in January, were the main reasons for the increase in Estacio's cash position, which closed first quarter 2013 at R$747.5 million.

On slide nine, we will highlight again the cash generation improvement in comparison to the same quarter last year. Operational cash flow moved up by R$9.2 million over first quarter 2012, as a result of the R$29.2 million increase in EBITDA and because of the lower CAPEX level, which more than offset the working capital losses.

I will now hand this conference over to Melzi for his conclusions and final remarks.

Rogerio Frota Melzi {BIO 16212298 <GO>}

Thank you, Virgilio. On slide number ten, I would like to conclude with a few comments on the recent events related to our segment and on Estacio's behavior in this new context. After the announcement of the merger of our competitors, we deeply reflected and ended up concluding that we have a wonderful project in our hands, with a history of five years of hard work that is already yielding benefits to our shareholders.

We firmly believe that the resources available to us at this time both material and human resources are enough for us to continue adding value to all those who believe in the same philosophy we do, which mainly reflects the beliefs of great companies such as Walmart, Southwest Airlines, and AB Inbev. Throughout the years, these companies placed high bets in the development of a set of initiatives that would later translate into a successful organizational culture, capable of generating strong and sustainable growth, which is currently copied by other companies worldwide. We are one of these followers so we like to look at these companies as the source for motivation and the inspiration to define our strategy.

Bearing this in mind, we decided to focus even more on our own company and work harder than ever to reinforce our organizational culture, which has been successfully developed in the last five years, and which has already allowed us to generate relevant qualitative and quantitative results to our stakeholders.

With renewed energy and certain that our actions will make us leaders in our segment, we are going to focus more than ever on our personnel, our talents, our processes, our costs, our products and services, and our students, which are the reason for our existence. In this context, among other initiatives in the first quarter, we concluded the reorganization of our Expansion area, headed by our CFO and composed by the professionals responsible for our M&As, our Greenfield project protocols, and organic growth projects as well.

Thanks to this initiative, we filed requests to open 19 new campuses Greenfields nationwide, which should result in many growth opportunities in the coming years. This team, jointly with the Operations area, also follow developing expansion projects for each Estacio's campus across Brazil, with the goal to ensure that the organic growth of our company does not affect the quality of our products and services.

Finally, this group also coordinates our M&A efforts since the prospection of potential targets up to the integration and hand-over to Operations. Our acquisition in Brasilia FACITEC at the end of March is the direct result of their work. In parallel, another group continues coordinating the process to increase the coverage of our distance learning programs.

At this point in time our original programs have already been visited and scored 4 out of 5, and are now only waiting the disclosure in the Official Gazette to trigger the final part of the process. Thus, we are also getting prepared for the visit and authorization processes of the new units filed by Estacio, our last step prior to expansion. Note, that with this process we plan to virtually double the number of Estacio Learning Centers across Brazil, consequently increasing our penetration, in addition to offering our distance learning model to more Brazilians.

In another front that is equally important for our future, we virtually concluded the organization of the New Business department, which is already up and running in a new building located in the port region of Rio de Janeiro. Besides conducting the operations of Academia do Concurso, lato sensu graduate programs and short-duration courses, this team is structuring the new area that will provide training services to companies, called Corporate Solutions. We have already held preliminary talks with a number of potential clients, in a process of understanding demand and developing customized solutions, which should start generating revenue for Estacio in the coming months.

We also began implementing several initiatives developed within the scope of our Strategic Plan. As a result, we now have specific areas for Innovation, Hospitality, Branding and Social Responsibility, Relationship with Alumni, as well as for the future Estacio Corporate University and to increase our Research Capacity. All of these areas are already operational and with their respective officers working on a regular basis.

Our Academic team both On-Campus and Distance Learning, since we have a single academic model at Estacio are already preparing a proposal for what we call 2.0 Academic Model, since we want to include several technological and academic innovations to our already modern teaching model, allowing Estacio to remain the Institution that most innovates in terms of quality among Brazil's higher education institutions.

On the other side, our Financial and Operational team is implementing the Phase II EVA across Estacio, spreading concepts to raise awareness about financial discipline among all employees, thereby guaranteeing proper returns to all initiatives we mentioned before. The combination of all I have explained results in our so called organizational culture, which, as I said before, is again our focus in this after-merger moment in the segment.

We all believe this culture will be our main competitive advantage, and this is becoming more evident for our stakeholders as time goes by, as confirmed by two recent factors. In the external side, our Fourth Trainee Program attracted more than 20,000 applicants for 20 positions, showing that Estacio is undoubtedly sparking the interest of young talents across Brazil, meaning that bright youngsters now believe they can pursue a bright career with us. In the internal front, our People decided to invest R$14 million of their own funds in initiatives related to the SOP plan we distributed in recent years, which clearly confirms our belief in our company's future.

In this scenario, our goal is to reinforce the pillars of the Estacio's Culture, because, as we affirmed in our release, for us Culture is Strategy. We dream big, but with great responsibility, patience and discipline. Here, as in the big companies that inspired us to go further and to improve every single day, we are not in the outlook for shortcut after all, they may lead nowhere.

That brings us to the end of our presentation, so now let's go to the Q&A session. Thank you.

Questions And Answers

Operator

Ladies and gentlemen, we'll now begin the Q&A session. (Operator Instructions) The first question comes from JC Santos of BTG Pactual. Please go ahead.

Q - JC Santos

Good morning, everybody. So I think this is one is for Virgilio. Virgilio, I am sorry, I do not know if you mentioned this in the English call, but in the Portuguese conference call you also mentioned you are sort of having a number of students of around 20,000 students that you are putting on the blacklist, on Serasa system, which also limit their access to credit. I am just wondering if you could give us an update of how this process effectively works with the students, and how does that fit with the scenario, with FIES as well, so you put them on the blacklist, and eventually they can leave by getting FIES financing? How much of those are parts of the other number you gave of 18,000 students that are expected or at least are applying for the FIES financing as of now? If you could give us a little bit more clarity on this Serasa/FIES relationship? Thank you.

A - Virgilio Deloy Capobianco Gibbon {BIO 16679141 <GO>}

Okay, Santos. Thank you for the question. We just blacklisted almost 20,000 students, now by the end of April. These students still have the tuition for January and February open in our balance and our accounts receivable, and that's the direction we changed last year. Now, we are -- the students that are already in our base we are blacklisting them in the middle of the semester.

Most of these students are trying to get the FIES, and as we are blacklisting them, this is not a restriction to get the FIES. So I think that the great majority of these 20,000 are the same students that I told you that are including this 18,000 students that are applying for the new contracts in the FIES student base. So, the overlap must be very, very high. Okay.

Q - JC Santos

Excellent. Thank you very much for clarifying this. And the second question would be regarding the competitive landscape in two fronts, both in the M&A front, an update on that matter, and the second front, on the competitive landscaping, Rio de Janeiro, specifically where we know that there are some financial difficulties there, how that also impacted the strong student intake that you had and how do you see this evolution going forward? Thank you.

A - Virgilio Deloy Capobianco Gibbon {BIO 16679141 <GO>}

Thank you for your question. Things in Rio de Janeiro are pretty fine. Obviously, we cannot talk very much on how poorly our competitors are performing, but the truth is that they are facing strong difficulties in many aspects, so there is an inflow of students coming to us. We are very well positioned, we have a strong brand in Rio de Janeiro, operations are running very well at this point in time, so chances are that we are going to take a lot of advantage of this situation.

Again, we do not count too much on that. This is something that is actually happening, and since we are here we will obviously are going to try to take as much advantage out of this situation as we can. So, the outlook is great for Rio over the coming semesters. As for M&A, we have seen no change in terms of competition for target, although we actually believe that given this recent announcement for the merger between our competitors, there should be some kind of refreshment in terms of competition, because I would expect there in a rush or if others release they follow, what we expect to be a rational behavior, they will spend a lot of time integrating their operations, and they will not put a lot of pressure in the market for M&A. So, I would say that they opened a window for us and maybe for other players that eventually will like to take opportunity of this moment to increase their speed for consolidation. So I feel we have reason so, we think it is very early to tell you whether there will be any change or not, so this is only a perception, I think we have here at Estacio.

Q - JC Santos

That's all. Thank you very much that.

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

Thank you.

Operator

The next question comes from Ruben Couto of Brasil Plural. Please go ahead.

Q - Ruben Couto {BIO 19172367 <GO>}

Good morning, everyone. Thank you for the opportunity. In the Portuguese call you have mentioned that --

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

(inaudible)

Operator

Mr. Couto, could you move your voice bit closer to your mouth.

Q - Ruben Couto {BIO 19172367 <GO>}

Can you hear now?

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

Yes, thank you.

Q - Ruben Couto {BIO 19172367 <GO>}

Okay, thank your opportunity. In the Portuguese call you have mentioned that FIES was a main driver for decline in the drop-off rate. So I wanted to get more color on your expectation about trend on an annual base, and if you think your renewal rates will continue to improve in the next quarter, as it did on the first quarter.

And again, on the FIES, there was a slight quarter-over-quarter drop in the FIES penetration, probably due to a lower number of new students joining through the FIES. That's conversation to the problem was probably meet the (inaudible) is said to be clearly high. So, my question is why not encourage a greater number of students to already enroll a FIES contract, or do you believe is there any action plan that would allow you to be more proactive in the FIES front? Thank you.

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

Okay. As for the drop-offs, we always said here at Estacio that FIES would be really useful for us to deal with our drop-off rate. While it is true that Estacio has higher drop-off rates compared to our peers, it is also, at least in our review, that happens because we really push a lot in terms of the payments, we apply to renegotiate with our students, so chances are they are not going to give up here, because we will not make their lives easy when the time for negotiations come. So knowing that -- that also because again, why we attract a lot of students.

Also because, while we attract a lot of students, we are very demanding in terms of our academic standard year, so, sometimes a student pays or they end up giving up. But on the financial point here, we have always said that FIES would be a great help for us to change this scenario, and we are placing a lot of effort to use FIES with these students.

That's why, we are talking about these 18,000 that are not applying for FIES, because they feel the pressure, as they feel we are going to charge them, we are going to blacklist them if necessary, chances are there they are going to go to FIES, and these students are the same students who would -- which very likely to drop off early on because they would face all these financial problems and we would not be very easy on them in terms of the negotiation terms and they will probably end up giving up from studying with us.

So, FIES is doing a big role in terms of reducing this dropout risk for Estacio, however, we don't feel comfortable about making any kind of projection at this point in time, because it is a new thing, this is the first semester that we are actually seeing, watching, so we would like to wait for another semester or so in order to come up with something more concrete for the future.

However, obviously we cannot affirm there will be a positive impact looking ahead. That will happen for sure, it is already happening, because I think we are using FIES in a smart way, in a right way. As for being a little bit more pro-active, in terms of using FIES to attract students, the truth is that so far it has not been necessary, it happens in a very natural way, we do not need to advertise FIES a lot.

One, because there is some kind of public advertising, and two because students talk a lot, word of mouth in this industry is really powerful, so, as they get more and more FIES, the students who are using FIES, chances are that there will be others doing the same thing, talking to their neighbors, their brothers and so on. So, we do not use FIES a lot in order to attract students. Having said that, when students come to us, when we feel they are going to have problems to keep with their payment schedule, then we try to push FIES to them. Again, it is our strategy so far, and I'm happy to use that for another while.

There are some exceptions, though, I think we are talking about last time, there may be places where they could get some pricing war, say, for example, this modern player, medium local player is trying to cut us on prices, and then you see us in a more aggressive way, because instead of lowering our prices, we can attract all sorts of students and actually use FIES to finance their studies and then come to us for a better cost benefit situation. In those situations, yes, we can push a little bit harder FIES to attract students. In our normal situation we are not doing that, not at this point in time.

Q - Ruben Couto {BIO 19172367 <GO>}

Okay. Thank you.

Operator

The next question comes from Bruno Giardino of Santander. Please go ahead.

Q - Bruno Giardino {BIO 15974970 <GO>}

Hi, everyone. In the Portuguese call you mentioned that some competitors have been playing aggressively in distance-learning, specifically, and I would like to know which kind of competitors they are they existent players, are they newcomers? And also, what would be Estacio's reaction to a scenario of more competition in the distance learning segment?

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

Hello, Bruno. They are newer players. I do not have a lot of details here, we were talking about that last week, it is happening more now, because there are obvious new players coming. It is undeniable that there will be more competition for distance learning, and the newer certification has given a lot of signs that there will be more players coming, including ourselves, we are just about to get our authorizations, but along with us there will be others. And there is only one way we can fight in a market like that. You have to invest a lot in your products and in your service.

That is what we have been doing. When we decided to create a new Executive Director for dealing with distance learning, our goal is very much to make sure we are servicing our students well, by the way, we were not, until last year. Our satisfaction survey -- and actually showed us that our distance-learning students were not satisfied with the level of service given from us. They are satisfied with the product, with the academic model, the content and the teachers, but they are not satisfied with the service levels.

Now, we are investing a lot to develop and improve our service levels, and obviously we want to keep developing, as I have told before, our academic model, to have something really innovative, a lot of technology, something really up to date, not to mention branding initiatives and so forth. So, again, I think the rule or the formula to fight in the distance-learning arena is pretty much the same as we are using on campus, branding, technology, innovation, service level, quality, quality plus quality.

If we can provide the best cost benefit equation to our students, they will come to us and we will be able to avoid pricing wars. Obviously, in some places that may be necessary to work a little bit these prices, but again, we are not going to give up, we are not going to sacrifice our quality and our service level because of competitors trying to cut us on prices. We are going to try to offer the best cost benefit equation in our positioning.

Q - Bruno Giardino {BIO 15974970 <GO>}

Okay. Sorry for my ignorance, which kind of complaints your students posted for you in terms of level of service? Could you give us some examples?

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

Yeah, for example, when they open a request for us to issue any kind of document, any kind of paperwork that was taking a lot of time. In many cases they were not getting answers, when they got answers, last year, they were getting answers not in a proper way, with a lot of mistakes and they were complaining a lot to us.

We knew that, we took a while to react, now we have a team in place, and they talked directly with these students, and I think we mentioned in the Portuguese call that we just announced, this was a few days ago, new quality system at Estacio, by which students now can officially complain. That gets registered, that comes to all of us, the board, the directors, here we get to know the level of complaints for each operation on campus, campus by campus, problem by problem, so we can make sure that we are getting better in terms of service level. So, there are some things coming here to change this equation, I think we are going to change very quickly. And that's going to be -- in a few months it's going to be something really favorable to us.

Q - Bruno Giardino {BIO 15974970 <GO>}

Okay. Thank you very much. Have a nice day.

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

Thank you, Bruno.

Operator

(Operator Instructions) Our next question comes from Thiago Macruz of Itau BBA. Please go ahead.

Q - Thiago Macruz {BIO 16404924 <GO>}

Hi. Good afternoon. My question is regarding discounts, that we know have a concentration of this lying in the first and third quarters of the year, but specifically this quarter we saw a pretty high number at 29.5% of gross revenues. My question is, is there any sort of new strategic trend here? New operating trend or is just one-off? What should we use for the remaining of the year? My question is basically this one. Thanks.

A - Virgilio Deloy Capobianco Gibbon {BIO 16679141 <GO>}

Macruz, thank you for your question. This level of discount is directly related to the level of the new enrollment cycle that we are having. We take the strategy and the moment in the enrollment cycle to give or not to give any discount for one month tuition, it could be in January, in February you try to convert more candidates to confirm their enrollment, city by city, unit by unit, we take the decision if we are going to convert the January tuition to zero in order to accelerate the conversion of these enrollments.

So, this is a decision that every year, semester by semester, we are trying to reduce this level of discounts, but it is very strategic in our commercial area to analyze the speed and how we are converting the candidates in new enrollments in our student base. Okay

Q - Thiago Macruz {BIO 16404924 <GO>}

Thank you.

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

We said, that chances are that this will get better -- as the year goes by, because that's our strategy. We do

have campaigns during the first and third quarter with more discounts, and then it comes back to the normal levels. As for enrollments, we will have higher discounts in the first and the third quarters. Okay.

Q - Thiago Macruz {BIO 16404924 <GO>}

Okay. Okay. Thank you.

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

Thank you.

Operator

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

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

Okay. Just to thank you all -- all of you for being with us today and also for having been following us lately. I think it's becoming more and more clear our strategy and positioning in terms of growth, in terms of opportunity, in terms of our commitment to bringing outstanding returns to all our shareholders and also to our mission with our students and with all our stakeholders. We think it is important that we can meet everyone's demand to get outstanding results.

So again, thank you very much, I hope to see all of you in the next conference call, and in the meantime you know our IR team is always available for you. Thank you and have a good day.

Operator

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