Y 2021 Earnings Call

Company Participants

- Adriano Pistore, Education Vice President
- Eduardo Haiama, Chief Financial Officer and Investor Relations Officer Vice-President
- Eduardo Parente Menezes, Chief Executive Officer
- Jose Aroldo Alves Junior, Vice-President of Distance Learning
- Marina Fontoura, Vice President of Premium Operations

Other Participants

- Analyst
- Caio Moscardini
- Lucas Nagano
- Lucca Marquezini
- Mauricio Cepeda
- Vinicius Ribeiro
- Vitor Tomita

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to Yduqs conference call to announce the results of the fourth quarter and the whole year of 2021. This conference call is being recorded and a replay may be accessed at the company's website www.yduqs.com.br. The representation is also available for you to download. All participants will be connected in listen-only mode during the company's presentation. Later, we are going to start the questions and answers session, when further instructions will be provided.

Before continuing, we would like to clarify that statement that may be made during this conference call relative to the company's business prospects, operational and financial projections and goals are based on beliefs and assumptions of the company's management and are based on information currently available to the company. Forward-looking statements may involve risks and uncertainties, because they refer to future events, and therefore depend on some consensus that may or may not occur. Investors and analysts and journalists should consider that events related to the macroeconomic scenario, the segment scenario and other factors may lead the results to be materially different from those expressed in such forward-looking statements.

Today here with us in our conference call, we have Mr.Eduardo Parente, CEO of Yduqs and Mr.Eduardo Haiama, CFO and IRO. Now, I would like to turn the conference over to

Mr.Parente, who's going to start the presentation. Mr.Parente, unmute please. You may start.

Eduardo Parente Menezes {BIO 16707188 <GO>}

Thank you all very much. Good morning, everyone. Thank you once again for being here with us. Before starting, I would just like to clarify, we have two conference calls today, one now at 9 o'clock and the other one at 11 o'clock Brazil time. At 11 o'clock, the call is going to be in English, same content. Maybe we'll go over more slowly for people who are further away. We'll try something to have a feedback on the past, maybe I don't make the lives of interpreters easy. I might go too fast. I'm translating this one too. So if you're listening to simultaneous translation and the idea is to go over the same material, may be in a little bit more detail explanations, but with the same level of information and disclosure that we have.

And so this is the conference call to close the year of 2021 here, there's a page with highlights, it's very busy with lots of information. It had twice as much in the previous version because it was a very intense year. Many new things, many good things, many difficult things too, but the highlights here starting on the left-hand side of the page, our average ticket advanced in all of our units, renewal rate, that was also very good in the digital for the first time. We got to the level of 80% in NPS, which is a strong indicator of our investments in the digital world, has evolved greatly in all of our business units.

Now, going to the middle of the page at the top. This is the ROL that we had mentioned before the two high-growth units, premium and digital; we're going to get to 50% in 2021 which in fact happened. And so here we have the NOR. And then on the right-hand side, this accounted for 70% of the total EBITDA, these two business units premium and digital. 2021 was a very difficult year for on-campus operations, and these two businesses that are new and they represented very little for us in 2017. They really accounted for our revenues in the second year of the pandemic that was very difficult, but anyhow much better than the year before with an indication that the future will be a lot better than it was in the past. EBITDA also grew 37% as compared to the year before.

In the middle too here we are talking about our financial structure and we have very solid 91% cash conversion, the highest one. And, our cash is close to BRL2 billion, and net debt over EBITDA is below 2 times. When we look at 2020, that was a year when we adjusted many things, adjusted our bottom line, now, I think we've got it right. So we are getting to 2021 still with a lot lying ahead of us and numbers are similar.

So here at the bottom on the left hand side, you can see the EBITDA of the year before and current one. And as a reminder that pandemic in many aspects was even harder in '21 that it was in 2020, in 2020 our inflow was very good in the first half of the year, which did not happen in 2021. In spite of all difficulties, our EBITDA didn't grow so much, where non-recurring items bring EBITDA to a stable reality in the market; it was a fraction of what it was the year before. So, the mid line here in this table shows that. And then naturally, there was an evolution as compared to the year before because of these adjustments that were necessary.

On the right-hand side on this table, we have advanced a lot in technology, at the whole we go on working. So, it's the student experience, the payment system, and then we evolved the way that people watch classes that teaching aspect the pedagogy, the didactic because then we need to speak digital language. And, now we're taking a further step that we call JUCA, J-U-C-A. And we are introducing artificial intelligence to analyze the 260 million questions that our students answer every half year. So this is a further step for us to remain for another one or two years ahead of the competition in terms of technology.

And talking about medicine, last year we gave the high guidance of 6,500 students that we ended with 6,500 and the guidance is between 7,100 and 7,500 students. This is a natural space; these are vacancies that we already have, that are many courses that we are in the year one or two of the medical school. We have to wait until the get to year six and we have additional places as we announced, that are additional 200 new places for medical students that has been approved by the Ministry of Education and we had already talked to you about that.

Now, when we look at the premium unit, we have here is green is medicine and gray is IBMEC. So, what we have here that everyone is used to seeing 30% something every year in terms of revenue. On the top left-hand side chart in gray the growth of IBMEC demonstrates a very high growth, when we look at 128% and 91%, and this growth was because IBMEC was not for the whole year in 2020. When we look quarter-on-quarter, the growth is small. This was a very difficult year for post-graduation. The applies to IBMEC and to everyone, but the undergraduate courses at IBMEC is doing very well in terms of what they had in 2021 and now what we expect for 2022.

On the right-hand side, we have an evolution of EBITDA from BRL310 million to almost BRL400 million with the growth of 28% and the margin of 2021, slightly smaller than it was in 2020, in a movement that we already expected. And we had announced that and this is how we see for this unit going to the future, high growth unit, with high margin, so a significant growth in absolute numbers here, but at the level that we saw for 2021.

On the left-hand side below, we have the student base, so here the undergraduate plus graduate students. So we have a significant growth year-on-year. And then again, if we look at the gray from IBMEC after a difficult year, but undergraduate courses we started reversing intensely in 2021, and we saw an even stronger reversal in 2022 with a very positive trajectory for IBMEC. In the middle of the slide and this is very important, we closed the medical students here in the upper range of the guidance. And this 10,800 is just our maturity base. And this is no new places if MEC doesn't award us with any new places, which is not -- we still expect many new places, but if we do not think, we'll get to 10,800 students increasing our student base by 70%.

On the right-hand side, you can see stable tickets. And this is why there is a major difference that we are reporting. And we had a major effect from injunctions and other laws that forced us to give discount. So, there is an important evolution, but when we look in detail, this is a number 4% in medicine, so which by itself and people wondered what is going to happen once these discounts are no longer in effect, or people going to continue, and now the discounts are no longer in effect, and we have very good renewal rates and this evolution from 2022 with all businesses that we are hoping with a discount level much lower than we had in the past.

Last week, we also announced a way for us to go more strongly into continuing education, it's in edtech. We had Qconcursos last year and we have ADTALEM. And we have a very wide-ranging portfolio. It's easy for us to expedite edtech and we have been choosing people and projects that are related to our beliefs. So, things that are very efficient in terms of cost and very good in terms of quality and we analyzed all opportunities and build the business very carefully. And we are very happy that they are joining us.

When we look at digital learning, it's growing very intensely. So, the green below is undergraduate and the blue is lifelong. So, we have a significant growth in revenue. As we have been demonstrating year after year on the right hand side a significant growth in EBITDA, here 39% of our total EBITDA, and 39% margin was below the 2020. It's below what we are expecting in the future 2020 with a very difficult year for postgraduate courses. And this brings down or drags down the EBITDA, and it was also a year of strong growth in hubs. So, there is a greater transfer at the beginning, so that we can have a faster payback. And these numbers should converge to the average in the midterm. So this number is below 2020, but we expect to recover it in the short and midterm.

So, on the left below, we have the student base and lifelong with a huge increase on the public examinations, and then new base that we have acquired the Qconcursos and then have added to our student base, and Qconcursos has a average ticket, that is much lower than ours and doesn't have such an intense impact on revenues, but really impacts the student base and the traffic.

In the middle, here you can see the number of centers and we got 2,000 centers according to the last year's guidance. And this year, we want to close with 2,500 and once again, as we see our base of centers, almost 80% of that, it's less than three years old. So the first class has just graduated or is about to graduate. So, we expect these centers to grow a lot, some of them are older, but they are attracting many new students with a small growth compared to others.

So in 2021, there was a huge growth in small towns with much lower competition. And this makes it possible when we look at average ticket. So, it's -- we didn't see much of a change. It doesn't go up it move sideways. So, if you compare the same course a year before, but we have this advantage of changing our mix compared to the year before, we can build higher ticket and look at the average, we have stability in terms of the average.

Qconcursos is something that makes us very happy, a new company, to the left, on the cost curve very efficient with purpose, with a mindset of bringing in people who did not have access to education, providing them with access to education, and have fantastic system, fantastic people, with millions of users, and a subscriber base that has been growing and doing very well, there is 1.4 million users or people engage per month, and then 46% of them paying, and this has been growing year-on-year and Qconcursos, this has been a very good source of transformation for us. People that really have a mindset of doing it simple, fast engagement, and having a community and this has helped a lot in all our initiatives, so digital and in-person with the systems of tests and everything, which is the primary source of our business and that are many nice things, that they are bringing to us.

Now, when we talk about on-campus business unit, this was a very difficult year. We had a very poor inflow and if you look at the top to the left, revenue has gone down, EBITDA has gone down, EBITDA margin has gone down, student based also on the left below. So, this is the result and I have to admit that I was kind of surprised, how fast it's affected our bottom line. And so, when we had a drop in inflow, this was going to affect. So, a drop in the base along the four years of the student life, but something different happened when there was such great eviction in the first semester, so eviction was about 50% in the first semester and then it goes down to one-digit depending on the year, 3%, 4%, 7%, after year three, this number is very low.

So as there was an significant negative effect that you can see here, because we didn't have any inflow of students. It's good that we have different businesses, and the other two businesses offset very well, this very poor year for on-campus education. But when we look at the other way around, today, we have reasonable idle capacity for on-campus education as just on in terms of attraction of new students. So people will join without the significant cost increase in our base. So in 2020, there were two businesses that went very well and one that didn't go very well, this is for 2021. And now in 2022, I think we are going to change it.

Here in the middle below, this is important, we have been evolving a lot according to the market demand for health education with a higher average ticket. So we've been seeking alternatives in terms of profitability, but also to meet the market demand. And at the right-hand side, these are the results and we've been seeing for two years practically ticket stability and this is what we have -- what we saw in Q4 2021.

Now, I'm going to give the conference over to Haiama.

Eduardo Haiama {BIO 7279971 <GO>}

Thank you, Parente. Going to our revenue, I think that the main highlight was that we are growing again. We grew 9% in adjusted revenue and also the change in the mix. That are two segments and we are going to comment further ahead, but it's been growing for quite a while. And today, they account for almost 50% of total revenues, premium and digital and on-campus accounts for 50%. Something important here regarding the bottom line, something that had been going on and what we completed in Q4 is the non-recurring items, which are much lower now, than they were in 2020. In Q4, it's BRL21 million and it's important to mention this, of the BRL21 million, BRL9 million refer to the first three quarters of 2021. So, that BRL35 million that you see for the year, there's no adjustment and BRL12 million of laws and injunctions. And then 2022, this number will be BRL1 million per quarter, and there are some individual causes or litigations that we're still dealing with.

In terms of cost, there are two important messages. Number one, in the first quarter of '21, the market was kind of scared with our numbers and our V&M that was above the plan. And we were headed towards one direction and we saw that the market had changed direction. We changed it too to this other direction and this led to an over-call. But back then, the expenditure in the second quarter of '21 and until the fourth quarter would be in line with what we had spent from Q2 to Q4 in 2020. And this is what happened Q2 is in line with Q3 above and Q4 below. So that to a degree that exactly what we had said. The other important thing our bad debt, this is more stable. It's been stable for a while, and collection is doing well and looking at any metric whether payment slips or any other metrics and we try to apply other health tests. Everything is doing very well. It's even a little bit better than it was before the pandemic.

Point number three, they are behaving very well. Growing 5% in Q4 in spite of inflation, that was 10 % last year. And I think that this is a great accomplishment and we can in fact not spend -- we think that do not add value. So that if we look at EBITDA, if we look at revenue and costs, our reported EBITDA considering a lower level of non-recurring has grown considerably, in a slight drop of 4%. So, the quality of the result is much better in spite of the 21 million non-recurring, and there's 62 million [ph] most of it is related to operational research that we do to improve many other things, so that we are productive and also some feedback that we have had from Campi or reduction of the size to offset the drop that we had during the pandemic especially for on-campus education.

For the year, the same trend applies, so we reported, has grown almost 40% in the adjusted in line with 1%. When we look at the net income until May 2020, we didn't have, and then we started having almost 2 billion debt because we didn't have ADTALEM before. So we had the full inclusion after that along the year, but with the interest rate level that was well above and this affected our net income year-on-year if we compare year-on-year.

The other point that we put in adjustment are the amortizations of premiums that have grown a lot with ADTALEM. They have grown by 62 million. This is a non-cash event. This is because of our acquisition. The third point that I would like to highlight on this slide is a difference between our accounting income and the IFRS net income. As you can see our net income in gray in the middle ended at BRL158 million and in the below we say that if we didn't have the IFRS, we have IFRS effects consider that rental is debt. And this stored appreciation in financial results. So if we consider rental, our profit reported income would have been BRL200 million and this is likely to be eliminated and to reverse in the future.

So we are proposing the minimum payout of dividend this year than last year, looking at the gray bar on the left, our net income was BRL98 million and we paid dividend of BRL149 million. And this year in addition to BRL158 million, we are paying 25%, BRL38 million because we believe that it's not just an interesting opportunity for M&A considering the scenario of interest rate. We should preserve cash, but we also have a buyback program, which seems to be more interesting for us. And if we are to return capital to our shareholders confirming our long-term vision the buyback might be an interesting option to you.

On the next slide, we'll talk about cash and cash flow. Here we are trying to compare up to the EBITDA line, how much cash it should consider. Everything above the EBITDA line should be considered as cash. So in 2021, we generated 91% of the EBITDA and in 2020, it's not here we generated 102%. So you say well, it's worse. No, it's not worse. Actually in 2020, we had a revenue loss because of the pandemic and also the injunctions that affected our revenue, so, the working capital went back. That's why we had a higher operational cash generation, but in 2021, we are growing again. Compared to the pre-pandemic year, this number was 87%. That's why we say that our cash generation is very well behaved at levels, even slightly better than pre-pandemic.

The CapEx, we capped the investment of 40% in digital transformation and IT. And this level is going to remain this year considering total CapEx and it's only going to drop after '23 with our investments especially related to IT with legacy systems, so the digital systems depending on where we are, depending on the market dynamic. We are going to see how this is going to evolve and grow. We might decide to invest more or less than this discretion.

So, now I can return the conference back to Parente.

Eduardo Parente Menezes {BIO 16707188 <GO>}

So, this IT investment that Haiama mentioned, which must say that we feel the effect on a day-to-day from the stability of our systems to student prospect. We had an earlier V&M by three days and our website was on, and then many people say go to Yduqs, because their site is working, and then all the financial system controls everything is working better. Our enrollment just, yesterday I enrolled and it took me 12 minutes to enroll, so, and we are seeing a very clear impact. This chart is very important for us to look at 2022 based on what we've been building.

When we look at 2021, the EBITDA was very similar to the pre-pandemic EBITDA, even though it was a very hard year in terms of pandemic, and in terms of inflow of student. And I would like to show you a little bit, how we got here and how we see our business. So we took this chart and we separated it in two parts. At the top, these are our efforts to optimize business and below the efforts too for the future, thinking of the future. So here, you can see 2017, when we tried a movement in terms of the shareholding structure. So, that's a group that has been running the business ever since building a new Estacio.

And I would like to share with you a little bit of that. So 2017, 2018 at the top, they were years very intense in cost optimization. So, here we picked up a number to show you. So the faculty cost over net revenue dropping from 29% to 18%. This is the highest cost in any education organization that is higher than rental or anyone else. And we see no one in the market with such a number. So, these numbers are usually 10 points higher than ours.

At the same level that we had in 2017, below in 2017 and '18, we implemented the More Doctors program, the Mais Medicos. So, we had an agreement with the government. We were very successful. We could double our number of medical students in this period. And as I told you before, we have already hired 10 points something. We more than tripled the basis that we had in 2017. There's a significant evolution in ticket and is related to the world of medicine, so in 2017, 2018, so we planted to seeds of cost optimization and work with Mais Medicos program.

In 2019, in terms of business, we went to reverse some decisions that were not very good for us, decisions that we had made in the past. So for example, our working with high school, so students over camping in terms of 1,000 students, we are going to end the year similar to what we had in 2017, although with the reduction of base, especially because of FIES. So below after 2017, we really focused on expansion of distance education. So it went for less than a little bit less than 300 to more than 2,000. So this is an evolution from 2017 to 2018. 2021 we are fighting with the COVID and trying to preserve cash.

So this is what I told you and the highlights are showing how robust we are. And below here we created our digital platform that supplies all our units. We acquired Qconcursos, there was a really in high increase in NPS. And on the right-hand side, on the bar chart, so in 2017 in gray, we had BRL1.3 billion of our revenue came from FIES, the student loan by the government. Today, it's BRL0.3 billion, it's like zero these BRL300 million, today, our students from the new student loan program, and it has a regular impact. What I would like to call your attention here is the revenues of BRL0.3 billion is similar to what we have with 0.7 premium coming from 0.1 in the past. So, very shortly, we are going to get to BRL1.3 billion, based on maturation of course.

So in 2017, we had BRL1.6 billion business that was highly dependent on the government with a limited growth, with a contracted shrinking. And after everything, I explained to you on the left hand side. We built two other businesses, just as big as that are very asset light with huge capacity growth and with considerable margin. When we look at this, here looking into 2022, looking at 2017, the business has been growing and we're really fighting to preserve everything and we really believe, during the pandemic, the importance of on-campus education, people are very happy. We are back on-campus for a year. Last year, we brought 20% of the students. In the middle of the year, 50 -- at the end of the year, we had 50%. And then in green and blue, and to offset so we are going to grow again with a new business and a new moment and this is very positive and this is the beginning of the recovery.

So, our closing remarks, so the effects of the pandemic were in 2021. We are showing results that are better than they were in the past, a significant change in the breakdown of revenue. So, we had difficult times at the market where our businesses are protected, at the good times, we are likely to grow and when we look compare ourselves to the competition, some of them have very much medical courses, so their on-campus is not so well-organized with such a lean cost basis as ours. So we are at a very good position as compared to the market, considering everything that we have built. In the middle I have mentioned that our financial situation, better efficiency, we have created sustainable growth for the future and below, you can see that we are working on digital transformation which enables not just expansion and maturation of our digital initiatives but much higher satisfaction and quality for on-campus education.

So, let me show you these charts. You really look forward to seeing this and we joked that 2022 is the new 2020. So, we are going back to the beginning of 2020 that we're doing very well with great intake. And then the pandemic hit and we look at 2022 as the new 2020. So this is looking into the future. When look at premium, this intake, this is a six monthly intake. So, we take in students in the beginning of the year, in the middle of the year. And we see an increase of 10% and 20%. So we still have a few days before this is over. And we see small group in the average ticket. The digital in the middle, the intake is different.

So this is quarterly in the digital. And so the premium is twice a year and then the digital every quarter, there is a new class. So when we look at intake, there is a big change as compared to last year from 50% to more than 60%. We just need to be a little bit careful with this comparison because when we look at the past, because of the campaign that we had students that are enrolled in the first half of the year March, students, we threw them to April. So this is not something that is going to happen this year. So, some analysts picked up this number and it's very important to make all of this very clear. And this is going to be at 50 or 60 level. But actually we should take out a little bit of this for the same period last year and would be taking out a similar level.

So the number that we are going to present and you are going to see refers to a growth as big as that. When we look at the half year as the whole, taking the first and second quarters, this number is likely to be between 30, 50, 40, a little bit more than 50, but the number for the first half is very strong. This drop in price that you are seeing here, and I'm going to repeat it for on-campus as a very strong impact off a very strong base of new students so, and this is working very well. We give many discounts on the first semester.

So students, paying 129, in digital paying 129, and in digital, and then after month 7, they pay the regular ticket. As the intake is very strong, both for digital and on-campus, the number, the mass of new students sometimes, account for 30% of our student base. So, we have a lot of new students with very strong discount in the first semester which affects the average. So, this doesn't mean that our ticket in the future will be 5% to 10% lower. When we look the effect in the first half of the year as the whole both digital and on-campus in the second half of the year, for which intake is always lower than it is in the first half. But the total mass of new students will be less relevant and we are likely to go to greater price stability with numbers close to zero.

So we are talking about the numbers for the semester. So we have two intakes in the year in the first and second halves of the year. So when we think of the 30% to 50% increase on-campus, we are talking about the semester. So this is something that happened last year and will happen this year again. So once we close the intake, we are going to look semester on semester and we will see that this is going to be 30% to 50% higher than last year. So, we think that this is very positive. We have the capacity to take in this intake without increasing campus, without having more teachers. We're filling the classes. Campi are full, classrooms are full. People are very happy to go back. So, we're seeing and this is very important and this has a quite relevant impact on EBITDA of the first quarter and the number below.

Looking at the first quarter, a drop from 0 to 5 that will happen in the second half with the drop compared to last year, because when we talk about 30% to 50% increase, we're talking about 92,000 and 100,000 new students for the basis of 200. So, it's more than 1/3 of the basis coming from new students. So, it's 1/4 of the base. So, it has a significant weight for new students, which has a reflection in the average ticket, which is a drop.

And then we have some news that makes us sad, Haiama told me last week that he has received an offer, and he hasn't told me, where he's going to that is absolutely impossible to refuse. And he says, he's going to leave us, I'm very sad. So, he's going to be with us until April 18, to hand over to Rossano Marques, Rossano Marques has been working with us since 2018. This is our full seal level Board. We have Marina joined in 2020, everyone has been together since 2019, Rossano has major experience in with finance, at Atento, Vale, Santander and he's always worked in the financial area before joining us. He's always been working in corporate finance with a very intense interaction with finance. Here not just because of IT but also because shared services. So he has a degree from the Catholic University and MIT. He's a dear person and we are going to have a soft transition until April, and many of you will be seeing Rossano, now he's just listening to us and then he's going to integrate and we're going to make a soft transition.

Would you like to say something Haiama?

Eduardo Haiama {BIO 7279971 <GO>}

Well, thank you Parente. So this is 100% my personal decision, and what Parente has said is true. I had so much fun here for the last few years and have, even though I was here through the pandemic and I think that looking at this slide. I think that, that part from Marina, who's like newer than myself in the group, everyone knows the company very well and everyone is managing very well ever since and as Parente said two slides before, talking about the major transformations that we have had in the last few years since 2017 until last year.

I think that the major transformation, it's not that it's complete, but we are towards the end of the cycle to allow the company to become lighter, more streamlined or leaner. So, this is a very solid foundation for us to go towards the future. And I wish good luck to everyone. And wish good luck to everyone and I'm sure you're going to be very successful over the next few years too.

Eduardo Parente Menezes {BIO 16707188 <GO>}

Thank you, Haiama. Well, just in closing, I think that 2021 along with 2020 are two years that showed the resilience that we have created. This is very clear those were very difficult times at the market with the pandemic, bad intake, high unemployment, high default rates. And in spite of that, we were able to deliver very good results. And looking -- when we look at 2022, there is a lot that has been built and ready to happen and this very strong intake in the beginning of the year makes us very excited to start surfing a new wave.

We have a horizon that is very positive when we look into the future, and we've been working hard to create over the past few years. Thank you very much and thank you for your trust.

Questions And Answers

Operator

(Question And Answer)

Thank you. Now, we are going to start the Q&A session for investors and analysts. (Operator Instructions) Our first question comes from Vinicius Ribeiro from UBS. Please, Vinicius, your microphone is open. You may ask your question.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Good morning, everyone. Can you hear me well?

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

Yes, we can.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Good morning, everyone. Thank you very much for taking my question. If we could go back to two points, this is related the expectation of growth. What about on campus education and we've been seeing a growth. Could you give us some more color in your strategy? And yourselves compared to the competition, in terms of the margin Q4 was slightly weaker in spite of its typical seasonality. Now for 2022, when we think of what you said for on-campus education and a maturity, are there any other negative aspects? So considering the effect in Q4, what should we expect for 2022? And I would like to thank Haiama for his work and for dealing with us and answering all our questions that sometimes weren't even so good.

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

So very good question about the semi digital or the hybrid mode. So the hybrid mode was really very good. We got it right. We hit the bulls eye with that. And we experiment with things if they work with value, if they don't, we never tell. We started selling content, about two years ago, we never told anything to anyone. It didn't work, we closed it and then, so well, we are telling content, we don't like it. We like to talk about things that worked. So, the hybrid mode of education is very good. So, this is the growth of intake of course the hybrid modernity is much lower than the on-campus mode of education. So, we -- it doesn't really affect the overall numbers, but we put the on-campus numbers to compare oranges-with-oranges.

When we launched the hybrid mode of education, everyone said well be careful because this might cannibalize the on-campus, because actually what happens is that the hybrid mode cannibalizes the distant education. So, many people didn't have the BRL700 to pay they went straight to BRL154 that didn't now we created an intermediate layer with BRL350, they don't have BRL700 or BRL800, but they have BRL300 or BRL400 to pay. So it's very good for us to have a mid pricing point, also its BRL20. So and some medical schools cost as high as BRL13,000 a month. So we have a very wide range of ticket to cater to the needs of all students. So the hybrid mode of education has added to our mix, it has helped us and we didn't do that. We might lose the capacity of an amortizing costs in campus.

The hybrid mode of education did very well, because when we look at the distant education of large city, so when we compare ourselves to the competition, our prices are very similar. But remember that, our distant education is high conception. We have very good content, they can do it on the cell phone and the best tablet at home, computer and the competition of distant education. They usually have those huge hubs with very high cost and very high breakeven, and being centers really are being affected by our hybrid mode and they build less than our distant education. So, we are able to have a higher ticket. So, the hybrid is fighting with competitions distant education.

Second point, is that we showed here a 50% NOR and we were very vocal last year that we thought that this was going to happen this year. We don't think that this number is going to change in the future. Even though distant education and the premium will grow on campus is likely to go back to recover, there is no recovery or no resumption, so strong on-campus, the premium is more or less at the levels that we think distant education. Also with the recovery just as on-campus which will take us a while to go back to 2024, as you saw in 2020 in terms of margin, but there is a recovery, so the share we don't see changing as much as it did this year, but again, this was a growth in the company as a whole. But as premium and distance education and to percentage margin, so on-campus helped with the absolute numbers and margin.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Well, thank you very much for the kind words.

A - Eduardo Haiama {BIO 7279971 <GO>}

Q4 had some different features as compared to previous cultures of many previous year. First, we started the quarterly intake in a digital mode starting in Q4 '20, but very low and very strong now in 2021. And this kind of changes the seasonality. So, when we try and look specifically per quarter, this is not going to agree and '22 is it's going to be quarter-on-quarter with a better matching, not everything, because your old students are still studying, but this will moved out the seasonality. So what complicate and I'll tell you why we did this in the digital segment, you have undergraduate courses and also lifelong education. So lifelong education in digital and we are running many tests, we have many initiatives. And when we think that it's really going well, then we will probably separate the numbers to facilitate projections. But for now, as it's growing a little bit and growth again, there's some volatility and Q4 was no different. So compared, so for whole life, this was no different on this segment. So, this slightly amplifies these measures along with the intake. The speaking off season, even quarters, when there's a higher buyback [ph] because there's an eviction or students drop out. And they may have -- that's what -- they drop out.

And lastly, looking at cost, there is a little bit more seasonality in the cost. And there was, and the injection from the pandemic that allowed companies to reduce pay salaries or to suspend contracts, and this reduces expenses. So, the seasonality was slightly different, that's why the cost line and if we look for the years even better, if we look at the whole year to understand a clear representation [ph]. Q4 dragged it up in an atypical way. Was I clear Vinicius?

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Thank you very much, Parente, and Haiama. Thank you very much for your answers.

Operator

(Operator Instructions) Our next question comes from Mauricio Cepeda from Credit Suisse. Ms.Mauricio or Mr.Cepeda, you can ask your question.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Good morning Parente and Haiama. Thank you for taking my question. Two points that I would like to ask you about the future. Number one, the issue of ticket. I know that you've been talking about tickets for the short term. But thinking of in the mid-term, what do you expect from that? Maybe the ticket mix might get slightly worse, but there was a competition. How do you see the competition and the prices along year? And the second question, and congratulations on your intake that is doing very well apparently. But could you give me a slightly more color, in terms of the demand. So, the profile of students is this repressed demand? Is there any held up math? And how much the repressed demand also in terms of age of this mass of students? I would also like to thank Haiama for the time you were here. And I would like to wish you good luck on the next steps in your journey, Haiama.

A - Eduardo Haiama {BIO 7279971 <GO>}

Thank you, Mauricio.

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

Average ticket, we see intake, very strong on our end. We have no information from the competition, no information from the competition, but we feel that we've been gaining share in every region where we operate in the North. This is very clear because we bought the tenants, we are very strong there. And then the purchase of a talent and then there is gain. So there is a national diversification, sometimes there are some crises in other places less, every business less. So this expansion has helped us a lot reducing VNM car and this has helped us and have helped us to and they are very happy with that.

We are gaining space on one end, because we are very aggressive. We have a high capacity to have low prices because of the efficiency of delivering high quality education with low operational costs, but we also have a recognition of quality from students like Word of Mouth. Acknowledgement of our quality, and not just because of everything that we implemented in a digital and this applies not just quality control or teachers, awarding good teachers. So, we award teachers that have a good assessment from student. And then we analyze their performance based on the answers that students answer in the system, but also we had a very strong and good reaction to the pandemic, not just during the pandemic, but in one week everyone was back and was synchronous mode. And also, and this return of the pandemic, we went back on campus a year ago, in spite of all sanitary precautionary measures, we were able to go back to on campus.

And this has contributed to the perception people have of us. This is going to be shown in all the rates and then all the assessments that we had from the Ministry of Education like zero, four, five. And so there is a word-of-mouth dissemination of quality that we are starting to see, and we think that the moment has not yet arrived for us to transfer that to practice, but this time will arrive right. We are seeing a marketing that in intake usually build more than what they had not the first month ticket. We're talking about the ticket of month seven, which is what really matters. You bring them in, they haven't experienced an after month seven is what you effectively build them for the life they're going to stay there. We see people billing 100, 150 or 200 less than week bill in month seven. We enroll, I go there pretending that I'm enrolling my daughter and we see what's being offered and we compare that to our structure.

Hybridization has a limited effect on the ticket and hybridization is a way for you to reduce cost, and we were able to do that and have more quality, in terms of high quality digital, that to the classroom and providing supports to on-campus teachers. And this is different, we increased the amount of digital content for on-campus. And this is something that we are doing with quality and with cost reduction tools. And we will go on doing that with cost reduction.

I don't think that, cost reduction is so, that we can drop prices even further. Is so that they have no more loss for the prices that they are bidding. For them to just be flat, no one is generating cash for on-campus operations other since other than us, and we see lots of people even with a marginal loss. So our perception is that tickets are going to recover and maybe not as to the levels that we used to see in 2014, '15. And we're waiting for the right time to do that, we were wondering, but we had a major idle capacity that we had and we said let's wait to see what we can do in the future. And we think that moment will get, which is the intake profile. Remember that most of our students at Estacio and Estacio, just about ticket what I told you apply for on-campus. When we look at distant education, the margin is much higher than the rest of the market. So we booked distant education margins.

Many people consider this a revenue producer. So at the bottom-line, the ratio EBITDA over NOR doesn't change. So when we look and see our numbers of 39% and we think that soon it will be higher. Then we look at the competition, we are at 20 low range. So our very light structure with our simple centers. So this is being very much copied by the education. Our class models is much more interesting and engaging for students. And there is a lot of digital transformation and digital intelligence that we have already -- and we have already implemented part of it that we think they're going to copy. But it's not that I have access to a mind that no one else has access. Our work is to be always ahead of the competition. But that's why I tell you. So, it is growing strongly we have a mass of students in high school that is hired, then we have students in higher education. So, the number of potential students for higher education has been growing and only growing.

And then we will be likely to have a stability which happened in large centers. And anyone who asks in the midterm we see distant education prices going down. I've been saying this for two years, and but this has not yet happened. We think that, there is still a lot of room for us to grow in the space at the whole. But in three or four years, this is what we think is going to happen.

As to profile, remember that in Estacio, 80% of our students come from our -- from the public schools. And in 2020, they did not graduate. They thought, it couldn't come to us and what two groups of students enrolling at for it. And this applies to distant education and on-campus. So, we are seeing the slightly younger students, slightly younger average than our traditional average people. The percentage of students have -- that have just graduated from high school. And this is because of this inventory of this backlog that we had. It doesn't mean this is an all-time record for intake of students. So we are going back to 2019 numbers, and 2020, which was our record number. So it's very good as compared to 2021 because of all resilience that we demonstrated in 2021, when a scenario is more favorable, we think we have room to grow in the future. Have I answered your questions, Mauricio?

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Yes, this is very clear. Thank you very much, Parente.

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

Haiama, if you want to thank him, please feel free.

A - Eduardo Haiama {BIO 7279971 <GO>}

Well, thank you very much, Mauricio.

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

Thank you.

Operator

(Operator Instructions) Our next question comes from Lucca Marquezini from Itau BBA. Mr.Marquezini, please you may ask your question.

Q - Lucca Marquezini {BIO 21102315 <GO>}

Good morning, everyone. Haiama, Parente thank you very much for taking our question. Two questions. So, there is a ticket in medical education ticket, there's a growth here. So, could you tell us a little bit more about the operational research that has an impact in personnel costs?

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

Hi Lucca, thank you. As medicine tickets, we have had a few years of very significant growth for medical school during the pandemic. People suffered to pay higher tickets. In many cases they gave up. There was a strong pressure because of injunctions. So, on the whole, we decided to be lighter. When you look at the increase for 2022 for old students with 9% something to on-campus to keep in a bit and 14% to digital and 7%, these are the transfers in terms of ticket increase. Very much thinking in terms of holding it back when higher ticket to really being a problem. And then I'm going to turn it over to Adriano. Adriano is our CEO for on-campus operations.

A - Adriano Pistore {BIO 20655758 <GO>}

Good morning, Lucca. As to the operational research, this is something that we do in academic learning department and through a centralized department. We plan the offers of classes all over Brazil. We have a team of specialists and we use algorithms to do the process and this process improves every quarter, which is natural with the advance of our statistical models, this planning is getting better and better. So periodically you will see this impact in our financials and this what clear this quarter and will be clear in future quarters as we improve the profit. Of course, with good intake, we can optimize it even further. So with better definition of classrooms, better student -- teacher student ratio. So, we have this faith of academic planning. Is my answer clear?

Q - Lucca Marquezini {BIO 21102315 <GO>}

It's very clear. Adriano. Thank you very much.

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

Thank you, Lucca.

Operator

(Operator Instructions) Our next question comes from Vitor Tomita from Goldman Sachs. Please Mr.Tomita. Please, you may ask your question.

Q - Vitor Tomita {BIO 19238819 <GO>}

Good morning, everyone. Can you hear me?

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

Yes, Vitor.

Q - Vitor Tomita {BIO 19238819 <GO>}

Good morning, everyone. Thank you very much for taking our questions. The first question, that's more specific is, could you give us some more like on the bad debt dynamics that you received for 2022? Second question, there has been lots of news flows in potential transaction in your industry recently. Within this context, could you give us an update on your M&A strategy and your potential targets? And these were the two questions and I would like to thank Haiama for all the conversations I've had with him so far. Thank you very much, Haiama.

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

Thank you, Vitor. I'm going to let Haiama talk to you about a very interesting topic of bad debt.

A - Eduardo Haiama {BIO 7279971 <GO>}

Thank you, Vitor. So, it's a very exciting team of bad debt. So, the bad debt for 2022, we are not expecting a change in level as compared to 2021. There are two important themes first you mentioned. If in fact, inflow is very good for on-campus, as we have a dropout of new students and they drop out with that, so in percentage terms of the pressure on this side leads to a higher bad debt.

On the other end, and there's an improvement that we're seeing, in a premium segment that is doing very well. Collection is getting better and better. It didn't get any worse and many people have been asking about the inflation interest rates and et cetera. And about collection, and it's been evolving very well. So that if I were to give you an estimate and trying to be more precise, this would be more or less in line. And thinking of 2021, considering the two movements that I have mentioned. From '23 onwards, when on-campus, we are expecting it going to more stable levels. So for 2023, there would be a relative drop and not for digital. Digital will depend very much on the growth dynamics. So while there is a very strong growth, the pressure of bad debt once it matures, it drops. And then depending on a very similar collection profile.

So about M&A, Vitor, well you've been with us for a long time, you are aware of the acquisitions that we have made. We are very proud of the acquisitions that we won and the ones that we lost too. So this is timing that is not trivial with a high interest rate than we are trying to assure our financial health. And we've been seeing some opportunities that our way out of price. They're completely out, and but the acquisitions that we have made, there were very strong synergy. So this is not trivial, of course, and this is something that I always say to you we see major groups in the market that would make sense for us to be together. We need to look at that in a way that makes sense for everyone. So that it makes sense.

And we need to have a right mindset. And now our trajectory over the past five years, we've been building something very solid in terms of financial cost, quality efficiency technology. And I think that this is something that appeals to others in other discussions. I think we are likely to have that, but it may take a month or a year. So, this moment of general low in our industry sometimes have sometimes makes things worse. So, right now we are just sitting back, watching and observing businesses or deals that might make sense. We still want to expand in Sao Paulo and in the South. But still seeking other brands that might help us to have a more complete portfolio, took it to different needs. Well, I don't have much to tell you.

Q - Vitor Tomita {BIO 19238819 <GO>}

Very clear. Thank you very much. You've helped. Thank you.

Operator

(Operator Instructions) Our next question comes from Caio Moscardini from Santander. Please, Mr.Moscardini.

Q - Caio Moscardini {BIO 20856018 <GO>}

Good morning, everyone. Thank you very much for taking my question. And my question regards to NPS, and we have a very good impression of the results you have reached this year. So how does your NPS compares to the competition? Is it above or close to the levels of the competition? And the evolution of NPS is being reflected in a lower acquisition cost. This is going to be very important. Haiama. Thank you very much, and congratulations for your work and good luck in your new challenges.

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

Caio, well, NPS. No one publishes their absolute NPS, we don't and they don't. So, we have no way of comparing ourselves to the competition. So we like to compare with to ourselves. And so when you get the digital, we see numbers that are very, very high and that are for and benchmarks that we look at, and this is much higher than overseas. Geraldo always wants to get better and we must get better, and so we compare -- we are comparing our own performance to ourselves in the past. So, we think that this year, acquisition costs are going to be slightly lower and will be much more accurate in terms of everything, we have made some significant changes in the structures. We don't publish, but if you are impressed with the numbers that we are having with this campaign, with Anita [ph] and Juliet, (inaudible) offers.

But I think that, if you can discover the secret of engagement community the feeling that we see very, very clear in Qconcursos and we are trying to replicate many of the practices that we are seeing there. This is going to be a leap forward. It's not just overnight. I think, this is a process that might take one year or even years. But our midterm expectations, if you have much higher engagement of our students to bring their friends and family to us. I think that the numbers we are showing already demonstrated very strong reversal of a perception that existed in the past, especially for on-campus educations. We really looked after our Campy [ph]. There's no Campy web problem with elevator, air conditioning, bathrooms, Wi-Fi. So we're spending just as much as we used to spend before.

The teachers and our level of engagement is as high as 80. So the teachers who suffered a lot in the '17 and '18, we are forced to do the cost adjustment that I mentioned, but thanks to them to doing it. We are very competitive today when we are able to keep our operations and now you're expecting to resume our growth. So our pain in '17 and '19 helped us and especially with what we did during the pandemic. We didn't fire people, we preserve those salaries and paid full salaries. So we're seeing engagement coming back and we are sure that very soon this is going to be reflected in our acquisition costs. So thus we might get to two-digit drops over the next few years.

Q - Caio Moscardini {BIO 20856018 <GO>}

Very good, Parente. Thank you very much.

Operator

Our next question comes from Lucas Nagano from Morgan Stanley. Mr.Nagano, please.

Q - Lucas Nagano {BIO 22384333 <GO>}

Can you hear me?

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

Yes, we can.

Q - Lucas Nagano {BIO 22384333 <GO>}

Well, thank you very much for taking our questions. We have three questions. (Technical Difficulty) first one about the average ticket for on-campus education. I understand that there was an inflow (Technical Difficulty) of new students, where you were more aggressive after the result of (inaudible)? And the other question is about hard work, what is the potential that we see in this market. And do you have any tensions (Technical Difficulty) of physicians. And number three is about the subscriber base of Qconcursos been flat, is this seasonality or have you reached a stable level of growth?

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

Okay. I'll answer your first question. Marina will answer the second, and Aroldo the third. Marina, CEO of Premium Unit. And Aroldo is the CEO of our Digital. Well, about intake of students that the average ticket. The average ticket is not really different from what we had last year. We look at the ticket on month seven. If we look at the ticket over the first six months, it's higher than it was last year, because in the actual truth, last year, we had a campaign is Estacio has paid. We had three monthly dues and three exemptions. There were -- now we have three monthly dues discounted. So, there is no significant difference in intake ticket, because there is a high different Lucas is the sized. The base, the intake base that we had last year over our existing base of students was much smaller than what we have today. So, this number is almost twice higher than we had last year. So, we had intake over existing base. This is why this number is over, do not expect a reduction of in tickets in the midterm. Marina, on hard work.

A - Marina Fontoura

Good morning. About hard work, the market of preparation today's about 1 billion and because of the growth of vacancies in medical schools, because of the more doctors program, this is a market that is very much likely to double along the next five-years. More people with a more competitive market vacancies for residencies do not evolve. Hence the vacancies for the medical school, so the competition to get a place in residency is going to get future. And that's why they are going to their -- we're going to have more students in the preparation courses. And so it's very high, very high engagement, very, very high NPS in two years, we were able to implement a very solid operation and we understand that we have a lot of space and we really believe in our team, and our execution capacity for to make the business much more relevant in here over the next few years.

As to other things in medical education, this is something that we've been looking at very carefully. There's a layer of operation that we should do in a more organic way, especially related to postgraduate courses. And also in terms of filling the gap of vacancies for resident seats and we're aiming that we want to do it organically internally through partnerships in the area of health. And there's another layer that we see that is inorganic, and we've been looking at some opportunities that might reinforce our ecosystem. So, this is a construction, we've been looking at the process and we see that with very good eyes. And we are going to do that in time.

A - Jose Aroldo Alves Junior {BIO 17175301 <GO>}

Lucas, good morning. About the Qconcursos basis last quarter, and this has been our prices policy. We decided to be slightly less aggressive and there's stability in the basis did not happen to revenue or to the bottom line. This was just our price policy that was specifically and very seasonal. And what we saw is that we had very good result.

Operator

Thank you. Our next question comes from Natalia (inaudible) form CPP. Ms.(inaudible) you may ask your question please.

Q - Analyst

Well, my question has been answered. Thank you very much.

Operator

We are now ending our question-and-answer session. I would like to turn the conference over to Eduardo Parente for his closing remarks.

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

I think that we have shown you the solid foundations that we have built. We showed you a year that even though this is the second year of pandemic. We demonstrated resilience of our business, very much because of what they built in the post PS [ph] scenario. And we have the possibility, the potential to go on growing even further, and this something that we have been demonstrating quarter-after-quarter we have been increasing and in growing our business. Quarter-on-quarter for like, the more than 10 quarters. And also the important contribution from on-campus education, that is coming our results for the first quarter are going to be very interesting, but a significant growth as compared to last year. And from then on, many good things coming. I would like to thank you for your trust. I would like to thank the shareholders for their trust. And I hope that, we may come back in May, for -- with very good news for you. Thank you very much.

Operator

It looks conference call has now ended. We thank you for your participation, and have a very good day.