

Q2 2020 Earnings Call

Company Participants

- Eduardo Haiama, VP of Finance and IR and Member of Executive Board
- Eduardo Parente Menezes, Chief Executive Officer and Member of Board of Executive Officers
- Rogerio Tostes, Director of Investor Relation
- Unidentified Speaker

Other Participants

- Marcelo Peev dos Santos, Analyst
- Samuel Alves, Analyst
- Susana Salaru, Analyst
- Thiago Bortoluci, Analyst
- Unidentified Participant
- Vinicius Ribeiro, Analyst

Presentation

Operator

Good morning. We will start in a few minutes with the earnings call.

Rogerio Tostes {BIO 6148759 <GO>}

Hi, this is Rogerio Tostes, Director of (inaudible) of RI of -- I apologize for the delay. We had a little bit of a technical issue with the platform. Now, we're going to have the presentation, but done by Eduardo Parente and you can see our presentation in the RI, Investor Relations website of YDUQS, and we have the simultaneous translation into English. So, Eduardo Haiama will share the pauses, to facilitate the work of the translator. Now during the conference, we can type asterix 02 this conference have well, these are predictions about future events that do not -- well, the Company do not takes responsibility for any issues that might take that any changes that might happen in the market. The predictions are solely done at the date of the call, and are merely predictions.

Now I give the word to Eduardo Parente, to start the presentation.

Eduardo Parente Menezes {BIO 16707188 <GO>}

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Hi, Tostes. Thank you very much. Good morning. Thank you for being with us in this morning. Hope that everybody is healthy. So, I wanted to start our presentation, by saying, well this is the earnings call and you can see the opening remarks here on Page 3.

First, we made a lot of decisions in the past, and we were a little bit concerned and maybe we were too conservative. And that conservatism is now paying off. The first one that we look in the accounting context, the payment of the installment, the self-pay is one of the alternatives, and many people embraced that idea with caution. And it's been about a year -- that now -- that represents about 1% of our basis, and the student that leaves about it starts, we have 5% provision for them. Now, our financing sources, they're always talking to us, right now, for the launch and eventually in the future, we might consider that. But if it's done, this is going to be a very clear project and a very adequate one. We are very trustworthy and say and we are know about our value and growth and we going to pass that on to our shareholders. And we are working at the limit to finance our projects.

Third point, it's the expansion itself. Now, we had dozens of opportunities, we had three big ones, with over the past few months, in the M&A. Well, we should -- we actually have only a few of these options. We can count them in the fingers of our hand. We're very cautious on the M&A, and we're trying to make the correct decisions. As a consequence, the cash generation for the quarter, it has growing. Now, whenever we talk in the call or whatever interaction we have with you in the future, we talk about the 3 basis for the growth of the M&A. They are -- they are cheap because M&A in the end is here, predicted in the expansion, while medicine is the most of the expansion that we're doing the -- or that we have done, recently we have done a few premium acquisitions and now, we have had a lot of results.

We are looking at the -- distance learning is growing, and both models are growing and M&A, we had six acquisitions with the EBITDA of 4-5x. The net EBITDA over EBITDA is 4-5x. And when we looked, we have a very big year for 2021, and we consider that this is the year, is that we will finally start accelerate -- to accelerate the issue of the post-FIES will be done. And when we had the crisis of the COVID-19, well, first we were worried about the safety of our employees. Our students, of course, and everybody involved in the operation, but once that is past, the big concern is that 2021, we will accelerate our speed and we have to start from the inception. Or the concern is, while we had the pandemic situation, we have to preserve our base, our student base, decrease the dropout and maintain the financial results.

So once we leave this crisis, we have an absolute and relative position in the sector, that is ever stronger and this is what we could achieve. Therefore, the base has grown the dropout much better than the scenario at the beginning of the quarantine, with the cash. Well, the almost BRL2 billion in cash, the net debt is controlled, and cash generation very strong in the quarter. We have BRL250 million in recurrent values COVID and non-COVID. And when we look at the core of the business, and looking at the ahead, we have a revenue that is increasing 11% and a variation of 5% year-on-year on the adjusted EBITDA, even though we had a drop with the FIES. When we look at the post-FIES post-COVID, the numbers are still encouraging. We are doing, re-adjustments.

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Of course, we are also taking into account hygiene, washing hands, everybody is taking care. There are some good things, there are some things that need adjustments. We have students and teachers that are getting used to the digital world. The distance learning, the remote learning (inaudible) you say, and everybody wants to maintain their networking, get to know maybe a significant other. And in terms of onsite, these are people that still want the onsite experience. Now the onsite, of course because of the legislation issue, it's done exclusively now remotely. This is what legislation allows, and we have much more comfort to extend this and to bring this in a more -- in a more welcoming didactic, a better experience for our students.

So let's talk about that up ahead. Now, our investment in digital learning has brought excellent results. Now the M&A's are still on the agenda. As it was mentioned, and they will continue with -- what -- with our plans. We also have the possibility of an inorganic -- inorganic growth, if there is an attractive option.

Now let's go to Page 5 please. You can see the graph. Let's talk about the three levers of growth. Page 5. We start with the distance learning -- digital learning. We have a strong growth in the base of -- the student base, you can see here. Therefore, the important thing, you can see the net revenue that the distance learning or digital learning, and on the left at the bottom in the graph, we have a strong expansion of DL centers. This is one of our strengths. Our business model requires a low investment and once again, basically everything else has variable costs. Therefore, when we look at the number of DL centers, 1,200, we grow -- we can see that this represents a growth in the industry. I think you can see up ahead, 53%. During the pandemic, we opened over 100 DL centers. It is a very strong moment in the quarantine.

We have all the content of our brand, we are producing the content with different brands. We are working with the second semester, very well. We are launching the brand UniFanor. We have the traditional digital learning that you know, we bring new features for this courses as meeting with a Tutor, with the Professor. Therefore, we can bring a higher ticket for this cost and Ibmecc, well we do not have distance -- digital learning. But there is a big advancement in MBA's that had the tradition and we are advancing in the digital learning.

Let's go to Page 6 please. Second lever of growth, let's talk about medicine. Now, on the left, in the graph you can see the growth of the student base, and we have the growth -- the maturation actually over student base with authorizations from the government. Here you can see in darker, there is the expenses for the acquisition the slots. And we have in the second quarter of 2020, the entry of Teresina, that's the unit of Adtalem in the state of Piaui. Now, on the left, on the graph, you can see the total growth of revenue, 35%, even though we had to provide discounts and this represents 11% of our of the total revenue. You can see BRL114 million.

Now, you have to understand the table very well. On the left, in blue, we have today's reality. So when you look at the first Slide, President of Vargas in Rio de Janeiro. We have the offer I see, so student base 1,500. Now, when we go to Jaragua do Sul, SC, it's very clear that we have 50 authorized seats and 114 students. Well, we have a course that still has a lot to grow. So, in the space its maturity of seats, we can see the authorized seats

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and the full potential 150, you can see on the right on the graph, in grey, we are still under development. And we start to capture these students at each of these courses. Our prediction on the right is the potential, the full potential for expansion, authorizations that were given by the government.

We have a tradition of success. Juazeiro do Norte, we have 150. Sorry, Juazeiro only, not Juazeiro do Norte, 155 seats. And this shows and as they will be 15 units, is that we can expand 3 times our current student base, simply by doing CapEx, and working to have the government issued authorizations. We don't have here the 3 units, is that we have another 300 seats, to the official government publication, the area [ph]of itself, we have another 50 seats authorized. So this number of 16,000 will be higher if we continue to update those numbers, but we have the good numbers, the extra 50 seats that were authorized by the government.

Let's go through our third lever of growth, Page 7. We have three successful operations, as I mentioned that over the last 9 months. We can see 30 -- we saw 30, 40 opportunities altogether. And we underline them all. Now, in the three that we paid, we paid less than what was negotiated at the time, and then the three, we know that with the synergies we had only a fraction of our multiple and the EV over EBITDA of the deal. So, 100% concluded with UniToledo, Adtalem very well. We had the quarantine and we were 50 per -- we had 15 people at McKinsey helping us in the identification of one-on-one to the opportunities that are being presented. And Athenas, which is more recent, we are going at a higher speed than the previous one. But also, we have to take into consideration, our capacity to the bring digital learning to update us. Now, we have -- we are capturing 4% higher than the previous month. These are the three levers for success.

And let me go into the details on Page 8. I think this is our biggest acquisition, Adtalem, and we announced BRL80 million of subsidies. We had in our math, a number that was recently -- reasonably higher, but being conservative, we decided to announce only what we were certain. Now, we have mapped initiatives to get to BRL170 million to BRL200 million on the short-term, 2024 FY estimated. And we are talking 60% -- 70% of costs, 30%, 40% in revenue. And the plan is to get, at the end of the year, with a third of that value captured.

Please, let's go to Page 9. And the context that we have in the pandemic, during the quarantine the focus is -- the focus in the student base expansion and maintaining our financial robustness we have today, in this quarter. We have the biggest on-campus onsite. Well, the number of students in Brazil. We can see here the number 900 -- well, 753,000 students. If we didn't have the numbers of Adtalem, we would have to reduce 14%, this quarter versus the quarter of '19. On the right on the graph, we have our dropout rate per semester. The students leave into play in the two types. We call it a drop out when they renew -- well during the semester, we call it drop outs. At the renewal time, when they do not renew, we call it non-renewal. This would be a good number, but we have to see the reality, is that the renewal at the beginning of the year plus the dropout is, we want to show you the clear numbers. The dropout rate, as a people that leave the course through the semester, that number has increased a little bit on the on-campus, but it dropped in the digital learning. We have the new technologies in digital learning of course, and that decreased the dropout in the intake and renewals.

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Now in the on-campus, the drop out grew out just a little bit, in comparison to what we expected and in comparison to what we see in the other higher education institutions. We can work with discounts, we can also -- there is a strong issue with quality. We have good quality in our operation, and we have satisfaction in at least 94% of our student base. And the 76% real time presence confirms that, with more than 80% having asynchronous presence watching the recorded classes. The other side of preserving our financial solidity, once again, we have the reduction of the fee as student base, this is always a source of we're seeing our revenues.

We are at Page 10 please. Let me, well, they told me to speak a little bit slower. The FIES base today represents, while the old FIES, it represents 8% of our on-site. And we have the total base of the students, this is the -- last year that we have a big impact. And on the right, we can see the evolution is something that we have -- we are very proud here. And I mentioned being conservative before, on how much cash we are expecting well before. And when we look at the -- what we generated over the last 6 months, we generated 21% more than the last year. We also have an impact in the indebtedness. It grew 2x and we have BRL1.9 billion in cash position.

Now Page 11. This is something that we've been working for a long time. But, because of the strategic converge relationship, and also being conservative. We will now talk about these things, that are certain. We talked very little about about our teaching system. Now, on the left, there is the teaching system itself, that we started in the first semester of last year. Looking at the undergraduate digital base, we understand that we have a better format for the market. Easy, they speak the language of the students. With text research questionnaire, we go back to the course, so this is the way that is a didactics, so easy to engage. And today, we understand that this is a scale where we can do a substantial increase inner content. When you bring our high standard teaching to the digital learning, you were diluting that into a big effect. So, it's been one year and a half, that all of our digital learning has the teachers in different disciplines, and this is one of the reasons that we consider strongly here, bringing Adtalem and we have the people that can help us use the digital tools to elevate the center of the classes.

This is our dream, this is our project in 2020. Just so you know, we have over 350 disciplines produced in this format, in Ensiname. 56% of freshman but they read with 100% of the content with a high level content Ensiname, and we think that this will bring a big impact in the digital learning. We -- you can use this at any brand. It's not brand that we have it today is, Estacio, UniFanor and UniToledo. And when we we don't use all the brands, we have the capacity in the first day and we can optimize the cost on operations, and also salaries and etc. While this is the first step and this is a reality, and we will go over 70%. And we innovated, we had the courage and we want to bring this to the onsite world. Well these past year student the and the logic level is not a reality and the logic is not a reality that he lived And we are doing a very strong pilot, with this teaching content, using the digital learning that would substitute the Analogic learning and the classes. When we go to the pilot classes, the students are have more ease, a lot of them have iPads, have cellphones, have tablets and they can go and see the pod casts, see the video, see the content and the level of prepared notes that the student arrives is completely different, than what we used and when we use the analogic teaching system. So, now we are taking that, we're substituting the books, by the materials that, well for

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the onsite students as well, the same effect that we with the digital learning. The class is more centered in the Teacher, organizing the interaction of the students based on what they had before.

And we really did a deep dive of this, 340,000 students, we have 80,000 students studying in this reality, in the Aura and this has transformed both the disciplines in the digital world and onsite. There will be a part, therefore that the student will have to sit by themselves and then go and work with the student -- with the Teacher. We have 1,000 of 50,000 students that have the onsite and digital learning, and we can get to the limit of 40% online with a very big improvement and the experience and the didactics of the students, that we have here in our teaching system. Another benefit of that is that this stabilizes the number of credits. And the big concern of NPS, which is the adjustment of the monthly fees per month. But for the students.

I'm going to change to Page 13. The non-recurring events in the quarter. So, we have a lot of actions. -- The actions that we take with COVID-19. First one, Estacio Com Voce or Estacio With You or Wyden With You, Wyden Com Voce, in Portuguese. We understood that from the standpoint of social responsibility and also to preserve our student base, the -- well, giving a discount is not the most important thing -- it's not the most important thing, because if you've lost your job, you're not going to pay 80%. So even to be very aggressive and hear the story of each student, the result of that is that we benefited 31,000 students in a very emphatic and personal way. We had 29,000 fully exempt monthly tuition fees and 94% of beneficiaries come with a house -- come from a household that has income below BRL3000 a month. We understand that this is the right thing to do. Helping everybody that needs, and this is also good for the business. And we are working to retain loyalty at the moment that people have difficulties. Another thing that is important. And I would be well -- we have a big financial robustness, and but by saying that I would reducing the salary of our team, that would it make sense, but, and we haven't done that. We maintained the full salaries of all employees. Therefore we commit to the team.

And even the ones that the government helped, we worked so people didn't have to wait for the government. We never stopped keeping the salaries in full. Once again, the teachers all kept their times, their working hours during the semester. And we have a great pride in that. We are doing the adequacy of the units, with -- and also the hygiene and their conditioning Systems. We are working with Mangalo, Oi, TIM, Vivo to help the students that didn't have good Internet and these are 5,000 students that were benefited. So that people can actually have access to the content and we have had a big effort of a lot of people and our 15,000 employees to make this work. Of course, this has a cost and I will go to Renato, and he will detail the cost.

Eduardo Haiama {BIO 7279971 <GO>}

Thank you Parente. Everyone good morning. Let's go to Slide 14. Let's talk about Numbers. Basically in the quarter, we had an impact of \$250 million. The impact on the EBITDA in the second quarter and I will go line by line to explain. The first one is in the revenue, which is related to the program that Parente mentioned, with Estacio com Voce, why they, com Voce, and also with the discount and the -- by the laws and court decisions, is that

reduced our revenue in 65 -- BRL67.5 million. It's important to mention that we are very conservative, we put up adopted a practice of launching the full in place and with that, the reported EBITDA in the financial results would be higher and but being conservative. As we are, we think it is more prudent to show this discount that is impacting our results, and obviously, reducing the turnover to the cash flow. Now, another point, BRL67.5 million it does not include other impacts that certainly we did have in capturing the students, especially in the onsite distance learning, we already commented, that it grew its our life but as I say, but on-site. We also had (inaudible) but also in the retention of students, we had direct impacts.

Secondly, costs. We have -- we are reporting here the benefits that we have in the non-recurring such as the MP 936. The negotiation with providers, we had some help in that sales of BRL14 million in the quarter -- in the -- in the semester. But we have to mention what we commented in the Slide -- in the previous Slide, it could have been higher, but since our intervention, we think that it's better to keep the full salaries of our collaborators and that has brought in a cost, none of that we understand that this is the correct thing.

Now, third line, commercial. We have -- that we can see these provisions on the right, but one of the provision from the past FIES, and the other one, that talks about the conservative of our conservative numbers in the FIES. We are in comparison to 2018 and back, and '19 being a part of that. I'm just going to comment this very quickly. Basically we have today, apart of this value that would probably be, it's hard to -- in the future apart from the student part from the government, we understand that the moment is not right now to do this. And as time goes by, the probability decreative since we have an uncertain time in economy and we don't know how is going to behave. We are going to provision this amount. In the case of COVID, if we are going to follow our policy of provisioning, for our TV, you would probably just see the result of the financial results in the fourth quarter. Now here we are more conservative. Once again, what have we done. We compared with the days in the second quarter of '19, but, in second quarter of '20, an increase of invoicing. We provisioned it -- that's why, there was very little increase if you look at our balance sheet. And this is -- we had the incorporation of segment and there is no growth. It is relative.

And the fourth line, taking about the contingencies. We launched an addition of contingency of BRL54 million. It's important to mention that this is not for the quarter. It's related to all -- now older causes. And this is a work that we've done in the Company for over a year. Well, not only take into account our strategic processes, but also best practices, on how should we proceed up ahead. Well its typical to say to get to know the contingencies. We also have had and we will continue to have the help from M&A consulting, but the -- this is a small chunk of the investment, but it's important to mention that these are the expenses.

The last item you are used to seeing it. Well, once again the M&A are very point operations.

Now Slide 16. Revenue. The net revenues adjusted here, the 11% in comparison to the previous year BRL67.5 million is non-recurrent. Well, a little bit, part of that is because of the scholarships. And just one for a discounted -- discounts granted due to laws and

FINAL

decisions of the court. And another point that is very interesting. We have our three levers for growth. We, in certain we talk about of them every quarter, which is distance learning, medicine and M&A. If you add the incremental revenue of these three items, BRL61 million, BRL22 million, BRL123 million with Adtalem, you will see that it was a double of the drop in the FIES. So, we can see here, there was the drop in the FIES, BRL103 million, but there was a growth of over BRL200 million, in the revenue. And we would have grown our revenue 13% and distance learning would have in -- would have added 44% and medicine 35%.

Now, Slide 17. And the part of the evolution of costs and expenses. We have the inclusion of deal preparation of Adtalem for two months. And these effects non-recurring effects, that are documented here on -- are documented -- they are documented on Slide 14. This main point, if there is a seasonality that happened in the costs, it's not an increment itself. That is very relevant in the part of PDD. Of course, as you reduce the revenue of FIES, you will incorporate new revenues. And in the end, which is the part of cost of services, here is the operational numbers that are improving.

On Slide 18. There is a growth of 11% in the revenue of Adtalem, with 20% of the cost and then we got an (inaudible) EBITDA, where the reported EBITDA is BRL111 million more the adjustments are BRL327 million as I commented. Since we are very conservative in the way that we report things, we recognize the different by the laws, and we will anticipate potential PDDs, in the third and fourth quarter. If it wasn't for that, detailed wherever is less. Now the main point in the Slide is the graph on the right, which is the operating cash flow before CapEx. Which grew almost 50% year-by-year -- year-on-year.

Now, I give back the word to Eduardo Parente.

Eduardo Parente Menezes {BIO 16707188 <GO>}

Thank you, Haiama. Now looking up ahead. We are very trustworthy, said our position here in the market is becoming a very stronger. Our capacity to give answers on the short-term, the base is growing, the cash is grow -- the cash flow is growing year-on-year. The levers of growth are all here. They are unchanged, digital learning growing 44%. With a lot of discipline. With every M&A that we do, and the perspective for the future is that in the first week of classes, we have people live, our record was 79% of people that were in real time attendance, in the first week of classes, and in the second week 70%, and the first week 72%. We have the fifth with the renewal of the on-campus and digital learning, and the unit of learning that we have -- we also have a very natural growth -- very steep growth. And we have a very comfortable position.

Second quarter, the big factor that impacts the second quarter is the renewal, we have 70% of the facts concluded, and it's 90% above the FIES, with the re-enrollment on campus in comparison to the second quarter of '19. And in digital learning, we have renewals at, well 50% more in comparison to the second quarter of '19. This leads us to believe that the word is past, and now we can regain -- restart our growth plan. And we will grow strongly next year. Thanks to all the measures that we've taken into account.

Thank you very much. Now, we will go to the, to the Q&A.

Questions And Answers

Operator

Ladies and gentlemen, please. We will start the Q&A. (Operator Instructions). First question is from Mr. Samuel Alves from BTG Pactual.

Q - Samuel Alves {BIO 18720076 <GO>}

Good morning. I have my thoughts with everyone. Two questions. At this independent theme and this initiative of these scholarships and discounts. And lot of the court decisions, if you can talk about the resilience of the student base to avoid the dropout. How the students were benefited. Is this base still in the Company? As a second question, if you can do a breakdown of what was the scholarship or was it discount. That's it. Thank you very much.

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

Thank you, Samuel. I hope that you're doing well. Well, I thought that is very nice, is that you realize to perceived the impact of this initiative. Yes, in the end we have -- we're working with education and we want to understand the situation of each student and this is a valuable thing to us. There is the issue of preserving the student base, and we can classify our students using artificial intelligence to do so. And taken into consideration, there in a history, their presence is over all of our students, and it's in the app of the teachers, you know what is the students that is led on remain, the teachers work with that. We have a comparable base. Our students that -- of course there some of that -- some of their were going to have more of a potentially for the dropout, some had difficulty in the pay, and we could compare them exactly. This is not an estimate it -- these students -- Estacio com voce versus the student in the same profile that is not in the program, Estacio com voce. The difference is 30 percentage points in renewal of the students that are in Estacio com voce program.

Now, second question, the distribution of the BRL67.5 million. The third, the scholarship, two thirds discounts.

Q - Samuel Alves {BIO 18720076 <GO>}

Perfect, thank you.

Operator

Next question from Susana Salaru from Itau Bank.

Q - Susana Salaru {BIO 16170633 <GO>}

Hi. Good morning, everyone, good morning Parente. We have two questions here. First, about the receivables. Looking up ahead, how is this evolving and if it the same, and also

in the margins, first question. And second question, regarding the previous question. When you say it's a third or two thirds of scholarship, the third of the scholarship is restricted to the quarter or is it a scholarship that is higher? What is the timeframe of these scholarships? Thank you.

A - Eduardo Haiama {BIO 7279971 <GO>}

Susana, hope that you're doing well as well. I start with the second one. And then I will give Parente to answer the first one. In physical say program, was basically everything 90%, within the quarter that you are perceiving. Now, we do not see today, the regrowth but this is a lever that was exceptionally efficient and we can consider this, maybe as an extension for the semester. We are still analyzing. So it depends -- everybody is going back, it doesn't make sense, to configure the feeling of the big volume of Rio de Janeiro and Sao Do, the states where the situation is improving, and the worst has past and we won't have to go back to that, but this is a lever that we have in hand.

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

Hi, Susana. In regards to the receivables, I could give you an answer that is very positive and say there is much better, but it would be wrong to affirm with 100% certainty that at the beginning of each semester, the numbers are better, because now we have the renewal, we our invoicing is low, during the renewal period. And this is what you in fact negotiate any delays to renew, because if you are have indebtedness, you are -- well, we've improved since June, since the end of the last quarter, but it's still early to affirm what is the degree of improvement, but certainly the cash is better. Thank you very much.

Operator

Next question. Mr. Marcelo Santos, JP Morgan.

Q - Marcelo Peev dos Santos {BIO 17186991 <GO>}

Good morning, everyone. Parente (inaudible). First question. Two questions. First, comment a little bit on what you see the onsite transforming post COVID, how do you think that it would be -- how dramatic is the change in behavior of the students with the different types of courses, can you -- what can you tell us in the context of (inaudible). Second question, talking a little bit about the teaching system in the classes. Do you see a potential for selling abroad this model. And you imagine this may be working -- that's happening in cities where you do not work currently, can you expand on that?

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

Thank you, Marcelo. Marcelo, I think that we have, once again, going back to the lever of being conservative, we have our units four, if we had profiled more, if we had our numbers where we went to a drastic change. It's very relevant for the footprint and you have to offer an option for the students and definitely, this is not the case. As I mentioned before, we believe that there is going to be social distancing in the onsite units, but we don't see any relevant changes in the domain for the onsite. I think that Aura is over a very intelligent way, results for smartest kids, that we implemented to integrate much better the onsite, with the digital learning. So, we have the students actually based at home.

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Today, on-site -- well, in the end, we have one -- a one stop shop. And not only that improves the didactic, the experience, that improves the perception of the student. This is the relevant change and now, they will have the teacher, but the teacher will still have to work with the student, and the student will have to do a lot of homework. And once again, we have -- we know what is the -- who is the student that watch the video and then what's the video, you can ask.

You can see those that participate. It changes the experiences from both sides, the on-campus and the digital learning experience. In regards to selling well (inaudible) very small pilot to try to understand, how that could possibly unfold, but this is so far away that it would be irresponsible to talk about this and generate any expectation in that sense.

We had in the higher education in -- we -- the K-12, we have much less participation in the market, for you to earn money in the tuition system you're necessarily have to lease your universe. Since we have a relevant share in the higher education, we believe that they generate -- We generate a lot of value in-house and there is a big competitive differential. So we believe that this is important, this generates a lot of value, it generates a lot of growth, but it's still very early to consider any business growth, expanding that outside of our home.

Q - Marcelo Peev dos Santos {BIO 17186991 <GO>}

Well can you comment, you're talking about the results renewable about the intake?

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

Thank you, Marcelo. No. Well the intake is a little bit delayed. The student is looking at the future and how things are going through and (inaudible) where they're going. The distance learning, digital learning is growing much, much higher, than the CapEx. We don't have 50% dropout rate. That doesn't exist. We think that we're going to have an intake that is much like the one in '19, which was going to be a change in the proportions of the oncampus percentage online.

Q - Marcelo Peev dos Santos {BIO 17186991 <GO>}

Prefect, thank you.

Operator

Next question. Mr. Thiago Bortoluci from Goldman Sachs.

Q - Thiago Bortoluci {BIO 20909105 <GO>}

Good morning. Thank you for your presentation. We have two questions. First, in regards to PDD. Well, as you explained (inaudible) and in COVID, well, we want to know about the bounce, how is the dropout and do you have a risk for a hope provisioning up ahead? Second one has to do with digital learning, we have the student base, how will you choose your partners if a academic model, the infrastructure, the geographic position and depending on the answer, what are the impacts for the profitability in the future?

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

Thank you. Thiago I'm going to turn the second question with (inaudible). He is our VP of digital learning, and then we can answer the first question.

A - Unidentified Speaker

Okay. Good question. In regards to how to be assured that we are growing. Within the strategy of using different brands to reach in different public, we grow well, before we only use the Estacio brand, and now we have quality products that we already mentioned, we have new brands that are promoting growth and everything has to do with that. Now, we are commenting a lot on the project that we have, a big project is that, we want to follow-up on the profitability of the DL centre, reducing the cost at the DL center. And we want to reach these small cities where the competition is lower, and sometimes we get have distance -- digital learning opportunities we have to differentiate the product brand and that is how we respond to the expansion.

A - Eduardo Haiama {BIO 7279971 <GO>}

Thiago, thank you for the question. In regards to -- well, G&A and selling expenses PDD, well there is no additional risk. Remember that our provisioning policy is very conservative. As Parente has mentioned before, PDD, it will -- we are provisioning very quickly, and we -- while our base is a small level, FIES. So, the impact -- is almost irrelevant. It's 1% of the base and the turnover -- well, it's very difficult to expect some operations in the past -- in the future.

Q - Thiago Bortoluci {BIO 20909105 <GO>}

Thank you very much.

Operator

Next question from Mr. Vinicius Ribeiro from UBS.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Good morning. Hope that everybody is doing well. I have two questions. Both about Adtalem. How do we explain the synergy? Well you have an FX of being conservative or do you -- well I think have uncertainties or are indicative about the levers of growth. Second question, about the capturing in Adtalem. The question is, does anything change in how Adtalem needs to work? Is there a different approach, when can we expect and is the capture of students for the second semester, in the context of Adtalem? Parente Menezes?

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

Okay. Exit of being conservative. Well, I wouldn't call it that. We always like to talk about the numbers and we are certain of -- we want to be certain of the numbers. Well, these are the 80 and we thought that we had more. When we did the detailed analysis and we could get the numbers very quickly, we thought okay, the number that we have today is, the numbers are - we are certain, up. Therefore, this is the evolution. And now, the other

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second question. Admitted to us, it doesn't exist. We have several universes. And when you look at [ph]IV neck is one thing, which is very criteria to actually, we don't want to, we want to increase the power of the brand we don't want to change things with IV neck. We are spending more money in marketing and we are working with to bring different teachers with a better curriculum so the universe, all that talent there is a big chunk which is to widen. Now, we don't see it as widen, has its own reality and we have unit of only from what we are bringing it to digital learning, that we can work with it as premium and indeed digital learning. We have four units setup for a faster and we don't want to change the brands there.

That's why, where we have more units that we have such a non-starter. We're working with the different position, but we are really have a lot of technology to capture these gains. We have done our home work, what we had a big turnaround and you like three years and we say well we've done earlier on, a lot of money and the success on the pricing of the digital learning tools that capture -- well now we are capturing all the students digitally, because at the time online. So we have a lot of technology and I think that clearly the competition was behind us.

And also you have the culture, that doesn't view that work, with the start of our long time - - well, we even before the IPO, we are generating results. We want to reach our goals, almost widen it has a different experience than what it was a few years ago, in terms of capturing their students. Thank you.

Operator

Next question. (inaudible) from Credit Suisse.

Q - Unidentified Participant

Good morning. Thank you for this wonderful opportunity to ask the question. Well, congratulation for being conservative. In fact, what you have invested now is paying off. I wanted to know more about the perspective, the effect of COVID-19 they are -- they have been credited in the short term. Well COVID should generate an economic crisis that is much more serious up ahead. What have you thought about optimization of costs? And that's sort of same, they can preserve the Company, with the decline in the onsite teaching -- on-campus teaching in comparison to the digital learning?

Second is, well something that can be perpetuated in the future. There is the discount, there is the scholarships, I know that you're being very conservative, but is there anything that can be extended on the long-term? Thank you, moderator.

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

Welcome once again. I'm going to let (inaudible) start.

A - Unidentified Speaker

Sure, before we start. I think that we are in the third wave as we call it, the first one was FIES, then there is a crisis, and now COVID. I believe that this will differentiate those in the

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market that are optimized not, some competition -- well they get the work that we've done, a few years ago. They are just starting and I think that is very healthy. And I believe that the lifespan of those that have scalability to produce quality content in the digital world. And if you don't have a student base, that is relevant, I think that you're, that is in the very difficult if you don't have those two things. So, I see the ticket and I see that we are reaching the limit of what the optimize operation can withhold, but I believe that us and others that are optimized, we have scalability and we have the chance of having an on-site and there is the reality that you just mentioned. I'm going to talk, give give the word to our VP of Operations, about the costs.

Well the work of optimization is constant in our CapEx, well as another point that Eduardo has mentioned, which is, we have an optimization that is higher. Not only an increment in the digital learning but also, in the integration of the costs. The same courses with a small number of students. They work in a more integrated way. And we have the indicator is improving and they are ever improving throughout the year. The direct impact of that, is the cost of teaching. This is our day-to-day and we imagine that we are going to follow up on those 9 models here. In regards to your question, just discounts and scholarships the expectation for the future in terms of discount or is the PDD or that at the end of the day is a loss of ticket for the future. I think it's two things. Well what do you imagine that will happen in the for the ticket.

Yeah. We do not -- but what we are doing right now, specifically for the scholarship with that's a wait conversely as Parente has mentioned, was specific for the people that really suffered a lot during this crisis. And what we are doing for some time, is changing our performance. Everything that we mentioned in digital world and other initiatives to improve the experience of the student. It's actually going and we are improving the retention, we want to improve their presence in the classes. In the end of the day, this is a service that we are providing with quality, that assures the sustainability of the business and not negotiate the discount. I don't know if I answered your question. I believe. Yes.

Q - Unidentified Participant

So you said that you had to do some very specific actions, but they are not going to have a long-term effect. There is not going to be a deterioration in the average ticket and this is the point of Parente, that this is the timeframe.

A - Unidentified Speaker

Yeah. When you look at what we are delivering, the ticket that we charge and the quality. That in fact we are producing, we understand, we have the minimum value already that we can practice in the market.

Q - Unidentified Participant

Thank you. Thank you for the answers. Congratulations for being conservative. This really makes a difference.

Operator

If you don't have any more questions, I would like to get the word to Eduardo Parente for the final thoughts.

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

Well, thank you very much. once again. Thank you for hearing us today and I believe that we can -- so we managed to be very transparent about the reality of what is going on. I believe that the level and the quality of the questions, also reflect on that very constructive ideas. Thank you very much. We are very confident with 2021, and we have a perspective for the second semester and we are the at the inception of the regrowth. Thank you very much. With that, the earnings call of YDUQS is closed. Thank you for your participation and have a wonderful day.

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