

Q1 2015 Earnings Call

Company Participants

- Rogerio Frota Melzi, Chief Executive Officer, Member of the Executive Board, Director
- Virgilio Deloy Capobianco Gibbon, Chief Financial Officer, Investor Relations Officer, Member of the Executive Board

Other Participants

- Bruno Giardino, Analyst
- Maria Azevedo, Analyst
- Vera Rossi, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, thank you for standing by and welcome to Estacio's Conference Call to discuss the First Quarter of 2015 Results. This event is also being broadcast simultaneously on the Internet via webcast, which can be accessed on the companies' IR website www.estacioparticipacoes.com.br/ir, together with the respective presentation and the earnings release.

We would like to inform you that during the company's presentation, all participants will only be able to listen to the call. We will then begin the Q&A session, when further instructions will be given. (Operator Instructions).

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

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

Rogerio Frota Melzi {BIO 16212298 <GO>}

Well, thank you and good morning everyone. Welcome to our conference of our results for the first quarter 2015. I have here with me Mr. Virgilio Gibbon, our CFO and also our IR team. I'd like to remind you that we will open up for questions-and-answers at the end of the presentation.

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So starting by showing slide number two of our presentation, which is also available on our website. Over the past years, I have shown this graph representing our history several times both to internal and external audience. As we always highlight, we had a long phase of our history, which began back in 1970 (inaudible) GP Investment in 2008, when we began the huge turnaround by the company under GP's management. At the same time, we had the discipline to keep our company in an almost stable level in terms of size and complexity so we could build a number of fundamentals that totally support our business.

From 2011 onwards, we began a phase of solid growth, which coincided with several tailwinds, as you can see in the third box on the slide. While we were aware and actually recognized that part of our evolution came from these external factors, we never agreed with the theory that were the key elements that drove our success.

A deeper reading of the fourth box in the graph, which deals with uncertain future clearly shows that we always had our doubts about this favorable scenario including a big question mark right next to the FIES. Our rationale is that just as it makes sense to seek growth as the cost of evolution we achieved in non-financial variables such as academic quality, student satisfaction and processes controlled, we also knew we could not rely our strategy on factors that are not under our control because we knew that this scenario could change at any moment.

That's why we have adopted a strategy that seemed conservative to the ones looking more to the short-term. There were less acquisitions; less news headlines; less awards and recognitions; less surprise; less FIES; less Pronatec, but at the same time, we had more organic growth, more standardization, more organizational culture, more differentials, more risk control, more processes, more innovation, more people aligned to our principles, more non-financial results, more branding and so forth.

In this context, whenever question about whether we intend to change our strategy due to the perfect storm our reply is always no, we don't. As a matter of fact, we think that if it were necessary to change our entire strategy due to the changes in the external scenario, it would be because we did not have any strategy at all. After all, strategy should not be created to anticipate or to guess the future, but rather to put a company in a position to pursue its goals in the long run regardless of changes in the scenario.

So moving on to slide number three, we'll talk a little bit about this strategy. On previous occasions, we have also used it as a reference. Author Jim Collins, the business scholar who separates successful companies from peers that at some point in time had a better performance and drew more attention than the winning companies, which Collins called 10x or 10 times companies.

To illustrate his views in the book, winners by choice, the author uses several examples from the non-business world maybe the most used case is the case of explorers Roald Amudsen and Robert Scott, who in the beginning of the 20th century tried almost simultaneously to become the first man to reach the extreme south of the planet. The region [ph] Amudsen ended up winning the dispute and together with his team reached the target 34 days before the arrival, while Amudsen returned to this base to celebrate

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the achievement with all his team members alive and well, Scott and his group did not reach the end of their journey perishing due to extremely critical weather conditions.

According to Collins, there are several factors that distinguish the two groups, but these are the main three. One, the extreme planning level Amudsen adopted, as he deeply studied and thoroughly prepare for the process. Two, a military discipline to execute the plan, which has lot of its key features the adoption of a steady phase for daily progress not abusing their good days to cover more ground and thus saving energy for the bad days and then using this extra oxygen to keep the patient conditions were not so good. And number three, an obsession, almost a paranoia in relation to the things that could go wrong during the expedition, which could eventually cost the lives of the entire group.

The center -- the bottom of the slide perfectly sums up Collins opinion about the so-called 10x leaders, who never trust their fate to what they cannot control. In this contest any resemblance to the recent FEIS case cannot be considered a simple coincidence. This is Estacio's strategy.

First, a lot of planning and focus on the long-term. Second, an enormous discipline combined with a lot of managerial techniques to methodologically and patiently follow these steps previously defined without nearly [ph] looking for short cuts nor being tempted by opportunities that arise. And third always behaving in an obsessive way to anticipate what might go wrong at some point. We consider result that's stemming from this strategy on the following slides.

Starting with slide four, where you can see our growth 13 quarters in a row of consistent EBITDA growth and margin expansion without ups and downs, without shortcuts and consecutive records high intake cycles both on the on-campus and on distance learning segments. This was basically all organic with the support of a series of medium and small sized acquisitions, which slowly and with a limited level of risk increase our growth potential.

The growth discipline combining organic expansion with acquisitions brought us to the math on slide five, which shows the national coverage we achieved. Our financial and operational results also draw attention since we achieved all of that in just five years without exposing the company to risks and complexity, and while preparing it for the future. At the same time, we kept increasing our capacity as you can see on slide number six. Just in the past six months, we opened six new campuses in the cities of Belo Horizonte, Recife, Sao Paulo, Salvador; one new campus and another one expanded and Fortaleza, where we opened our fourth building.

We must mention that this organic expansion besides increasing our capacity and allowing for a healthy growth base helps us to gradually reposition our branch since the new units are built according to the modern parameters used by Estacio already taking into account several guidelines for infrastructure, layouts, technology and service level.

We also maintain our discipline when it comes to inorganic growth. As you can see on slide seven concluding acquisitions that have proven to be right choices and which have

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literally become important in our growth process. It is interesting to highlight that Estacio itself after GP's arrival back in 2008 can be seen as a large sequence of acquisitions and integrations and that is standardization, centralization, expansion growth and margin expansion.

At that point, all of our units had to go through this entire process and now with a duly organized company and the learning curve at an elevation stage, we are ready to keep doing acquisitions and keep winning the assets within a certain pace, which basically means to repeat what we've been doing so far, but now in a much more control and less risky environment.

In recent months, we concluded excellent positions for Estacio. UniSEB, IESAM in Belem, Literatus in Manaus, and CEUT in Teresina and we intend to follow with the same discipline in the coming years. Aligned to our long-term plan, which we revised in 2012, we remain firm in expanding our continuing education area, as you can see on slide 8. The new area recorded a net revenue 284% higher than the same period last year moving from R\$13.9 million in first quarter '14 to R\$53.4 million in first quarter '15. We can also see the EBITDA evolution, which increased by more than 5,000% reaching a R\$17.9 million. This area is responsible for the new grad segment, which posted organic growth of 141% of its student base boosted by the new intake process to the intake center and by the intake center and by the new grad partnership network, which expands our distribution through our partners. We must also highlight the partnership with Harvard Business Publishing, which is a big differential.

Another front of these area is Academia do Concurso, which continues to grow by opening new branches in other states and more recently by entering the distance learning segment. We should also mention the short term programs through the Voce Aprende Mais, "You Learn More" portal, we offer a broad portfolio of courses in a wide range of subjects. One of the highlights is the PROAB, a preparatory course for the Brazilian Bar Association exam, which has its own portal and conveys every information related to the exam.

The corporate solutions area develops customized education solutions to large private and public companies operating nationwide. In the past month, we signed important new clients such as Natura, Deloitte and SEBRAE. Technical courses encompass Pronatec, which reached 17.5000 [ph] students in this first quarter. Pronatec offer us an opportunity to both improve our campus occupation and shape [ph] it with greater spar capacity and to strengthen our brand with the high school public interested in pursuing a technical carrier. Besides, we believe Pronatec students could become in the near future, regular students in our undergraduate programs.

While we grew in all these different fronts, we've remained diligently building our differentials, as you can see on slide number nine, as we have been communicating to the market for some time now. Among the several initiatives, it is worth to highlight the branding projects, which we reinforced (inaudible) our positioning through our brands, the ESPACO NAVE, which among other things largely start up NAVE [ph] program in greater aimed at developing entrepreneurship among our students and alumni. The corporate university called EDUCARE, which is already fully functional and is available to our faculty

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and administrative staff helping us to prepare our so-called people pipeline, which is a key element to support our growth.

The hospitality program, which aims to place the students as the reason for our existence allowing us to improve our service levels. The academic model, which was developed by 8,000 professors and is extremely innovative in high education and also the shared services center, which has 300 employees and integrates and standardizes all transactional activities, technologies and processes.

Also aligned with the practice mentioned by Author Jim Collins, I indicated at the beginning of this presentation here Estacio always had great care and attention not just say an obsession in relation to things that were not in our controls. That is why over these last two years, we tried to avoid to rely too much on strategies that did not depend solely on us and to take risks that could create more difficulties in the tougher times. On slide number 10, we can clearly see this strategy put into action when we talk about a smaller exposure to FIES and Pronatec. And when we mentioned the enormous diligence we have when it comes to making bigger M&A moves at the expense of our financial conditions even when -- when the scenario seems so favorable.

In other words we are paranoid with what could suddenly change and then jeopardize this sustainability of our business. All this is only available however, if we deliver strong results even in adverse times. In other words, only if we can march our 20 miles, even during periods of storm, which are inevitable in the journey of any company.

On slide 11, we can see that it seems to be our case. On the left part of this slide, we can see the main financial results for the first quarter 2015. We highlight the net revenue, which grew 34.2% over first quarter last year and EBITDA totaling R\$195.9 million, a 51% growth over the first quarter 2014 for a margin expansion of 3.1 percentage points fully in line with what we expected for the more favorable times and fully in line with our 20-mile march.

In parallel (inaudible) right side of the slide, it is important to highlight our financial soundness. We are in a comfortable and safe position to deal with this possibly more difficult time for the educational sector. We have a 721 million cash position and a low leverage balance sheet. Our net debt is R\$163 million and our short-term debt amounts only to R\$243 million.

In addition, we have a good rating, which we got confirmed in our recent bond issuance. Besides our internal organization is putting in place standards, systems, processors, models, management and culture plus we are not involved in any complex integration. In a nutshell, I can say that we are prepared to comfortably continue our march in a firm, safe and a steady way despite a more difficult terrain.

I'll now hand over to Virgilio, who will give more details on our results.

Virgilio Deloy Capobianco Gibbon {BIO 16679141 <GO>}

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Thank you, Melzi and good morning everyone. To begin, I would like to draw your attention to slide number 12, which shows our operating results. The first chart shows the student base at the end of the first quarter, which totaled 527.9 thousand [ph] students up by 33.8% when compared to the same period last year. 369.3 thousand [ph] of those were enrolled in on-campus courses and 101.9 thousand in distance learning programs besides this 56.7 thousand [ph] acquired students in the period. Under the same shelf concept, not considered the four acquisitions made in the last 12 months, the student base grew organically by 19.4%.

The chart on the side shows that the net operating results increased by 34.2% in comparison to first quarter last year totaling R\$722.3 million. This increase is a result of the organic growth of the student base and integration of the acquired companies. Under the same shops concept, the net operating revenue grew by 22.4% in the quarter.

The table on the lower part of the slide shows that first quarter 2015, the average on-campus ticket went up by 5%, slightly below inflation basically due to the higher level of scholarships and discounts used during the intake process. Given the more adverse scenario resulting from the FIES restriction faced by our students and candidates. We expect to see a big increase in second quarter 2015 reflect our strategy to pass at least inflation to our price.

The distance learning average ticket ex-UniSEB went down by 3.7% in the quarter, which explained by the higher level of scholarships and discounts adopted for 2015 first half intake process as well the growth of EAD Mais distance learning plus, which has a lower taken than the traditional distance learning program.

Now moving to slide 13, I'd like to talk a bit about our retention project. Given the recent FIES changes, we can't deny that the alert sign is on and that the dropout rate is our biggest challenge for the second semester. Therefore we created two specific work fronts, one preventive and the other corrective. The preventive front is focused on three pillars, academic, financial and qualitative.

The academic pillar has the following initiatives: tutoring classes for the disciplines with higher flunk rates aiming to level the performance of the students in the first period in a higher education institution; Professor-Sponsor project; analysis of student's performance indicators centrally monitoring absentees and rates and student academic performance allowing course co-coordinators to act immediately in order to prevent the students for dropping out.

The financial pillar has the following main initiatives: monitoring students, who are trying to contract FIES with the parallel offer of alternatives such as PraValer; contact with delinquent students. Finally, the qualitative front aims to look at satisfaction level of our students by monitoring the compliance and requirements, which are centralized and then contacting these students to deal with issues that might lead to dropout.

For the corrective front, we created a specific retention cell in every Estacio unit with fully dedicated personnel. All of the campus managers must now participate in enrollment

suspension interviews and that has been leverage our reversal rate in this case. We are fostering the future that every student who drops out means that we are failing our mission as a higher education institution. At the same time, we have included several indicators in the managers' targets so the retention indicator has already become an important piece of our culture. In addition, we have an initiative in progress for the second half building a predictive model for the dropout control using the big data concept.

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Moving now to slide 14, we can see the vertical analysis of our costs and expenses. In the first quarter 2015, the cash cost to net revenue ratio recorded a 2.6 percentage points improvement over first quarter last year, mainly as a result of the 1.8 percentage point gain in salaries and payroll charges, which reflects our ability to use the management system, the internal and external benchmarks and the constant improvement in process such as class planning resulting in faculty costs efficiency gains. Also the gradual increase in the distance learning segment share on our operation continue to contribute to the margin expansion process.

Selling expenses represented 7.5% of net operating revenue first quarter 2015 decreasing by 1.5 percentage point. As a result of the 0.8 percentage point improvement in PDA reflecting the growing efficiency of our collection efforts since last year and the 0.7 percentage points improvement in marketing. On the other hand, G&A expense corresponded to 12.5 of net revenue first quarter, 0.5 percentage points higher than last year, mainly due to the BRL8.3 million increase in institutional events line, related to our sponsorship of the Olympic Games in Rio de Janeiro.

However it's worth emphasizing that there was a corresponding counter entry on the revenue in the orders line related to the training, we offer to the volunteers we will have at the event. So that the effect on the operating results EBITDA was nil impacting the period margins only. Excluding the accounting effect from the Olympic Games sponsorship, G&A expense would have represented a 11.5% of net sales, a 0.5 percentage point improvement over first quarter last year.

Moving to slide 15, we can see the evolution of our EBITDA in the quarter, which totaled BRL195.9 million up by 51.4% for an EBITDA margin of 27.1%, 3.1 percentage points above last year. This gain is explained in mainly to the efficient gains from the cost of services and selling expenses. For its part, net income come to a BRL130.6 million, 3.8% above the number recorded in the first quarter 2014.

On slide 16, I would like to show the main variations on the net income. In the first quarter 2015, the net income was negatively affected by worst financial results given the lower income from financial investments explained by the lower cash position; the increase in the interest and financial charge lines given our higher debt level and the increase of the interbank deposit rate in the period; and the BRL2.5 million impact related to the foreign currency loan registered in March. These amount already considers the foreign exchange debt impact and the swap. It's worth noting that the exchange rate valuation is fully hedged by the swap contract.

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It's worth remembering that in first quarter 2014, we recognized BRL16.6 million one-off tax credits related to recoverable PIS credits [ph] which jeopardized the year-on-year comparison. The increase in depreciation and amortization also affected the net income, mainly as a result of BRL8 million related to the amortization of the goodwill from the acquisitions concluded in 2014, being UniSEB the most relevant; the one-time impact related to reinstate the commissioning expenses in the amount of BRL2.5 million; and the increase on the amortization of IT projects.

Moving to slide 17, we can see our accounts receivable. The number of nets to the receivable days tuition and agreements, including FIES receivables and FIES net revenues averaged 96 days in the fourth quarter 2014 -- in first quarter 2015, 12 above first quarter last year. Excluding FIES net revenues and FIES receivables, the net average receivable days come to 89 days, an increase of 2 days over last year. We remain free -- firm with our collection and delinquency-oriented initiatives, which showed results in 2014.

We centralized our collection sales and fully revamped the management of our collection partners. Besides, we began to collect the old receivable portfolio internally with a lot of success instead of selling it to a collections firm, while at the same time we have been tracking the evolution of our receivable and collection indicator on a weekly base with specific targets for each campus.

Finally, we have a number of specific campaigns focused especially in payment in cash or credit card in anticipation of the tuitions. In addition to the specific communication for freshmen knowing of their greater propensity to default and subsequently dropout. In fact, we have a good sign for this indicator and even in a more adverse scenario, our collection receivables ratio is in the same level of last year's.

Now, let's move to slide 18, our FIES accounts receivable totaled BRL325.9 million, an increase of BRL176.2 million in relation to fourth quarter 2014, as a result of the new schedule for the transfers and buyback auctions of FIES certificate as announced in December; and mostly due to the delay in the transfer of certificates, which should have happened in February, but only actually happened in March, which means that the balance of certificates could only be sold back to the FNDE in the buyback auction held in April. Furthermore, we have the natural concentration of the amendment process of old contracts, which this semester was jeopardized by the progress and imposed restrictions in SisFIES.

The average FIES days receivable came to 132 days in the first quarter this year, 52 days more than fourth quarter 2014. Adjusting for the delays in the transfer and buyback mentioned above, the adjusted averaged FIES days receivable would have been a 104 days.

In slide 19, shows our cash flow for the quarter. In the first quarter 2015, we recorded a negative operational cash flow of BRL92.5 million, which was impacted by the new FIES certificates scheduled for transfers and buyback auctions valid for 2015. However, our cash generation suffered even further this quarter with the delay in the transfer of certificate, which was scheduled for February, but only actually happened in March, which

mean we could only participate in the buyback auction held in April caused an impact of BRL87.2 million in this quarter. Operational cash flow before CapEx come to negative 31.7 million in the first quarter, mainly to the new FIES payment schedule and the delay mentioned above.

Moving on to slide 20, I would like to talk a bit about UniSEB and its intake process. The substantial increase in this uncertain intake in the first semester of 2015 was due to a combination of the following factors. The inclusion of all accredited UniSEB centers in Estacio enrollment portal as well as via UniSEB own portal. They offer of a wider range of courses. They offer of an online modality; campaigns associating the Estacio brand with UniSEB and the positive impact of TV media and our business model on centers close to Estacio units. Intake also moved up substantially over previous year and in the on-campus undergraduate segment.

As shown in the table below, mainly as a result of the following factors. It was the first intake handled by Estacio with the full use of our enrollment-related corporate structure and intelligence framework. Investment in local relationships, companies and schools and the TV campaigns. Also the comprehensive sensitivity analysis using the second half of 2015 intake data in comparison to local competitors, in order to prepare ourselves for the 2015 first half intake process. This significant -- the significant growth in the total days over the previous quarter amount is already result of the three successful intakes process after UniSEB was incorporated reverting the stability trend of the student base observed during the second half of last year.

On slide 21, we show that FIES student base totaled 132.6000 [ph] students in March versus 122.7000 [ph] in December, represented 36.9 of our on-campus undergrad base at the end of first quarter 2015. Despite the difficulties and restrictions related to the SisFIES, the process of contracted FIES continued and by April 30, we had a total of 141.4000 FIES students. At this moment, we are concentrating our efforts and attention on retaining to these students, who opted to enroll in our institution especially those who showed an interest in FIES, but were unable to comply the process.

One of the tools we are using for a lot of success is PraValer in association with the Ideal Invest, which has proven to be an attractive financial alternative for our students. Until April 30, around 3,000 students have signed in with PraValer and the application process continued throughout the semester helping in the retention of students, who are not able to get new FIES contracts.

I will now hand the presentation over to Melzi for the final comments and conclusion.
Thank you.

Rogério Frota Melzi {BIO 16212298 <GO>}

Well. Thank you, Virgilio. In this final part of our presentation, I'd like to talk about our strategy for 2015. After the general surprise with the FIES changes leveraged by very negative expectations regarding the counters performance I can say that today, we have a plan to conduct Estacio during this period of greater uncertainty. Right here the scenario

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changes are inevitable over the years and sooner or later will affect any company, sector or region, it is very good that this happened in a period where our company is well prepared to face greater adversity. However, I cannot credit this to the luck -- this to the luck factor.

On the contrary, I think that over the last few years (Technical Difficulty) very positive external environment marketed by widespread euphoria with the sector and as we watch our competitors making strategic moves that have generated questions about our eventual conservatism, we established our pace and grew healthily and without ever failing to consider the possibility that wins could change.

Because of it and only because of it, I believe that 2015 -- in 2015, we will once again deliver strong results and evaluate the pace of growth and expansion that we saw in recent years. Aside from operating cash flow strongly impacted by the effects of Normative Ordinance 23, which generated a substantial increase in FIES receivables for the year of 2015, our commitment is to seek sustainable growth in all our key indicators including volume, growth, financial, quality, satisfaction, maxis [ph] scores and evaluations, delinquencies; the increase in dropout and so on. In other words, our commitment is to march another 20-miles even in the most (Technical Difficulty) that currently characterizes our scenario. So our strategy is the same as in previous years punctuated by one or another specific task that is more focused around 2015. We will grow our student base both organic and inorganically. We will grow our distance learning operation with real chances to increase our number of distance learning centers.

We will continue to strongly grow our new businesses area, which seems to be promisingly in terms of diversification and thus we will grow our revenues, increase our EBITDA and our net income and we will have margin gains once again.

At the same time, aware of the difficulties imposed by a scenario on the FIES restrictions and more pressure resulting from the fiscal adjustments promoted by the government, we increased our level of attention to the indicators of dropouts and delinquency. The result is that this semester accumulated dropouts until the beginning of May I can say until yesterday remains at the same level of the previous year in absolute terms, which means actual efficiency gains in comparison to 2014 where we did not have all these negative externalities to threaten our student base.

Also we double our attention to the indicators related to cash management and put in place some process to further improve our financial health. Still we know that marching 30-miles in an adverse year cannot mean only to keep generating consistent results compared to the previous periods rather it also implies the planting of new seeds for future years, which requires courage, factors and determination of our entire team, which by the way at this point in time is aligned to our culture, committed to our results and aware of their role in our company. We also intend to be alert to the opportunities created by the crisis, which in case lasts for long time, it can ease the way for consolidation of movements.

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Finally, I highlight that in 2015, Estacio completes 45 years of a very beautiful history that began with the dream of an entrepreneur Mr. (inaudible) with a small house in Rio de Janeiro during the tough times of the dictatorship in our country.

Since then there have been many serious crisis, which we had to overcome including real economic depressions, changing micro economic and political environments and predictable economic plans, defaults, extreme regulatory changes, failure of product funding programs for high education students and so on. Estacio not only surveys all these, but adopting (inaudible) loss for companies grew in diversity and managed to occupy a prominent place in the Brazilian scenario combining all the competitive advantages and (inaudible) doing its first 40 years with modern management practice, planning, and meritocracy implemented over the last five years. It is precisely the strength of this combination that gives us high confidence about our future and which makes us believe that our people, our culture and our management system, we'll carry us forwards in any situation. It is the strength of this combination that we want to demonstrate to all our stakeholders in 2015 not only through a brilliant result, but also through an increasing brands awareness in all the fields of our society.

So we made 2015 the year of our brand, the year of Estacio or as we call it internally diamond year referring to our logo. Thus, I conclude our presentation with slide number 23 celebrating our 45th birthday, while we're already thinking in quite a paranoid way about the next four to five years. So this where our comments for today. We'll now open up for questions-and-answers. Thank you.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the Q&A session. (Operator Instructions). The first question will come from Bruno Giardino of Santander. Please go ahead.

Q - Bruno Giardino {BIO 15974970 <GO>}

Hello, good afternoon or good morning, everyone. My first question is regarding the outlook for the year. Considering there are no catastrophic events in Brazilian economy, should we expect the same of level of margin expansion for the next quarters that we saw in the first quarter 300 and something EBITDA margin expansion? And the second question, Melzi could you please comment on the M&A environment in Brazil? You keep saying that Estacio hasn't spent its silver bullet for big acquisition. Would you say that 2015 is the year to do so? Thank you.

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

All right Bruno, thanks for your questions. Those are -- most of them very interesting. The outlook for the year. We don't give guidance. It's a strategy that we want to keep following. But in the previous years or in the last years, we can say that the first quarter results has been a proxy for the remaining of the year. So things not happened in the first quarter ended up happening in the other quarters as well. As you said assuming that things will be in place.

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So in that contest, I think yes there could be a good proxy for you for the remaining of the year. Now I have one pro and one con for you to consider when talking about these forecasts. Okay. And again my guidance I'm talking about potential scenarios. The good thing is that as much as I believe it was an outstanding result considering what is happening in Brazil, the expectations of everybody; I think this is an outstanding result growing more than 50% year-over-year and so forth. The truth is that we haven't reached our internal targets. So we still have some room to grow over here in the sense that we had to give more discounts in the beginning of the year to be able to build our student base. And obviously all the actions we plan when the things with FIES happen including a different behavior in terms of cost and expenses.

Obviously, we didn't have time to put everything in place. We have the plan and have people acting on that; people taking care of that, but the truth is that positive effects coming out of this strategy shall be seen over the next quarters or so. What I mean is that as much as we are happy with our performance when comparing to last year, it's not enough for us to fulfill our target and we're going to chase this target in a very intense way. We are prepared to deliver an outstanding result this year. So this is on the positive side.

On the other side, obviously there is a lot of uncertainty in this year. And I think right now, we are not so uncertain anymore when it comes to dropout in the second quarter. We think -- we feel much better about that because we're monitoring in a very close way because there are lot of tools in place. So I think our next question will be what will happen in the second semester in terms of new students? And for that well I obviously don't have an answer yet. We don't know how it will be with FIES. We don't know how the economy in Brazil will be. We don't how demand will behave.

So there is a big question mark. What I can tell you is that the first trends for the second semester in terms of demand seems to be similar to what we saw in the previous semesters. This is the way we monitor the demand here checking a lot of KPIs we usually follow in the Brazilian environment. So until now, these times are (Technical Difficulty) good in terms of comparing to last year. But at this point and time, it's really impossible to talk about anything that may happen in the second semester. So you have this positive effect.

And the fact that we are not happy with the current performance we're achieving because we don't have time to put all of our plans in place; which means that as we chase these results, there is room for even better results than the one we saw in the first quarter. On the other hand to offset that eventually, we have a lot of uncertainty when it comes to the second semester in terms of number of new students.

As for your second question, it is true. We haven't used our silver bullets yet. It is also an strategy. We had some chance in the past. Eventually, we could have done something, but we didn't feel it was either the right time or the best possible conditions for us to go ahead and finalize these opportunities we had.

I do think that over the next semesters or so, we may have more opportunities coming to us. I think that if this crisis keeps growing; if other companies feel like the scenario won't

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be as positive. When they look at us and see that we have a very organized company that we are very receptive to other cultures. We're very receptive to good people to great talent, to other academic models that we can combine strengths to create an even stronger company.

I think when we go to the table, we may be able to build something. Our willingness is to keep our eye very open for these opportunities. We think this kind of negative external scenario may end up helping us to build something big. So I think eventually, we are in better shape than ever to go after these kind of opportunities. Obviously, I cannot tell you whether it's going to happen or not. But I can tell you that the possibilities are higher than they were on the year ago when we were in that bullish scenario.

Q - Bruno Giardino {BIO 15974970 <GO>}

Okay. That's very clear. Thank you.

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

Thank you.

Operator

The next question will come from Vera Rossi of Goldman Sachs. Please go ahead.

Q - Vera Rossi {BIO 1540531 <GO>}

Thank you. Could you talk about the buyback process of the FIES receivables? The regulation this year says that there will be a buyback of up to eight calendar months. So do you still expect eight or with the delays we have seen in the first quarter, we may not reach eight calendar months for this year?

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

Vera, this is Melzi. I expect eight because that's our commitment. I was in Brazil, a couple of days ago talking to the Minister of Education; also with the Minister of Economy and there is this commitment that's what they are expected to do and I see no reason for them not to fulfill this commitment because we are already carrying very heavy burden and I know there is a limit for everything.

So there was a delay in the first month, we got this in April. We've got the second one not two days ago. The second issuance right happened for February, although they were obviously few contracts in February because of the slowdown with the SisFIES thing. But I think as time goes by things will get back to normal.

And the reason for that I think is two-fold. On one hand, it is a commitment and again they need to do at least what they told they would do this year given that as I mentioned before, they already have put a lot of pressure in our cash flow.

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But number two is because of creditability. At the end of the day FIES is a very strong layer and flagship for the Labor Party we all in Brazil know that. So I really believe that if they keep behave in wrong way in terms of fulfilling their commitment for FIES, the entire problem will be put at least and I think they really don't want that to happen. So I think they are facing a very tough time now in 2015 I think it is specific for 2015. The new ministry is very enthusiastic about FIES. It is being acting with us in a much more transparent way talking about the difficulties, talking about the future and they key reinforcing that FIES is really strategic for the country. So I think they have no reason to fail when it comes to paying at least for this eight months in 2015 that's my expectation, I can be wrong, but I'm basing this information on what I heard from them over the last 10 days, okay?

Q - Vera Rossi {BIO 1540531 <GO>}

Okay. Thank you.

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

Thank you.

Operator

(Operator Instructions) The next question will come from Maria Azevedo of UBS. Please go ahead.

Q - Maria Azevedo {BIO 16178885 <GO>}

Hi, thank you for taking the question. Could you please, Melzi, comment a bit on your retention strategy going forward? And what kind of dropout and receivables days should we expect throughout the year assuming that the current macro environment will maintain and no further FIES new contracts for the second half of the year?

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

Okay. Hi, Maria, I will talk on some points and maybe Virgilio can help me, if he wants. We don't work with guidance and again especially in a year like 2015 with all those uncertainties. It does not make sense for us to change the strategy now. So no guidance. What I can tell you is what's happening right now? When we think of dropouts of retention, it's surprising that until now as I mentioned during our speech that until now and I'm talking about yesterday May the 6th right so therefore a week after the deadline for FIES new contracts.

It's amazing that we are in absolute numbers below last year. Now think about in absolute members, why our student base has been growing 30 plus percent, year-over-year. And so why and I think the same goes for delinquency until now, we monitor that on a daily basis almost on a hourly basis actually to be sincere with you at the levels until now, until yesterday were pretty similar to the levels of delinquency we are facing in the last year in a very different external scenario.

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But why this is happening as much as we don't want to give guidance the truth is that we last year woke up for this retention opportunity I would say. I was mentioning in the other call that Estacio has been always very alert when it comes to bringing new students in admission cycle and so forth. You can easily get entire company aligned around this targets and get everybody engaged, involved in these targets.

We also developed over these last years, a good ability to drive people's attention here to what you call renewal process and this is one that happens at the end of the semester, when students need to come back for the following term. So admissions and renewal processes, I would say that they are already part of our culture, part of our management system. So things were fine and you see a lot of evolution as years go by as I've shown in the presentation. The one thing we didn't pay attention and I cannot tell you why there is no reason for that maybe we missed the opportunity. But this thing one has to do with what we call here in Estacio a vision and this is the dropouts that's happened during -- happened during our semester.

We didn't look very much of that. Until last year our team in the distance learning segment woke up for the fact that they were losing thousands of students during the semester and nobody was looking at a very careful way to these students. So they came up with lot of ideas. Some of them, I can tell you like they were -- they started to pay much more attention to students who are not for example logging into their systems; students, who are failing with their grads; students, who are complaining a lot in our internal systems here.

They started mapping all those things and then they got professors and course coordinators involved in trying to retain these students and it was quick and a huge success. They got 3 or 4 percentage points of improvement within that first semester. So when we saw that in the second semester, we decided to do the same thing for the on-campus segment. And again I'm talking about a time, when we didn't have problem with FIES. So I don't know, it's look clear something here or not, but the truth is that in the second semester last year before our FIES change, we were already talking into accounts the possibility that this dropouts during the semester will be a great opportunity for 2015.

So we created a team here. We created a lot of KPIs. We assigned a lot of targets for reducing this dropouts. We applied pretty much our technology in terms of managerial systems to deal with this opportunity for 2015 and then just remember FIES came. And when things changed, we had a lot of stuff already in place.

So these techniques of Virgilio, however some of them during his speech, but they go all the way from corrective actions as we call so when a student says clearly that he or she wants to dropout we call this student for interview and try to change his or her mind it's working pretty fine now.

We have preventive actions. When you see that these students are started getting signs that that they want to dropout, we already called these students and try to offer an alternative for example if they have problems with their financials or so forth or if they have academic problems, we try to offer reinforcement classes and so forth.

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But we are now working on a model, which goes one step beyond that and we are calling this predictive model using big data technology that we will try to tell us, what are they students that are more likely to go through this process or to this problem even before they join us doing their enrollment process. So if we know who are these students, we can have some professors or some managers looking at these students now much more carefully, therefore try to prevent them from taking those steps, while dropout. So it's a handful of activities, technologies, all of them combined with our say biggest of strength, which is an organizational culture, people's alignment and our management system. What I can tell you is that because we were not looking at that there are a lot of low hanging fruits there to be cut and that's what we're doing right now.

It doesn't mean that we're not in trouble with FIES, our students, who didn't get FIES, but it does mean that all these opportunities that we didn't look before at least until now having enough -- there are enough, there have been enough progress to fully offset eventual losses we're facing through FIES that's great that happened right now that is awesome that we had this in place. And this is one of the reasons I was mentioned that if we were to face a crisis I think it's greater (inaudible) such a nice shape here when it comes to our people; when it comes to our culture; when it comes to our management system.

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

Hi, Maria. Let just to add something about the receivables. When you're considering that we have this schedule already given by the government of -- although the buybacks and the issuing problem that we have for the entire 2015 the days of receivable for FIES is already given. So that the FIES, if they are going to follow the schedule that they said or not. So what we can do at this time here is to be very efficient after issuing the certificates trying to use in a very fast way the certificates to pay our federal taxes monthly basis.

Second is what we are doing, if our non-FIES receivables as Melzi just said that depends a lot on this -- all the success of this retention program that we are doing right now and all the renewal rates that we are going to have for the second semester. So I really expect that we are going to be more flat in ex-FIES receivables year-over-year than any strong increase or decrease when you compared to the same quarter last year. So I think a good result for us is what we are looking for even if all this difficult is created by the new schedule of FIES and all this noise that we're seeing in the sector having some flat ex-FIES would be a very good result for us.

Q - Maria Azevedo {BIO 16178885 <GO>}

Sure. Thank you very much, Virgilio.

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

Thank you.

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

Thank you.

Operator

Since there seems to be no further questions, I would like to turn the floor over to Mr. Rogerio Melzi for his final remarks.

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

Well thank you and thank you all for participating in this call about Estacio's results. I just want to finish by we are firm [ph] that we remain quite confident in our ability to generate strong results even in adverse scenarios. Thanks to all, who have been building during the years of favorable environment, we delivered in the education segment. I also emphasize that it is exactly in adverse scenario such as the one we're currently living that will allow us or show the power of this strategy, we adopted several years ago, as we march our 20-miles in a very determined and disciplined way. Our IR team is always here at your disposal and so are Virgilio and myself. So hope to see you all soon. Thank you once again everyone. Well, have a great day.

Operator

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

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