Q1 2022 Earnings Call

Company Participants

- Eduardo Parente Menezes, Chief Executive Officer
- Rossano Marques, Vice President Finance and Investor Relations
- Unidentified Speaker

Other Participants

- Leandro Bastos
- Lucca Marquezini
- Marcelo Santos
- Mauricio Cepeda
- Samuel Alves
- Vinicius Ribeiro
- Vitor Tomita

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to YDUQS' video conference to discuss the results for the first quarter of 2022. This video conference is being recorded, and the replay can be accessed on the company's website, www.yduqs.com.br. The presentation deck is also available for download. We would like to inform that all attendees will only be watching the video conference during the presentation, and then we will start the Q&A session when further instructions will be provided.

Before proceeding, we would like to clarify that any statements that may be made during this conference call regarding the company's business prospects, operating and financial projections and goals are the beliefs and assumptions of the Yduqs Executive Board and the current information available to the company.

These statements may involve risks and uncertainties as they relate to future events, and therefore depend on circumstances that may or may not occur. Investors, analysts, and journalists should be aware of events related to macroeconomic environment, the industry, and other factors that could cause results to differ materially from those expressed in the respective forward-looking statements.

Present in this video conference are Mr.Eduardo Parente, CEO of Yduqs; and Mr.Rossano Marques, Yduqs' CFO and Investor Relations Officer.

Now, I would like to hand the floor over to Mr.Eduardo Parente, who will begin the presentation. Please, Mr.Parente, you may proceed.

Eduardo Parente Menezes {BIO 16707188 <GO>}

Thank you. Good morning, everyone. I hope you are well. We're going to start our presentation of the first quarter. You will see we have very good numbers. After a long winter, we'll start seeing ahead a clear recovery not only ours but the industry as a whole.

We can move on to Page 3. We have summarized, we see what I've mentioned we had a recovery in 2021. The time of economic crisis has interest was a moment we held things quite well. We had results of numbers that were pre-pandemic and we have numbers even better now than in 2021. From left to right on the top, we see a recovery of the on-campus. Something we've been telling you for some time.

We have a situation that the intake was quite weak during COVID pandemic. We had a drop. Yes, students coming. So when the base there was stable growing, we see for the first time a strong recovery. And on-campus intake 59% in the first quarter '22 quite relevant number. That has made us happy. We've seen some reports this morning, it's not a surprise. We had kind of indicated this direction and we are happy to have reached this level.

On-campus student base 3% vis-a-vis first quarter to last year, and leap on a better -- move on our journey of cost reduction, 2% cost reduction on faculty based on our net revenue. So a long-term journey investment in technology we made to bring more technology and optimizing the time students may need to be before professor the time they can engage within public transportation. This has brought great results year-after-year.

First, strong point of this summary is recovery of on-campus. Second, is growth levers. We've been talking about this for a while during the pandemic, this was quite strong both digital and premium 44% of increase, on the student base vis-a-vis last year, growth of digital and EBITDA 20%, medicine seat -- over 228 seats approved for 2022. Important, we only tell you the seats we actually already have had. We have some forecasts, we qualify them as per forecast. We see people making a bit of a mix.

We prefer being more conservative saying what we have at hand from the beginning of 2022. We have an expectation having more in the future. We have 228 seats -- additional seats and well we have -- we're talking about 2,500 this year so very good 2,000 digital centers, centers in -- so the smallest city we have a town, we have to have 2,600 inhabitants. We have a strong model of moving towards the inner states and when we get there, we have less competition it helps us to keep our average ticket.

Third point here is cost optimization, strong recognition of the market and the discipline we have in any business we are present. We try to keep very confident and safe in terms of costs. We have -- actually, we have people to 3 percentage points below last year and something we made a great effort here. Then, we are going to do is the reduction of the leasing in terms of whole and the impact on EBITDA. So we have an important number 0.6% when you see the inflation and everything we have managed to get great bonuses.

This leads to the fourth point, result achievement that is quite strong with cash generation with low debt and strong balance sheet in advance of 23% of EBITDA vis-a-vis last year 33% in the evolution of net income. Cash being kept almost BRL2 billion -- BRL1.7 billion and net debt over adjusted EBITDA of 1.7 times, which is a healthy level. The lowest in the industry. But I'm going to say now, I'm going to repeat towards the end. If you ask me, what message or what take away message you want to take home or these numbers are very good. We're very happy with them. But it's very important for us, not to take this hastily.

We had must have a comparison base to the first quarter last year that was weak. We had an intake at those that followed us first quarter last year was weak. This impact greatly on results, our strategy for last year. We pushed a lot of students to join only or the second term. We have a comparison to first quarter last year week and second semester stronger. The second, we think it's going to be very good but smaller differences vis-a-vis last year. We didn't want to sit with you and have us a feeling of euphoria, everything has changed -- not everything has changed. We still have a hard life ahead. So that's message one. Number is a very good, careful with your forum.

Message number two, when you look at these numbers, I believe this is very clear. We're trading multiples that we have half of what we had last year, does not reflect what we had last year in 2021. We had a recovery not only us the industry as a whole, and I think we have the expectation then we'll to see the recovery of multiples of the EBITDA whatever it is numbers closer to what we had in the past not stay at this level of what half of what we had. Again good results careful with it but the multiples are not real -- most justify the recovery in this industry or sector.

On the next slide, we would very much like to be an industry or sector as retail. We will -- I would have that actually, what we have, we have enough numbers with a certain delay considering the moment we just had the numbers of 2020. We have listed companies that many times they have different ways of disclosing or that are not transparent.

We have at INEP is what it is, this is fact. I think, this survey is quite interesting of 2020. On the left on-campus, we have relevant share for us in terms -- we move from 7% to 9% in the market from 7% to 11%, when we get to '21, '22 the numbers will be even greater.

We have a hidden message, when we look at the left to the chart, it is an industry that is very little concentrated. When you see this companies in terms of shares and the risk and the total has 27% of the market at some point with more rationality, we have great opportunity to evolving here. In terms of mergers and acquisitions, to the right, when we see distant learning, greater concentration in the market but the market still growing. We're gaining share. When we look at '21-'22, the number will be even greater moving from 4% to 13%, in terms of the number of enrollments and intake with doubled from -- we move from 8 to 15. The numbers in '21-'22 will be even greater.

On Page 5, we've talked about expectations, intake and price never easy, you have a home run in terms of intake. We announce the even quarters, but we were quite fortunate here. I'm just going to start with premium to the left. We told you that we were going to grow between 10% and 20% and the number of the Quarter 31. We should look at the term number premium and on-site, they have by annual intake levels that's 24% year-over-year. We thought we were going to be a 20% and we reach the level 24%. And average ticket we've had a projection of 0.5% and medicine we had 9%, Ibmec 11% and base growing 10% vis-a-vis last year over 228 approved seats, half of them intake in the first half of '22 second base for the second term. And we have a base --student based growing and medicine, as planned.

We've shown you protections. We have a backup table showing campus by campus and medical schools and this is quite easy to follow and easy to forecast. In the digital learning world, this is something that we have.

As Americans say, take it with a grain of salt, we protected for the semester and the growth is the quarterly. We had a growth of 68% careful with this number.

As I mentioned previously last year, part of the intake, we push through the second quarter especially digital. We put it down here when we look at the semester. We're talking in an expectation of growth vis-a-vis fantastic numbers, we had last year 15%, 20% a year. Those the followed us for a longer period of time we had last year that was paid for and we put lots of students from the first quarter from this but from the 13 February, the only started and 1st of April. They feature is - intake in the second quarter, and ticket as we've been telling you, currently our expectation of midterm and digital should be dropping.

It has been confirming, but we protect minus 5, minus 2, minus 10, it ended up being minus 6. It does not reflect the reality of all the tickets here because actually, when you walk can only increase tickets after a year, students have been with us. So we had great intake last year. Many people join after the second quarter. We haven't had the price increase with them.

The expectation is to have a better situation minus 6 does not necessarily reflect the reality in terms of price. When we look at the student base, we have better numbers than those. We expect to show you further ahead.

Moving to the right on-campus, as the medicine or premium is biannual in terms of intake the numbers we get to the 39% year-over-year is 59%. So last year intake of the on-campus extended for a longer period of time, many people joined in the second quarter comparison that it would be fair is half year-over half year, we had an increase of 39% of last year, 59,000 to 196,000 students. So this is the greatest intake of our history.

When we look at the ticket, we had an addition to DIS lower than last year. And of course, this impact the whole lower DIS adhesion when the intake is considerate with full price when we have this addition. You recognize the lower price, if it weren't for this, if this lower DIS adhesion we would have a number zero to zero against last year's number.

Again, very good results, we're very excited about this, this intake on one side has the future of market recovery. I hope you see the results that we have been working on. And another point that we are working very hard in the recovery of our camping. We have numbers that we hope in short to have on-campus students briefly end of year -- next year, similar numbers that we had at this year. This gives us great operating leverage and the strategy we've had to be aggressive first fill our --[ph] has been proving winning strategy.

As I've mentioned previously, we had the highest intake in history and I think our investment in technology, digital process, IT has been paying off a lot. One of the example is here on left of the page, journey of the new students is quite different from what he had a year ago, a year and a half ago. Total digital cross the most of students enroll without talking to anyone. New historic had a registration process for you to enroll. Today you can do it in less than 51 minutes -- 15 minutes. So this is totally different in terms of journey.

I'm talking about, not only the software but the hardware of the system to deliver that is much more robust, and what we had it's been delivering a lot of result. On the right, we have iconic campaigns and top of mind, people remind of what it is. This is for (foreign language) there was really great success to winning people trajectory of actually overcoming lots of challenges and great success who many of our students, where we work especially, and start your brand but others as well. Recently we had a launch --[ph] with the entrepreneurship course, has been proven not to be a bright person, great partner we're very happy.

With this moment, we're living with her other important things. The work would be carrying out at Ibmec, you have the results that Ibmec have been quite different than what we had previously. We had clear recovery there this change of the brand Idomed. It is quite important for a different positioning of our medical school and market.

And below in the chart, we have Estacio google search for top-notch educational institutions. We had a growth 44% of the share is ours. It started as a brand number one 24% point ahead of the second took place. We have been working quite relevantly and experiencely assemble. I think this is just a top, the tip of the iceberg in terms of student experience. Here, we have another example.

So the registration of student with the market or the brand perception, you see on the previous page. We spending less in marketing on the side here, the student experience on the left. We have the student app. They may pay tuition. They can attend classes in this app. You have everything within to that is absolutely fantastic. And I think what is important here in our virtual classroom, we depend much less of contractors but we have the speed of innovation and we can do things differently when we work with contractors. We have things doing for everyone. This has been turned a great competitive advantage with high grade 4.6 at Play Store, and this is not pro forma.

Students actually use it 75,000 active students in the app monthly, today the virtual classroom through the app is a novelty 35% of students that migrated from the computer to their app. They preferred way of attending lessons and below. We have generation tool EnsineMe. We've worked since 2019 in the content the way they attended their classes. We worked on the engagement phase and the ways that are correctly educational to students like they do, but they learn a lot when they reach.

Obviously, this not apply to all students there is an ensemble of the options in here. What they learn by reading, by watching a video we add all these things. And we work very well in generating -- teaching and generation to is turning that into something lighter. So that they can download that on an app and watch this on a bus. We have all students impacted 100% of our students -- 100,000 in this generation to, which has been a super success here.

Speaking of numbers starting on premium on Page 8. We looked back, we usually present through past three years but we decided to have a retrospective here because it's our journey. We start by looking at premium degree in medicine and it Ibmec, with us in second term 2020. We only see '21 first semester with -- it doesn't exist from 69 million in revenue medicine in 2018 to 206. So we multiplied by threefold. So, 2.5 to 7.5 total medical medicine undergraduate over double students that we had the first quarter 2018 with a cost that is quite low.

If you look at it, this growth in medicine is almost all organic with the exception that we acquired here, with exception that there are things that are maturing. So the growth that had cost vary the maximum paid for the seat were BRL600,000 as long as well seats there are maturing organic growth.

Therefore we fought for the seat. We built the courses. We created a national brand. Today, we have a number of applicants per seat that was quite satisfactory, with the national entrance examination. Obviously, so we're national only one medicine a great impact, for us to have our own silo, they enroll for a demand throughout Brazil. And the reality we have today is that we have been great evolution with the ticket.

We and our reference units and we have queuing people complained that they cannot join, they are taking examinations again, so quite different situation from what we had some time ago. And we're looking at the quarter specifically the base growth of what we had hired. We've been talking about 10% to 14% within under graduate Ibmec with great growth at Sao Paulo to the point that we are hiring a new building and we have an additional building at Brasilia region is about the real that as always been -- we have always been concerned. But we have a great recovery.

At the top, we have the consequence of that growth for almost 52%. So to the right on the chart, we have a growth of total EBITDA with a margin that may seem to be bad news but the fact is that those following us will remember this first quarter last year. We said, okay, hold on, it's not like that. When we look at the semester, the number is high of 53 oranges-for- oranges would be more about 49% of margin will be sideways. So as the ticket growing considering Brazil's 9% in medicine in 11% in Ibmec.

Moving to the digital growth on Page 9, we have great growth. With fantastic growth. On the green, we have undergrad. So the blue and top is so life. So we would live long. So we had great growth $98 million, less than $100 million 2018 to over $300 million now over three-fold increase in the period is a great number same applies to the base was 132, 469 in 2022, all organic, okay. This is important to stress that sometimes we see some leaps and in terms of earnings results and we're a bit confused of what is M&A and organic.

This is organic what is not -- so we see clearly that it is based leap an acquisition that still will be quite popular. We had it sorts of too high not only in the growth and cash generation, it's overcoming the original plan we had. Everything impacts our digital world intelligent cheap solutions, very much focused on the student experience this has been very good. So we have here very short term, of course, so intake during the pandemic has suffered a lot. So we have lifelong. So we have to find solutions for lifelong. So the need two courses of quite relevant experience that we are having a fantastic numbers in the first few days with totally digital spears. Once we find this the blue one will have quite relevant growth rates, and we are launched.

We're not doing quite well, but things are moving on. It would -- when we look at it in terms of revenue digital. So once at the base 45% growth, as I mentioned previously the drop in price has -- there is the factor are considering the circumstances of revenue growing 37% with a bit of the business as a whole. Lifelong growing up 25% keeping the margins. This is something we've been talking a long time. People were concerned that our growth as shown here below is practically all of it most from partner centers, where we have a smaller margin.

When we look at students coming from partner centers they have 30% of a transfer was 10% of debt. We're talking about 45% to 60% which is higher than our average margins. So operating leverage that is quite strong. So, we have despite the growth not coming from the centers where our profitability is higher, the profitability is similar to what we have our average as a whole. So EBITDA growing strongly despite an increase in EBITDA that was quite relevant. So the increase in EBITDA in the quarter in DL is due to the intake, there was after semester. So it became -- it was every, it was biannual. So we had students which would drop out in the mid-year and we would see this bad debt coming in the second quarter or third quarter.

So, when we have intake, that is quarterly because of the strong intake that we had second quarter last year for the first time we see this intake of dropouts with three months of 3%, three months after the 100% is already provisioned. So this big bullet that we see came in the first quarter, is something that is a new reality. So we're going to have relief in bad debt despite of the -- or in the variation of bad debt of the year between the quarters, despite of that we had quite relevant EBITDA growth. Keeping the margins we had the first quarter of last year.

Just to add below here, I talked about this I think it's important to add down here we see the chart in terms of size that we move from 53% to 63% with partners in our own properties I haven't dropped of 37% visually you can see a higher number, because we have a student base that is much higher than what we had a year ago.

Let's talk about on-campus, we have a lot of information, very good information. Now we have two pages for that, first, well, we're getting back to normality at the top we have intake semester by semester from 2018, 101,000, we're very happy with this number. A lot of people coming back to the classroom with a cost-based that does not change so much. So we have teachers or professors, who have classrooms, we have enrollment, we have registration, we are there.

The number one is that pre-pandemic levels. Just important to remember in the meantime, we had (Inaudible). So, we have 101 to -- when we compare to pre-pandemic numbers, they are smaller numbers than what we have at the pre-pandemic numbers, when we compare oranges with oranges. So we have -- we are -- the post-pandemic period, the situation is not so serious from the senate, medical standpoint, quite serious in terms of economy. The way we see this is still more potential for growth ahead. Once we recover the economy, the number we will see here again.

Some of the reports I've read this morning mentioned that we were exposed to on-campus undergrad in a healthy way, just as we have the expectation of our market. Well, it hasn't recovered, totally. The upside is quite relevant. In our case, 101,000 students compared to last year, 39% growth, with about 74,000 freshman in health, law and engineer; not only higher tickets, but they're longer duration. Expectation of our bringing people to our system that are going to stay longer with us.

Below to the left, it's a question somebody asked last year. It's very good for us to look at how many students per campus we have, pre-pandemic, we're talking 3,600. And we had an acquisition that increased the number of company we worked to optimize the number, you go back to 90. Expectation of having 1, 2, 3 of optimization this year, so that we now -- we go back to pre-pandemic numbers, so that we briefly get to higher numbers than that comparable to what we have had at the time FIES.

To the right with the faculty cost, we keep on working strongly on this. This hybrid model helps us a lot. We moved from 23%, 2018. We had done a higher number. So, and 2021, we had balance is much more related to denominator than well and it was weaker, and we're recovering the trajectory of optimization just helps us a lot in the results that I'm going to show you on the next page.

What do we have here? Well, we broke it down into three. Dark blue is on campus paying on their own, gray is FIES, and the green is semi on-campus. Something we've always mentioned; when we look at our world without FIES or monthly pay students, we have a world that is reasonably stable. The dark blue was growing in a pre-pandemic world. Remember, first quarter 2020, we had the highest intake in terms of on-campus. Certainly, in 2021, we suffered, and now we have a number of reasonable stability here.

It's important to have FIES. The old FIES is over 14,000 students that we have here are students of the new FIES. We have semi on-campus that is being recovery. We get back to numbers of 2019, this is very good. It is a way of our using intelligently the assets we have on-campus, and getting to areas of our pockets that cannot pay full on-campus. And many have aspects we compete with some premium DL that are premium.

We're talking about tutors. You're going there, attending. We're talking about engaged people with professors in front of them, with the group, with the being together, going out, hanging out. And this has been covering a space of our portfolio of products, and giving great coverage to our online distance learning DL.

So, usually our pure DL has a price that is similar to the premium of our competitors, and we have -- semi on-campus has pretty good performance. So, with that we had a leap of EBITDA in this quarter. To the top right, improved margin from 17% to 23%. Expectation for the year is not this, we're looking at the year -- closing the year with margin in the on-campus similar to what we had last year, 20%, 21%. So, we have this exceptional factor within the quarter, and when you break it down by business unit, we have some differences between one quarter and the other. So it is more natural to get these leaps when you have smaller volume. It's important to differentiate (Inaudible) 23% is not the margin for this year of on-campus. Further ahead, we should expect numbers of this magnitude, but not yet this year. It's important.

Let me remind you what I mentioned previously, this drop in revenue that reflects the drop in ticket from BRL588 million to BRL560 million is something that is countable, and we're accounting. So when we see less digital, few peoples preferring to pay what was the campaign of this semester for on-campus 299 with no debt, obviously, this is accounted for and is smaller. So, revenue is growing or increment. So, if it wasn't this accounting issue, then it would be totally clean and we put this on-campus ticket plus medicine, I think -- we think it's relevant information for us not to miss. We see people mixing it up when we announce results, and this information is just here for some people to have some comparison base here.

So we're very excited. So life is still hard for on-campus; distance learning and premium have been having a growth trajectory. So this is from 2018 showing an inflection to the curve, showing that the base of students has being recovering and we have great expectation that is quite exciting. I talk with people, if I had all my money to bet on a single business, it would be on-campus I would bet. That is the thing that is most under-priced that we have in the market. Reminding you that today, it is less than 50% of our revenue, third of our EBITDA, has a growth potential that people do not have this vision in here.

I'm going to turn over to Rossano to share some numbers with you, and then I'll get back.

Rossano Marques {BIO 20711861 <GO>}

Good morning, everyone. We're talking about our revenue. We have this 10% growth year-over-year in this quarter. This growth pulled by the main levers of growth of our digital with 28% growth, and premium with 30%. With this move, we increased diversification of our portfolio, increasing concentration of our businesses of greater growth and greater margin, premium and digital.

The cost and expense that we had, a very positive quarter, showing our discipline in terms of cost control. A relevant topic to the cost on the revenue that you can see on all lines, M&A is going back to levels we consider regular after first quarter operating above our --

operating over our historical average. We get back to normal numbers in terms of costs, so we have 3% point reduction on revenue, especially because of our discipline of faculty allocation that has shown in the previous slide. This is an important result regarding our cost management.

Leasing, something we pay attention to. For the year, well, everybody knows about the cost pressure with inflation on rental or leasing. So we have availability of campy [ph] and renegotiation of our rent, because we managed to keep them on their own -- over net revenue below last year, which is quite positive. On the other hand, we see in the quarter growth of bad debt of 1.9%. Highlighting that this does not have a specific effect, and what happened to this quarter, we would have a stable percentage.

What are the effects that we had that were exceptional? One, t don't have to explain the bit with distance learning having an intake that is quarterly, four cycles over the year in 2021. We see now, in 2022, four cycles of non-renewal. We had two cycles of non-renewal, they impacted also the even numbered quarters. With this intake for quarter, we have a non-renewal impact on the first quarter '22 that causes half of the same growth impact that you see here, impacting quite a lot on the digital. This effect will normalize from 2022, and start having a yearly fusion that is similar to 2021, but more diluted over the year. In 2022, we still sees an impact that will be above normal, because we see this sort of dropouts of this with the impact in 2023. It will happen second semester this year, rather. So it's a year with an impact of higher bad debt impacts.

I talked about the three factors. Second factor that we have in Rio de Janeiro, a law also serves to renew all the medical students, even those that are in the fourth. The renewal cycle is the most important management tool for us, and our accounts receivable. Being forced to renew all medical students, we had a growth of default in a block of students that led to impact of bad debt in the quarter. The impact of this, the law ended this semester. This was the last renewal we were forced to make, even with delinquent [ph] or students. And in the next period, will be free to renegotiate not allow students that are in default to renegotiate. We believe we're going to be successful in negotiation, and eliminate this specific impact of bad debt.

Third factor is higher concentration of our revenue this quarter in intake, is more strongly impacted by bad debt because of the GIS impact. So it's more concentration on revenue, on total revenue, leads to our slight increase of bad debt in the quarter.

Next, with our revenue cost and cost management, we get an EBITDA growth of 23% in the quarter, a number that we believe is quite positive. EBITDA this year is still cleaner than previous year, with a slight impact of non-recurring costs. In terms of margin for on-campus, that is highlighted. As Eduardo mentioned, it's magnitude is specific for the quarter. It will be highlighting recovery of student base and effective cost control that leads to sustainability in the improvement of margins that we see for the future.

In premium, we had the external factor of the previous year with actually moving the cost curve in the first, second semester. If we exclude that, this margin will be stable, a bit higher than the previous year on digital also. So, as Eduardo mentioned, slight drop because of the bad debt that is partially offset by our efficiency operations over the past quarters.

Adjusted net income influenced by the operating results. We had a growth of 33% in the adjusted net income, even with a negative result in the financial impact on our financial results, which was led by the growth of our debt because of the higher basic interest rates. We had positive result not only because of operating results, and also the tax efficiency. We have the level of (Inaudible), we had BRL16 million of profit between the group -- amongst the group. So we had a great impact net income. So, we closed position of BRL1.7 billion, and quite comfortable position of debt 1.7x. That makes us very comfortable moving on.

Getting to cash flow, we have cash flow -- operating cash flow 31% above the previous year, with conversion of 88% cash conversion. Quite healthy conversion of cash flow, making us even more comfortable with the net debt levels that we've been operating. So we have 91% of our accounts receivable in operations, showing the health of our accounts receivable health, and also our management in terms of receivables. With this, we closed in the quarter a program of our buyback program BRL100 million spent on the program with 5.1 million shares, showing our vision of this scenario. Still going to evaluate how the program moves on in the next few months.

On-campus and quarter, we have an increase of 30%, vis-a-vis last year. This is a curve that is perhaps a bit more flat than previous year, because we had great weight on the fourth quarter vis-a-vis the rest of the year. We are pointing to this year CapEx absolute value below last year, BRL532 million, reducing obviously the percent of our revenue.

Our CapEx is still concentrated in digital transformation and IT, 57% in terms of expansion. 19%, I believe, in continuous expansion of our business. We're betting on our growth, and also transformation of our business in a world that is increasingly digital. Eduardo showed the effect of our investment. We are certain that we are bringing results that are very satisfactory, both in our intake process and also in retaining and actually satisfying our students.

With this, I'll turn over to Eduardo to complete.

Eduardo Parente Menezes {BIO 16707188 <GO>}

Thank you, Rossano. When we look at the result of first quarter, well, we had a student base with growth of 60%. All units show some growth. Digital candidates is a strong number, the people that use premium also quite strong number. Perfectly according to what has been planned. On-campus, great news with the base of 3% and revenue 10%. Total growth in digital and premium, numbers that we're used to seeing on-campus, slightly impacted as I've mentioned, due to the accounting point of the IR suggestion. So lower than what we had expected historically. And 23% EBITDA growth in all units, with margin -- total margin growing.

I think it is important for us to show some numbers ahead. Some numbers you are used to seeing. 7,200, 7,400 undergraduate medicine student base. We have 2,500 centers. Youth 3.2 to 3.5, 4,000 students per campus. And we want to get to the high end for law some point ahead, and this CapEx number that you've mentioned is quite important. I think we see the report from yesterday, today, we had 30% CapEx increasing. We have to mention the guidance, we have the CapEx number that is terms book lower, we have a revenue growth and we look at this number ahead about 7% to 8% of the revenue long-term. So, digitization of the company that has had fantastic results for us, but we see this number further ahead at a level that will be much lower than what we've been practicing today.

So, what do I want to have as a takeaway message? This is a fantastic result that makes us very happy. We look and see these numbers, we see it with great joy of the hard work we've been doing in the past few years. It should not -- please let us not generate this euphoric reaction on this. So this quarter is similar to the first quarter last year as well second quarter, actually, was very good. It was a quarter impacted to normally by transfer for printing from the first and second. Being equal to the second quarter last year is simply very good. Let's take it easy. But what we see here, depending on the numbers we see here, I've seen the written report today, where, actually, we have 4x the EBITDA forecast for year.

I don't know what numbers people want to look, if it's last year, this year, 2023. The fact is that we're trading at a fraction of what we have traded, half of practically of the multiples. It was efficient, and I think this is -- this applies towards mid-term negative vision that this result I hope helps people to see that there is a good trend for the industry. Nothing justifies the multiples that we are trading at the moment.

Thank you very much. Thank you very much for your attention and time, for the trust and confidence. Great volume of questions that we've been receiving for some time. The telephone did not ring over last year, then now we see many people looking and showing interest, and we're totally available for questions you may have. So, I want to thank you very much everyone that has followed us over the hard journeys in the past few years, and thank you very much for being with us.

Questions And Answers

Operator

(Question And Answer)

Now we're going to start the Q&A session for investors and analysts. (Operator Instructions) We have a question from Mr.Leandro Bastos from Citibank. Thank you.

Q - Leandro Bastos {BIO 21416405 <GO>}

I have two questions. First, I'd like to take -- have a direction on bad debt you mention the effect you're facing for the year. It will be a projection for next semesters for you to normalize the base for the year. What can we expect in terms of bad debt with those discounts? And on bad debt again, what would have been the level of bad debt in quarter. If you had 11 of additional DIS similar to historical levels? If you could share these numbers, it would help?

Second point here on intake, you talked about volumes quite significant, if you could comment a bit on the strategy of pricing, looking at market-by-market, comparing to your competitors. What about prices, if it is in line a bit low? If you could share a bit give us a favor on the product pricing? That's it. Thank you.

A - Unidentified Speaker

Good morning Leandro. Thank you for your question. How do we review our bad debt for the year and how would it have happened if addition to digital would have been smaller, the impact it had. The impact what we have is, the quarterly view of DL. Additionally, this will happen this year. The effect will not be eliminated over to your second factor of the center of intake on the total value will depend on our intake performance over the next cycle. If we continue with this growth of intake on the total, it will tend to me to remain with this impact over the year. So we have years of lower intake.

We estimate that this number will normalize but that are hedged. Third factor that is medicine. We believe that it will be eliminated at the end of the semester. We should still have an impact on the quarter, with the renewals of default students but we had eliminated this effect in second semester. If intake would -- well if addition been had been higher, the impact would be specifically smaller as I mentioned the factor of higher intake revenues 25% of this impact, so it varies.

It should vary according to the additional percentage it should increase a bit in terms of the specific impact that we've had. Third question, I'll turn it over to Eduardo.

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

The digital, we don't have so much of calculations, the revenue would be -- I don't know if it was from percent standpoint we wouldn't have so much variation, we can do the math later here.

In terms of pricing we have a group that can do things that can be very granular. There is not something in Brazil we have places that where we'll beat on our own places where we rank second places we are more premium, so there is something that the varies by marketplace by marketplace. And again it is a great advantage of being a national player because we can actually use different strategies that lead to different results.

So, the fact is that during the pandemic the general aggressiveness of the market was quite strong, despite of having a stability of average ticket from the first semester of 2021. We have inflation, that was not transferred to tickets, we believe this is ending, we're working towards that. We had a concern in terms of this moment of getting back to levels of students per campus that we had in the pre-pandemic period. So for us to work on our operating leverage and appropriately again we have a consent of being to the left in terms of cost curve, when we look at the reduction in the campus number we got anxiety.

It doesn't mean that the number of square meters per campus still the same the part of units that have been much broken down, many things we're working on that, to optimize them, now that we're comfortable to see full classrooms now, the trend is for us to get back to working in a granular way with specific office market by market, seeking a price recovery that is a clear trend in this industry, very clear this applies to us to the competition as well.

I'm not talking -- well we see this. We're starting the intake of second semester with the more rational so to speak environment as we saw that. For distance learning I also averaging that we see levels that are higher than that.

So people from 99 to 129, so we see things going back to 149, 169 so in environment more rationality happening. Again we have greater understanding of consumers, so everything that they are doing and lots of people as a whole. So further hand we see in the market as a whole behavior that is more rational. We're quite optimistic in terms of what we have ahead. Thank you, Leandro, I don't know if I mentioned to answer your question.

Q - Leandro Bastos {BIO 21416405 <GO>}

Sure. Thank you. Good day.

A - Unidentified Speaker

Thank you.

Operator

Next question comes from Mr.Marcelo Santos from JP Morgan. Your microphone is on.

Q - Marcelo Santos {BIO 3999459 <GO>}

Good morning, everyone. Rossano, thank you for taking my question. I have two questions as well. You gave us respectable margin for the campus segment, there you saw to calculate expectations. Can you comment on what we should expect the margins of distance learning and premium? Would be interesting in second question that we're living under an inflationary environment that is quite aggressive, practice of the company, when we have new students for them to have some certain discount and second semester is removed and students go back to price list.

Considering the inflationary environment, what do you think will be the behavior of this space? What's a success rate that we should expect for higher dropout? What should we expect in terms of this inflationary scenario? These are the two questions.

A - Unidentified Speaker

Thank you, Marcelo. Okay. Business margin, we don't expect -- different margins of very different from last year. So, as we close this year on page up here and there, so when we look at our budget, our projections here, there margins per business, similar to last year's. What we in our vision tends to pull the margins up to TL is higher than on campus our expectations is similar numbers to last year's. And the different slightly higher, slightly higher compared to mix. I'm talking -- not talking about fire points I'm talking about one or two. Let's see how price behaves as you've mentioned.

Second on more aggressive inflationary environment. Well we have an intake for this year in our perception, that is much healthier than last year. I don't know if you remember a year ago first quarter last year we had a campaign at starts with (inaudible) with three DIS, BRL3,049 you would do the semester three months for free. So people would take BRL147 from their pocket and they would be here for the first semester.

You've seen our retention numbers. We are used to seeing growth, in this semester we did not be much because of that. We brought a group of people that paid BRL147 for the semester they had to pay BRL3,000 and there was that reaction. Now it's not like if you take the BRL299 the campaign now, what they have to pay is BRL1,500 they get BRL3,000 some this year. So it's totally different payment when we look -- soon as we get, we had students that is bigger but healthier I'd say, because there is a symptom, something that is earlier intake. Students that come before are better than those that come later, the future of on-campus and distance learning. This 101,000 of on-campus is relieved to us, vis-a-vis last year. But we think it's a number that can still grow a lot.

We look at it and say, okay, we have a good group, good campaign now I need to actually add -- brought a lot of people. But they brought people that have their feet on the ground and the trend is to stay longer. Have, I answered your question?

Q - Marcelo Santos {BIO 3999459 <GO>}

Perfect. Very clear.

A - Unidentified Speaker

Thank you Marcelo.

Q - Marcelo Santos {BIO 3999459 <GO>}

Greetings.

Operator

(Operator Instructions) Our next question comes from Mr.Lucca Marquezini from Itau BBA. Mr.Marquezini, your microphone is open?

Q - Lucca Marquezini {BIO 21102315 <GO>}

Good morning, everyone. Thanks for taking our question is regarding the graduate studies open here. So we had great digital growth. So you have distance learning and graduate studies, what should be the pace especially for 2022 graduate studies, please.

A - Unidentified Speaker

Hi, Lucca. Good morning. Thank you for the question. We continue on opening actually a lot of centers, we have just 1,500 and our expectation to get to 5,500 as Eduardo mentioned, increasingly in smaller towns moving towards the instates or country side. This is our goal in here. Actually, we're talking about centers, the cost of center that we're going to get to those places healthily, there are smaller towns with the smaller potential. However, as it's been mentioned, where we have smaller, price competition, we move towards more towns with some space in larger cities. The greatest growth comes from countryside and towns. Have I answered your question?

Q - Lucca Marquezini {BIO 21102315 <GO>}

Thank you. Sure.

A - Unidentified Speaker

I'd just like to add Lucca, we put great pressure on a road to reduce the breakeven of our centers. We have 32 students in smaller centers and I think we have a lot coming from digital world that dilutes the implementation costs and levels or rates of the centers the pressure on them is to get to 25 LTV managers to deliver that. Thank you, Lucca. Thank you.

Q - Lucca Marquezini {BIO 21102315 <GO>}

Thank you. I think it's very clear.

Operator

Our next question is from Samuel Alves from BTG. Samuel, your microphone is open.

Q - Samuel Alves {BIO 18720076 <GO>}

Good morning Parente Rossano. Hello to everyone. Two questions that are brief on our side. The first one is on marketing expenses they're dropped 10% year-over-year, you mentioned on the release that, you have an expectation of an increase. So I'd like to ask about recurring level for the year if we can think that this would stay similar somewhat year-over-year? And the second question on capital allocation. In the previous calls, you mentioned the internal debate that you had regarding, you're now seeing a share buyback program vis-a-vis the M&A program.

And we've noticed that the company announced more recently the buyback program. Just to get an update regarding the M&A agenda, if you think there are still some opportunities as the process is kind of on a mismatch position to understand if some inorganic growth may take place this year. Thank you.

A - Unidentified Speaker

Thank you for the question, Samuel. Speaking about marketing expenses for the rest of year, we expect similar levels as previous year. So, we should have a financial volume here that is similar to what we had. We delivered last year reminding you that a reduction issues we started from second quarter last year, and we've been capturing that, and it should be at a much healthier level now, I think this is the position.

On capital allocation you are witnesses that I always thought with Hayama. Having the buyback and Hayama looking, trying to keep the cash opening to M&As, and the fact is that, we got to a level that we just couldn't -- could not do it as we look at the cost, that is well below what we think, what has been what we believe is correct. So we had an authorization for large program, we started the program now, we stopped obviously in the legal period that is before the earnings and let's see how things happen from now onwards.

We may resume things the way things are today. There's great temptation but this is not either or I think we I think we -- once again we have it's very difficult for us to look at an institution that is 12 times better while, depending on here we are 4, 5, 6. So this is the calculation we make. Why am I going to buy this guide so if I can buy it myself so we have the risk, everything we have in here we know about our potential but there are interesting things. And I think the point is actually price in our minds. We believe that we have to buy things that are after synergies when we see synergy we think about cost that have to be 5, 6 times better the price, two years that we get to 5, 6, times a bit I think, quite expensive because of the interest rates we have at the moment.

We haven't seen a smaller situation price proportional -- price reduction when we look at the large ones, this applies to all listed companies to us as well multiples are quite and price does make sense. And we have to get to the moment to a company, it has not happened yet. We would lie to it to happen but so far it hasn't been the small ones. And then you see with large multiples high price and I think we have to be very careful.

I believe we have this good recognition of the acquisitions we've made and acquisitions we haven't made. So we are quite happy with both. So we have to move on like that if you hear from an M&A dollars people will say well, wow, it makes sense, despite the moment very clear potential. I take the opportunity to congratulate you on the improvements in the first quarter.

Operator

Thank you very much. Our next question comes from Mr.Vitor Tomita from Goldman Sachs. Your mic is open.

Q - Vitor Tomita {BIO 19238819 <GO>}

Good morning, everyone. Thanks for taking our question. Two questions that we have on our side. The first is on DIS, how you see the funding of DIS, and your strategy from now onwards considering the drop in student addition and retention. In fact if this is to being used in the midterm of last practice.

Second question we've seen a follow up on the question on the distance learning centers, other players are increasing the network of partner centers. Could you give us a flavor as you see the environment for new centers? If you think competition for good partners in terms of transfer percentage being more aggressive in the market. Thank you.

A - Unidentified Speaker

Hi, Vitor. I'm going to start and then I'm going to turn over to Eduardo to talk about center CS as this is super product. Something that is not trivial to understand and explain it took me three months, when I arrived to understand and understand its power.

Summary, I make is that first tuition is 49, 59, doesn't matter, this is that market has, people used to that especially plus C and D classes the group that grows people talk a lot about. The A and B class portfolio (inaudible) suffered much last during the pandemic. We see that the recovery of the market AMB classes still studying they haven't stopped, it's there so the market -- so the recovery comes from G Class to C and D. And we have to keep on thinking about how to keep quality, improve, improve experience, and fit in students' pocket.

Q - Vitor Tomita {BIO 19238819 <GO>}

And DIS what is it?

A - Unidentified Speaker

It's something that people pay 4+ and they incur debt does everybody pay a great percentage of people do. So it's an additional revenue that you wouldn't have if you didn't have this product and we believe it's very good. DIS addition this term has been small because of the campaign the trade-off people made between having DIS and it was not spectacular at the moment. Why? Because usually the trade-off they make is between (inaudible) 49,600 so they prefer to disperse 49 take on a debt of 1,200 further ahead.

But now the trade-off is not 49, 600 since the offer was 49 the night trade-offers was 99, the numbers were much closer in this specific campaign. And I believe this is something that the team here has been actually shining and intended so you have a good offer and you have to have a good offer and communication that prospect understands easily. We have been able I think (inaudible) was this one at 299 any course, that was very easy to communicate and understand.

So there is a trade-off, which is something that impacts, well DIS is greatly impacted, because there was a great intake because of drained student base, it grew a lot. The trend is that this impacted revenue ticket within the quarters lower from now onwards.

When we look at the collection numbers growing, in line with for us to have a smaller DIS, it's not necessarily a bad thing, you may have a quarter or semester with smaller DIS, this will be recovered further ahead in bad debt ahead, possibly in retention ahead. These are things that are going to float over the moment. We think it's a great product and it will continue here for a long time. Eduardo, can you talk about centers?

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

Good morning Vitor. Actually we haven't had this pressure, neither have we increased our transfer percentage. We have a fixed percentage first year of implementing the center. Now from the third semester it goes into a range that the transfer rate depends on performance and these ranges have been the same since 2018 to make it clear.

When it's been implemented 2017, we have small transfer attended adjustment, so we haven't had an increase. So perhaps the reason for that has been that, today in terms of over 100,000 a competence, we only expand with our current partner base and smaller towns, when we actually go into new partners with a single sender is when our structure is light in terms of the center cost and makes a difference. When we need larger centers we go with the current base, and when we have new partners, our cost structure makes a difference.

So all our conversation with partners is based on partner profitability, not transfer so we calculate a lot and the results actually in the bottom line and actually how we should have a model for that. It makes a difference. We don't have to go into this transfer. So, actually our transfer rate is much higher than all the competitors.

Q - Vitor Tomita {BIO 19238819 <GO>}

Perfect. Thank you very much. Thank you, Parente. Thank you, Adriano.

A - Unidentified Speaker

Thank you, Vitor.

Operator

Our next question is from Vinicius Ribeiro from UBS.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Good morning, everyone. Thank you for taking my question. I have two questions on intake performance. The first about premium ticket, you indicated a range of up to 5% and the number was much stronger than that, because opening new Campi. And I'd like to know how -- why is this number similar to what you had expectation. And the second question, similar on campus more on volume, when you gave the guidance you had an expectation, and there was probably an acceleration that was much greater than what was happening after the announcement.

I'd like to understand, what do you think led to that better reaction of the market, gaining market share, some pent-up demand, what do you think these two factors, why do you think these two things happened.

A - Unidentified Speaker

Good question Vinicius, premium ticket. We knew that we would have an increase. We knew the increases we had. We prefer to be a bit more conservative when we release those numbers, giving some room for possible problems and the home run was very good the on-campus enrollment that we make had Olympic beating of all the girls and it was very good to led to having better numbers than the guidance

Good surprises that applies to everything. We try to be conservative except in the distance learning and on-campus that we knew would be complicated, we trying to keep them very much close to the reality that was quite time that we had. Remind me what the second question was. On the volume of on-campus, on-campus volume, excellent.

Vinicius, I think we have all kinds of things there. There is a side on our getting right our offer and the campaign that's important this is not small. I've shown you everything that we have invested here, having the top share of wallet, the Google, our intake process was very fast aside of our intake we think that is very well worked out.

So, we have the student site. We work very well during the pandemic this is very much recognized by our students. We had several measure on our NPS 15%, 25% above before pandemic, now we see this, we increase and then we see this on social media, we see this in the environmental a lot of cautious environment, as this is common for our service competitor. That has negative impact, but more positive comments than negative. So, there's a side on taking care, doing things that make people feel good. The side of technology.

Students have -- well, we have a great difference on our technological environment and hybrid environment, for you to attend classes that have been made to this environment. I'm not taking this guy that is standing there, shooting game and putting it on the web and calling it distance learning or hybrid and they're not that. So, the classes have been planned by our super team and we keep thinking on how to bring the best content and ensuring that I get the guy out of Facebook of the fortnight to be engaged with me. So there is great preparation. There is another factor, we actually got back truth. So we have first (inaudible) 25% with the group to keep assuring sanitary measures and now we have everyone and lesson started before everyone. We have instructed our students right here that I believe remember that the concentration on campus just showed on 20% competition with the large one. So we have ability to compete that these smaller ones cannot manage.

The answer I'd like to give you is now the whole market is actually moving. No, it's not true. So we have a competition level totally different from pre-pandemic, we're emerging from pandemic on all our segments, especially on-campus. We're Increasingly or incredibly stronger than what we want, that we were compared to the rest of the market. Have, I answered your question?

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Yes, you have, thank you.

A - Unidentified Speaker

Thank you.

Operator

Next question from Mauricio Cepeda from Credit Suisse. Your mic is open.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Hello, Parente, Rossano thank you for the time. I have two questions follow ons of what colleagues have asked. First on the dropout part I understood that I think you mentioned better quality, so better intake despite microeconomic challenges. You don't see great problems since we have gone over a bit of our second quarter, what have you seen in terms in terms of dropout pressure, how do you see that further ahead?

Are you going to have another summer call of intake and pressure will continue. And the second question, always on DIS that has been very much explored. I see there are lots of students, great part of these students are paying this diversion. How much percent of your student base is on this point at which they were -- they not suffered the ticket transition there will be someone more at risk at a time of renewal? Thank you very much.

A - Unidentified Speaker

Thank you, Mauricio. The first dropout rates. Well, we had a retention trajectory that was very positive every quarter we showed the evolution considering previous quarters. First quarter has not been, either was equal or we had an evasion or dropout rate, there was versus so the base it was worth those that to enroll last year. They had very high discount, and so we have a change in ticket that is very much impacted, when you have a number close to zero, because not close to zero so, when we have disbursement in terms of my two terms of gross debt has an impact. And we also are being more let's say stricter in negotiation processes that leads to more dropout and there is a ticket work that helps us with that.

So, I do not have an expectation for this number to get worse, much on the contrary students joining now or enrolling now are better than the average that we had enrolled in during the pandemic. Second question regarding the base of the -- student base this is the question I believe. We have a feature that and you will see players that have similar strategy to ours and others that are different we're bringing a lot of people many times in sort of momentum and this leads to great drop out in the first semester.

People don't enroll and when they understand what it is they understand that they need to dedicate. So I am not simply saying they are just doing a course, when they realized, when the penny drops, what they prior contracted, there was offer for the subsequent semesters we had. 40%, 45% in terms of dropout, and the average is 15%, depending on what we have in terms of dropout. But the average is 50% first master, plus 3% to 5% as well happening to the subsequent terms, once the student registers after the first term, things tend to stabilize what about today, in terms of our student basis, the intake was strong, so we have the number of students that is quite high vis-a-vis they cannot do it the math now.

But considering the presentation that I've just made now, you can actually do the math. So we have a large number of people that's called them in the 50% bucket, that we have to work on and that's something we evolved gradually all this person retention strategy. So we had a score of people so in the pandemic knowing what to do with this score people so we have great works we always have with digital migrated to on campus.

So you have to understand, if you have never opened the system, so it's a ticket if you know the guy has that great. If they haven't paid, it's another. So, we have a different approach according to the type of students so the trend, we've seen these numbers of first semester, higher retention numbers, but I think we have a better growth, the number tends to be better from now onwards.

The answer is, we have a large group of students that are in the first semester world with a different feature of being a group that was actually registered earlier with greater likelihood of staying and greater disbursement with the campaign we had over the first semester, we have good expectation of retention from now onwards.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Thank you, Parente. Perfect.

A - Unidentified Speaker

Thank you, Mauricio.

Operator

(Operator Instructions) Our next question comes from Mr.Lucca Marquezini. Your microphone is open.

Q - Lucca Marquezini {BIO 21102315 <GO>}

Thank you for taking my question. We have two questions. First is on CapEx -- (Multiple Speakers) how long do you expect this level of campus to get the long-term (inaudible) same level. The other is focusing on more the (Multiple Speakers) how do you see the potential segments now onwards. Are you looking at other growth strategies of these non-regulated world. Thank you.

A - Unidentified Speaker

Thank you, Lucca. Okay. We have a lot of digital CapEx growth ahead. I think when we look at our world, we have implemented assuming, we were ahead of our competition in our work. There is nothing that we do here that cannot replicated. However, it has always been two years ahead of the competition. We've done great work. We have perhaps increased this gap when we moved into the app world it's like it's easy, it has a bit of pedagogical level. It's not trivial.

Well, it's okay buy the guy from -- just hire the guy from the federal University originator, we have these rational standardization. All of -- something that has to make sense has to be consistent and you have to understand that there are different people that learn in different ways. So there is a lot of technology. And what we have used to calling technology, and there is a lot of technology in the educational world.

There is a lot of technology if you're convincing this 13,000 professors that, that is good for them to adopt it. And this is not (inaudible) that's not being trivial. And it depends a lot on a great willingness of the senior management, it depends on a lot of conversation, listening a lot, people working together and thinking about the future. So when we look at what we have already done, so I was mentioned it at during the presentation.

We're very proud of it, when we look ahead. We-- our eyes glair. We have digital evaluation system. About a year ago we had a pilot, now we're doing it in a large scale and I know today, once the semester, all the students take a digital evaluation and know what they've learned, what they haven't learned, I can compare professor digital content.

This is learning to on campus. We have today a clear vision that our utmost goal is deliverable, is it what we deliver so we can breakdown who is at what level and I have this information in digital and IT who learned on that level. I mean it's easier for us to do things, that are focused, where we want to get at, the second semester. So we want to get there and want somebody ask for students we find five guys with this guy, and they're going to get across there.

I happen to understand that seat is for them let's not make a photo ads to merit students. So for us to combining the market demand, future of people, having a leverage and environment that is great, that we have today. Just to illustrate we have 53%, 45% of black employees leadership, 31% black people. And not to mention other minorities so we have a demand today for this space has had been accomplishment of minority groups to seek diversity into their environments, and we are unique in terms of providing that.

Once we get, we managed to combine and understanding abilities and willingness what's missing, and combining that to market when there is a huge power, there is a lot to come up from the technological standpoint but 78 we're not far from it. We have a General Manager and so, we have smaller CapEx number compared to last year, as a percentage overall. It's number -- drop we have an expectation of growth, and the nominal levels are not different from further near future. 78 will happen not to the CapEx reduction will happen for a whole moment, and certainly we have maintenance of several things that we're doing now, especially this hardware implementing everything, putting everything on the cloud backup side or the hardware part that we're completing, bringing us from the 92 to 2025 this is high cost, that is coming into a sort of declined phase to breakdown our model is to smaller systems creating agility.

A silly example for us to publish a campaign, and we would take two days. Today we just a minute so this hardware part tend to drop in the mid, in the short mid-term. We're going to have a here similarly a growth of our new architect and it's all hard work, conquered signed hard work.

There are two fantastic acquisitions very much for the (inaudible) when we started. Well, I'm going to do use at that right as a fad of digital transformation it's not the real fad, it's the trend, it's not a venture capital, as I'm going to make an incubator et cetera. It was a bit we looked from a distance and we thought it is not for us taking time, incubating a lot of things and checking what is going to happen having a 20% success rate.

We prefer to pay a bit more -- a bit ahead of course it's company at hard work, it's as a new company with fantastic growth strategy or trajectory. What we see -- we saw then, people that we can engage in our project keeping independent and then we have a financial side of things and we will look at it let me say, this is something that is financial standing, very good outlook.

And on this other side is what we're learning from these feedbacks, keeping these feedbacks great point. On both we found a formula for that. There are the things that we're looking at they're very cool. And I hope they are successful, we have now some news shortly so these things have high growth, low asset level that have a connection, that we can actually learn from these level lots of very few things to be done. Very long answer, but the questions were very interesting.

Q - Lucca Marquezini {BIO 21102315 <GO>}

Thank you, Parente.

A - Unidentified Speaker

Thank you, Lucca.

Operator

The Q&A session is closed. So, we would like to hand the floor over to Mr.Eduardo Parente for the company's final remarks. Mr.Parente, you may proceed.

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

Well, thank you very much for engagement within record audience today. We have a feeling that is very positive at the moment we are going through. I'd like to leave my mantra with you of fantastic results. Second quarter last year was very fantastic. So comparison base to be now honest let's not take the 23% protected, on the other hand, I believe the results saw that multiple that were multiple living instantly out of reality.

So expect your confidence. We thank you very much for your confidence and we're working hard. When we look at our projections, our plans, we have great growth, relevant growth coming as of this year, even more, subsequently, especially in cash flow, that makes us very excited towards the future. Thank you very much. Thank you for your trust, and thank you for your participation. Well very good day to all of you.

Operator

Yduqs video conference is now closed. We thank you all for your participation and wish you all a very good day.

FINAL

Bloomberg Transcript