

Y 2014 Earnings Call

Company Participants

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

Other Participants

- Luciano Campos, Analyst
- Vera Rossi, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for standing by and welcome to Estacio's Conference Call to discuss the Fourth Quarter and Full-Year 2014 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 earnings release.

We would like to inform you that during the call -- during the company's presentation, all participants will given -- only be given ability 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'd now like to turn the conference over to Mr. Rogerio Melzi, CEO. Please, Mr. Rogerio, you may proceed.

Rogerio Frota Melzi {BIO 16212298 <GO>}

Okay. Thank you very much and good morning everyone. Welcome to our conference on our results for the fourth quarter and the year of 2014 results. I have here with me Mr. Virgilio Gibbon, our CFO and also my IR team. And I'd like to remind all of you that we're going to open up for questions-and-answers at the end of the presentation. So let's get started by showing slide number two of our presentation, which is also available on our website.

As we mentioned on several occasions, we like to divide Estacio's timeline in four different stages; the first stage, which goes on the foundation of the institution to deep

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FIES arrive in 2008. The second stage, which comprises the period between 2008 and 2011, which was characterized by Estacio's turnaround; the third stage, which we believe is deeply influenced by all the work done during the turnaround years with of course, the help of positive externalities for the sector. And the fourth stage, where we foresee a more challenging complex scenario, more competitive with new technologies and less positive externalities, but at the same time with great opportunities for companies with concrete differentials for their target audience.

I'd like to call attention for the third stage in our history, which began at the end of 2011 and has been lasting until now. In this stage, we have been benefiting from all the work we did during our turnaround, besides the tailwinds that reinforces the market's positive perception of the sector. In short, we can agree that we had two possible paths, we could have chosen to take advantage of this good times; first one was to make the most of this and move full speed ahead with deploying our size by several times through consolidation and all the levers that could boost our growth. The other path was about more a long-term strategy, thus keeping a steadier growth base that will allow us the time to build the crucial differential that we will be of the earth most important, when it finally get the fourth stage of our history.

As everybody knows, we choose the second path, because we believe a continuous improvements less longer and generate higher returns than short sudden leaps. In other words, we chose to focus on the film rather than on the picture, projecting a future and working hard to build it, since the beginning of this third stage in this contest since 2012, we have had 2020 as our horizon in order to escape from the pressure of quarterly results, short-term goals and success in one dimension to the detriment of others.

For this reason, we adopted a more discipline approach towards our growth strategy, prioritizing organic growth and making acquisitions to improve our capital strategy not for consolidation propose. We also decided not to over rely on FIES, since we did not want our strategy is to be based on our elements, which do not depend solely on us. In other words, we chose to be the strategy more on our own strengths, so that it could sustain a reasonable growth base with the control risk level, even in more a -- diversified scenarios as the word described in the fourth stage, we just mentioned. Thus guarantee the achievement of our vision 2020.

Therefore, while we were delivering outstanding results extremely from our turnaround process, we decided to take the time to built the attributes that still [ph] make a huge difference in our results.

I highlight, the creation and implementation of a corporate culture, which gradually becomes an important competitive advantage as it allows us to allow thousands of employees is spread all over Brazil around our common goals. The execution with total discipline of our strategic projects such as innovation, quality system, focus on the students and their employabilities, investments in service and hospitality, branding and 2020 academic model, which we have been constructing based on the pioneering academic models created back in 2010.

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The beauty of more than management system in line with the best market purchase allowing us to move the entire company together provides common charges use KPIs to major performance of Amazonia employees.

And then the final variable compensation based on the achievement of this target thus fastening a deeply merit (inaudible) environment. Thanks to the system, we are nowadays a company with certain brands, processes, academic model and information, management and compensation systems, fully standardized across the country. The adoption of corporate governance process that allow us to act with the cooperation responsibility, but without losing the agility with so much need. We also started to pay more attention to risk management, which among other things led us to focus even more cash generation to become more aware in relation to our exposure to government -- governmental problems to conservatively conclude the bond issued in the last quarter of 2014 and to view the diversification strategy that aims to reduce our dependence on the on-campus high education segment.

Last but not least, and as a consequence of these previous points, we decided to really gain exposure to other segments, particularly the distance-learning business started from (inaudible) back in 2009 and the continued location area created to focus on other projects related to education for adults. This is how we are able to paint the mat blue as illustrated on this slide. That is how we were able to generate substantial and consistent results over the years steadily, without highs and lows, without surprises. And that's how we become a company able to understand the value of balance among all of its dimensions as we can see on slide number three.

Since we are a Services Company, we are fully aware we have to build strong relations with our employees within a positive working environment. Consequently, and because we believe that everything can and actually suit the measure, since 2008, we have been conducting with the help of the Hay Group and Annual Organizational Climate Survey, whose results are shown in the graph below. Historical serious founded by a brilliant results in 2014 shows 73% of favorability, 5 percentage points up on 2013, with more satisfied and confident employees, plus all the initiatives we have developed to improve quality both inside and outside the classrooms and as part of our permanent focus on the student.

One of our main values, it is only natural that this perception is also reflects -- reflected in our student satisfaction surveys, which are conducted by Copernicus also since 2008. Once again, it is possible to perceive the positive trend of this indicator confident corroborated by a spectacular result in 2014, 73% of favorability last year for on-campus students, compared to 68% in 2013; and 77% for distance learning students, which represents a 5 percentage points improvement year-on-year and the factor deeply influenced by word to mouth, it is natural that this qualitative results would translate into quantitative ones as we see in the next slide, slide number four.

As you can expect in our services company, the employee and client satisfaction allow us to grow safely and steadily, even without leveraging so much on the positive scenarios, I mentioned earlier, resulting a company with less FIES penetration and less acquisition movements, but there is two grows a lot.

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Looking at the graph in the top of the page, we can see steady student base growth over the years, up by 38.5% over 2013, for CAGR of more than 12% with a solid and sustainable student base growth our management and governance model together with a scalability brought by our business model. Based on centralization and standardization, we've been able to deliver significant results and excellent returns to our shareholders. As you can see at the EBITDA graph at the bottom, we reached an EBITDA of R\$533 million in 2014, 66 above the figure shown in 2013 for a 42% CAGR since 2008.

It is exactly the set of results that together with our discipline to focus on the execution of our long-term strategy, mix is really confident in our future, and in spite of FIES. But I'll come back to this matter in a minute.

For now, I will hand over to Virgilio, who will give more details on our financial operational results and then we'll return for final remarks.

Virgilio Deloy Capobianco Gibbon {BIO 16679141 <GO>}

Thank you, Melzi. Good morning, everyone. To begin I would like to draw your attention to slide number 5, which shows our operating results. The first chart shows the student base at the end of 2014, we ended the year with 437,400 students up by 38.5%, when compared to the same period last year. 301,700 of those were enrolled in on-campus cost in 83,000 in business learning programs, beside the 52,700 acquired students in the period. Under the same shops concept not consider the four acquisitions made in the last 12 months, the student base reorganically by 21.9%.

The chart on this slide shows that the net operating results increased by 49.6%, when compares to fourth quarter 2013, totally R\$652.4 million, this increase is a result of the organic growth of the student base, the positive -- variation of the on-campus average ticket, the integration of the acquired companies, the offering of Pronatec and the students transfer Gama Filho and UniverCidade during this year. In 2014, total net operating revenue rose to R\$2.4 billion.

The table on the lower part of the slide shows that in the fourth quarter 2014, the average on-campus ticket went up by 10.5% again reflecting our capacity to increase price at least in line of inflation, once more and for the same reasons explained throughout the year, this result was due to our policy of adjusting monthly payments in student specific locations as well as improvement in the mix the result among other factors of average student opting for higher value added courses especially in engineering health areas.

Distance learning average ticket declined by 5.6% in fourth quarter, already reflecting the more comparable base after completing a year that saw the launch of EAD Mais distance-learning plus program and our policy of readjusting price in certain specific locations.

Let's move now to slide six, which shows the vertical analysis of our operating costs and expenses. In the fourth quarter, the cash cost to net revenue ratio recorded a 5.6 percentage points improvement over fourth quarter last year, mainly thanks to gain in the following lines. 2.4 percentage points in personal, reflecting the efficiency gains in

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effective cost management coming from a better class formation process in addition to 1.6 percentage points in the INSS line. 1.1 percentage points in rentals confirming our expectations of scale gains in this line.

In the whole year, the cash cost as a percentage of net revenue ratio was once again an important source of efficiency gains improving by 2.8 percentage points due to gains in the following line. 0.9 percentage points in salaries and payroll charges confirming yet another year of margin improvements due to increasingly efficient faculty cost management, 0.7 percentage points in rentals represent a 7.2% of net operating revenue, thanks to improved contract management gains of scale from the increase in the student base. And 0.5 percentage point in third-party services confirming the efficient gains we had been obtaining in the slide.

In the quarter, selling expense improved 0.4 percentage points as a result of the significant 1.5 percentage point improvement in PDA, once again reflecting the success of our strategy of recovering our receivables portfolio in 2013. Our provisions for the future of FIES students already consolidating in our PDA line. At the end of 2014, FIES students were divided into 89% with FGEDUC and 11% with a guarantor. In 2014, selling expenses represent a 9.9% of net revenues, generating a margin gain of 0.7 percentage points, essentially due to the consistent year-long improvement in the PDA line.

The market line represented 5.6%, sorry, of net revenue reviewing our annual expectation, given that we've decided to invest a little more 0.5 percentage points in market-related to building our brand, which will be the major focus in 2015. G&A expenses represented 15.9% of net revenues in the fourth quarter 2014, 0.7 percentage point more than in fourth quarter 2013, mainly due to one, an additional of around R\$6.5 million over fourth quarter 2013 in provisions for bonuses and stock options given the pace we saw during the year. An impact of around 7.5 million from our sponsorship of 2016 Olympic Games in Rio in institutional events line. However, it's worth emphasizing that there was a corresponding counter entry under revenue related to the training we offer to the volunteers, who will help at the event.

So that the effect on operating results, (inaudible). Impact only the operational margin in the period and an increase of R\$1.2 million in the issuance line related to the issuance form that we have begun offering our students covering a semester of monthly tuition in a specific scales of loss of employment. In the whole year, G&A expenses corresponded to 13.7% of net revenue in 2014; represent a 0.1 percentage points improvement over the year before, even with the increase in the institution events line mentioned above, which was concentrated in fourth quarter.

Moving to slide seven, we can see the evolution of our EBITDA in the period. In 2014, EBITDA came to R\$532.6 million up by 66.3% from a EBITDA margin of 22.2%, 3.7 percentage points above the EBITDA recorded in 2013. This crowns a year of excellent results, coming from efficiency gains obtained in cost and selling expenses line, besides the consolidation of UniSEB and the other acquired companies confirming another cycle of performance evolution profitability increase. The fourth quarter followed the same trend, EBITDA reached R\$133.1 million, a 102.2% increased year-over-year for an EBITDA margin of 20.4%, up by 530 bps.

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We now move to slide eight, which shows our accounts receivables. The number of net days receivables including FIES receivables and FIES net revenue as stood at 65 in fourth quarter, 18 days less than in third quarter 2014 and 5 days less than in the fourth quarter last year. Excluding FIES net revenues and FIES receivables, the average days receivables was 74 days, with reduction of 5 and 4 days over the third quarter and fourth quarter respectively, confirming the significant improvement in our average days receivables and our higher successful collection or efforts in 2014, has been refined by the improvement in our PDA and accounts receivable.

Moving on to slide nine, our FIES accounts receivable declined by R\$72.5 million over the previous quarters to a R\$149.7 million, reflecting the continuing process of amendments to the FIES contracts throughout the semester and the consequent transfers and repurchase of certificates that took place in the fourth quarter.

Let's move now to slide number 10, which shows our cash flow. In fourth quarter, we recorded positive operational cash flow of R\$63.1 million a R\$101.3 million more than in fourth quarter last year indicate a substantial improvement in cash generation in the quarters. This result was sharply due to significant EBITDA to grow and the reduction in our average days receivables. In 2014 as a whole operational cash flow was positive by R\$233.6 million also considerable a R\$166 million improvement over the previous year have been solidify our end of year cash position incorporating our growing operational cash generation capacity in contributing for our solid cash position, which we have today.

Moving on to the slide 11, I would like to say a few words about UniSEB integration. In fourth quarter 2013, we intensified the procedures relate to start just UniSEB intake and integration of back office process. This efforts brought excellent results in the quarter, we deliver on EBITDA of R\$16 million up more than 96% over the third quarter, we also saw another very strong intake cycle in the semester with the fourth intake process. After growing the number of new enrollments by a 165% in the third cycle, we closed the fourth cycle with 20% growth on business learning intakes.

Even with the calendar effect of the World Cup, which means the cycle less at 18 days less than 2013. Besides their intake growth in the fourth quarter, two other positive factors contributed to increase revenues. The migration of a portion from the student based on the telepresence model to the 100% online model and the conclusion of the first wave of students migrating from partners centers Estacio's own units. Eliminating transfer needs, which saved around R\$250,000 in fourth quarter 2014. In November, we began the second phase of student migration to Estacio's academic systems.

At the end of this stage, almost 43% of the centers through partnership will be ready to offer distance-learning undergraduate to cause under the Estacio system, thus optimizing process and operating costs, which should contribute even more to the results and increased students quality perception. The final distance-learning undergraduate student migration phase is expected to take place in the second semester of 2015. Finally, we have concentrated all of our efforts on the intake of this Estacio to sell units in the first semester of 2015, which began in fourth quarter last year. The process is already taking place within Estacio's systems and we have already registered a year-on-year increase of more than 50% in the number of new enrolled students, without considering the Medicine

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course, which has 40 seats for the first semester of 2015 and a ratio of 41.6 candidates for each place, versus 15.7 in the second semester of last year.

Moving on to slide number 12, I'd like to comment a little more on UniSEB results. In fourth quarter UniSEB contributed to leverage Estacio's operating results, recording net operating revenue of R\$28.3 million, UniSEB's EBITDA totaled R\$16.1 million with the consolidated margin of 56.9% this (inaudible) is almost twice the one we present in the third quarter, which already reflects operational leverage and synergies resulting for the integration efforts.

The number of students per UniSEB distance-learning further closed 2014 at 307, represent enormous growth opportunity given that we have been gradually converging towards the ratio closer to that of Estacio's organic operation, which average around 1,600 students for a center. In addition, it is worth remembering that we did in December the MEC approved 19 new centers for UniSEB, which began operation in the first semester of 2015, bringing further short-term opportunities for the first semester of this year.

Finally, on the slide 13, I'd like to comment on the new 200 million loan counter, we have just announced. As said in our release, we kept our EBITDA target for 2015 tax and we will look for alternatives to restore our cash position affected by the normative rule 23, the additional funding contracts to its Banco Itau besides being attractive for our financial standpoint give it's all in cost of 100.28 [ph] of CDI interbank rate, makes it possible for us to maintain our expansion strategy and the progress of our 20-mile march in 2015.

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

Rogério Frota Melzi {BIO 16212298 <GO>}

However, thank you Virgilio starting over of slide 14. I'd like to comment to little on FIES. Well if on one hand, you cannot say that the oddness published in December definitely march at the beginning of the fourth stage, we mentioned in our opening remarks, we had no doubts that is sequence of chasing problems, we have been observing adds complexity in this make this scenario more challenging then it previously was. In this context, we believe the differentials built in this last years will be essential for us to maintain our healthy growth space in line with our long-term view. However, before speaking about our strategy, it is worth remembering our view towards FIES, because once we understand its vision, it becomes easier to understand what it believe for the future. We have always believe FIES is a problem created by the government representing the society and its interests to students, who cannot honor their tuitions in a private hire location institution.

In this context, we the institutions have solid role to provide the students, who choose us with education related services. The student choice therefore should be based around what we can offer and on the quality perception of our potential students. That's why we do not consider ourselves as a company in position to discuss neither matters related to the size of the problem, nor mix -- the mix of education. So (inaudible) on criteria, such as

the minimum integrate [ph] for example, we believe the discussion must happen between MEC and society's several stakeholders in particular student representative associations since they are the most affected by the governments decision.

On the other hand, we are putting all of our efforts to make sure that the contracts that were agreed prior to this trends have all their term [ph] respected. That's why since these trends were announced, we've been discussing with the government and their representatives eventually through legal actions, sorry, decisions that have delay in tuition payments and the price caps introducing since [ph] FIES the system for FIES.

At the same time, we believe FIES is extremely important to our country since it directly affects the students who really in help to spread and improve their lives. We also believe that FIES leads to an improvement in the whole quality of the system and gives the student a higher bargaining power. That said and starts intends to keep working together with its peers and the government to improve FIES, adopting measures that could make the problem far and more sustainable in the long run, possibly originating what the market is already calling FIES 2.0.

Moving to slide 15, we can see where this blue [ph] letter are so far and how at the same time it is helping us to build the strategy for the next years. Since it never intended to appropriate FIES for ourselves, we are over using it as a tool to attract the students, between 2011 and 2014, we adopted this strategy, this claims in the left side of this slide. It is worth remembering that such strategy was severely criticized in several times, because it's similar that at some point we rise low to adopt the problem, as if the decision was ours not the student's decision. Therefore, we always; one, of further advertising FIES as an intake tool, since we always believed that our student should choose a class for what we have to offer and not what the government is offering.

Two, offer FIES mostly for students improvements financial distress, who wanted to keep studying. Unlike many critics have been hiring, we believe that by doing this we are not just transferring the (inaudible) to reach to the governments, we are actually acting responsibly in order to prevent our proxy due to financial reasons.

Three, trying our best to minimize the adverse selection effect, which means that students, who don't necessarily need financing fix the problem given its advantages. And fourth, following the principles of game theory, we aim at SisFIES, FIES, a FIES penetration rate lower than the market average. So that we would be the least hurt in case of significant changes about in the problem. With this in mind, we did the strategy we are going to adopt for FIES from now on, which we can see on the right side of the slide.

Given our level of FIES independence, our strategy will be; one, to be restrictive in the process of evaluating the student credit score, although these assessments don't buy the FIES financial operators differently from what happens with the pro union, our goal is to reduce even more the diverse selection problem, therefore, considering for better allocation of resources purposing of who really needs the problem.

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Two, to seek private alternatives for student financing in line with what we have quickly done with Pavao-Pavaozinho [ph]. We believe FIES helps to retention -- the mindset of educational loans, fostering our culture of investing in education in this, bringing the possibility of new financial players offering student loans. Three, little by little to gradually reduce or gradually reduce the exposure we have to the problem. We do not have an ideal exposure level yet, but we know it is below what we have today.

In this context, we believe the volume caps the government has been introducing as well as the adoption of a new platform for a student selection already for the second semester of this year could actually help us reduce our exposure without creating any kind of competitive disadvantage.

And four, to highlight even more differential Estacio can offer to our students, at still, we're working really hard during the period of positive externalities to build such attributes, so now; it is the best time to make use of them. In a nutshell, we simply believed that with the help of our brands, our product, our quality, our team and our differentials, we will be able to keep moving forward posting consistent growth rates.

Moving now to like 16, we have the first opportunity to see the strength of our strategy even in more challenging scenarios. Despite all the issues regarding FIES and SisFIES, including systems slowdowns, supposed volume caps, uncertainties due to the lack of official information and the fear regarding the future of the problem after the changes announced in December. Estacio once again and for the 10th cycle in row should present a record high enrollment result. Although the intake process is still underway, it is possible to estimate an organic growth, excluding acquisitions and the transferred students from Gama Filho and UniverCidade in 2014 for the on-campus undergraduate intake segment between 8% and 13%. In this scenario, our on-campus undergraduate student base, under the same-shops concept, is expected to grow between 15% and 17%. If we consider the acquisitions made during 2014, and at the same time we add back the students transferred from Gama Filho and UniverCidade to the 2014 student base, we expect our on-campus undergraduate student base to grow between 18% and 20%.

In the distance learning undergraduate segment, which did not suffer with these recent FIES changes, since the financing is not available for DL courses, Estacio once again should record strong results.

Since it is hard to break down the cannibalization effects in locations where both Estacio and UniSEB operate, we decided to present the Distance Learning intake numbers with a pro forma adjustment for the UniSEB intake in 2014, for a better comparison. That said, the distance learning undergraduate intake should grow between 17% and 21%, which will lead to a total DL undergraduate student base growth, already considering the acquisition of UniSEB concluded in 2014, between 41% and 44%.

As a result, we expect our total undergraduate student base to grow between 23% and 25% in relation to 2014, which paves us the way for another set of great results in 2015, thus keeping the pace of our 20-Mile March and showing the strength of our

management model, our brand, and our team, which in our belief are definitely be a (inaudible) FIES.

Moving to slide 17, the final slides, I'd like to comment, or sorry, we would like to conclude our speech, reinforcing the believes that our management model will help us overcome the challenge imposed by the chance on FIES. We believe (inaudible) improves that better, then the fact that we remain committed to achieving the same EBITDA target that have been negotiated with our Board of Directors prior to the announcement of the changes. We also decided that why or we can't see full compensation in terms of operating cash generation in 2014 give the damage in FIES receivables.

We will seek an equivalent cash position for the year's end to the loan we projected before the publication of the ordinance. In our next interaction with the market beginning with the results for the first quarter 2015, we intend to give more details on the plans we launched to obtain the results I just mentioned.

We finishes with our saying from (inaudible), one of the Executives, we have as a role model here at Estacio. So as (inaudible), Brazil is never as good as it could be, but it's not as bad as they say. We may not be at our best time, but the larger operations we had happened in times of crisis, the markets and the entrepreneurs of Brazil are very good. So it's best to look forward to see how to make the best of the troubles and what you can do even better than before. This were our comments, we can now open up for question-and-answers.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the Q&A session. (Operator Instructions) And our first question comes from Luciano Campos of HSBC. Please go ahead.

Q - Luciano Campos {BIO 16181710 <GO>}

Hi, good afternoon, Melzi and good afternoon everybody. My first question is about the private funding that you're bringing in with Privalia [ph], my understanding here is that the interest rates for the students will be, is more if I'm not correct, if I'm not mistaken about zero. Can you walk us through the economics here will be each student had takes it Privalia, who have the same -- same exact ticket that another student that pay out of pocket, that's the first part of your question. And how that flows in your income statement and balance sheet, the difference between these two students in terms of margins, ROE or anything else that we need to understand for these students coming into Privalia? That's my first question. Thank you.

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

Alright. Thank you, Luciano, this is Melzi, I'll ask then Virgilio can comment on that. The truth is that Privalia was already ready to go. Nobody expect this change in FIES in the middle of an intake process in the way it happened. So it's not that had a lot of

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opportunities to look around and to build anything specific for Estacio, we knew Privalia was being kind of maintaining a good relationship with them, we like the product. We know the founders and the CEO and the Chamber well. So the moment this happened, we call them right away and said, we have to offer something to students, who won't be able to get FIES and obviously they were at the best possible options.

At the same time, they already had their own model and this option we decided to choose this as zero interest rates by definition that means that we are subsidizing these interest rates. This was one of the options they had in their hands at the time. I can't tell you right now, whether this is the best possible one, the perfect one, but that's the one they already had and that's the one we identified at that moment as the one that could actually (inaudible) FIES in terms of calling our students attention.

Obviously, we don't -- in the medium term, in the medium -- we are going to look for other options, not only with Privalia, but with other private players that may feel interested in jumping into this opportunity with educational credit. But there is one important point about the Privalia and this interest subsidizing, which is a fact that obviously, if we are going to subsidize this interest at least for now, for again what we can do in the future to improve the process and the problem. Obviously we are not going to give a lot of our scholarship for example or special discounts to this student so there is kind of a compensation going on in this process. Right now it is really difficult to tell you whether this is going to be a full offset or not. What I can tell you, however, is that it won't be like a 100% of a loss hear. So we don't have this projections and again, we have to remember that will happen in our matter of a few days and or few weeks, we had to design everything to implement a process to starts sending to our students, we thought it would be, really interest in that time, we've already have 3,000 students in the middle of the process with Privalia meaning that it is indeed working well.

So as time goes by as we buy more time by using this first opportunity, we will be able to evaluate whether it's working well or not. We will be able to see it more commonly and to develop all their options for a students. We will be able to think better about other options we may have just to be (inaudible) only partially the interest rates to try to combine, what kind of a high interest rates students will have for example with their own behaviors in terms of a how well they are paying the tuitions and so forth. So I think there are lot of room here for (inaudible), for development, but are now right now, we have to focus solely on these option they already had in the shop.

Virgilio, if you can add.

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

Okay. Hi, Luciano, it's Virgilio I think on interest point the subside that we offering to the students is 1.82% amount. So if you are bringing all this cash flow from this division for a present value the discount that will be close to 81% of each R\$100 that we are going to cash in a student contract. Just for comparison we have as on average in Estacio of scholarship since discount something close to 25%, 28%.

So if we have the opportunity to reduce this scholarships in order to offer all the discount that we also decided from the interest rate so that's makes a lot of sense and generate value also improving our tickets I had. And I think that not a huge opportunities that after the first payment, after that the first installment that the student pay in the semester. We are going to cash, the entire semester have been the cash flow generation the working capital during 2015, that's had been heard by the normative rules from FIES. So I think this is complete answer here.

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

As for your question on how this we go into the balance sheet, the truth is that we haven't thought a lot about that yet, but I mean it is technical financial discount. But we are going to have a huge debate here how to show these eventually as an operational thing because at the end of the day, we want to show the extra tickets students are paying for our tuitions. But this is still ongoing here remembers this is pretty quickly stuff I mean, did I have a lot of time to go through all these details.

Q - Luciano Campos {BIO 16181710 <GO>}

Understood, sir. Just one question perhaps that one you'd have Melzi, if I understand the student pays half to the tuition out of pocket, right. I would just want to understand the other half were approximately, other half would Privalia give you that money right away or that will go to your receivables? That's.

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

Semester-by-semester.

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

Sure, sure semester-by-semester for tuition right at the beginning, and the risk we will be a Privalia's risk in the future. So if student doesn't pay, that's going to be their problem, right. So we get full recognition during the students problem.

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

Yeah, just to be clearly, here they have to pay the first installment after that the Privalia cashes back and paying the entire semester right away.

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

And then when they've done, when they graduate, they will take the same time as it took to graduate to pay down the half for Privalia, okay.

Q - Luciano Campos {BIO 16181710 <GO>}

Good. Just a second question then Melzi, it's about the distance learning segment, you guys now have approximately two semesters, sorry, one semester and plus the admissions process of the first quarter of 2015 already together we have with UniSEB, just if you can remind us again about your strategy in terms of product and brand and how are you looking at competition in this experience that you already had. And in a very practical

terms, when you're looking at your average tickets in distance-learning during 2015, how would that behave compared to inflation, do we -- can we expect at least inflation in this variation of the years something a little bit more or less than for any other factor that we should know? That's the second question. Thank you.

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

All right. So, let me start with this last question. You can consider inflation, yes. Obviously, this has already happened since we didn't had the FIES for distance-learning, so no government to tell whether it could increase our price or not, we actually did that already just taking account that we have those order effects that are probably (inaudible) there wonder has a smaller tuition, but takes longer. So when you put out all those things under consideration, yes, you can consider at least inflation for tickets for distance-learning in 2015.

As for UniSEB, it is a process from an operational standpoint, we are going, I would say really, really well in terms of centralizing what can be centralized, standardizing what can be standardized or applying our management model, implementing our couch. I think those things are going really well, because they had a lot of chance to practice before since we made 16 or 17 acquisitions before UniSEB.

From a marketing perspective, we have decided to fully migrate to Estacio's brand, we are still keeping UniSEB in some specific reasons particularly in Ribeirao Preto to Sao Paulo's country side, where UniSEB is located, but the truth is that it seems better for us to build a brand from the Estacio in Sao Paulo metropolitan area, which is by far right now, our most important area in terms of external distance-learning.

So we're building something already with Estacio and gradually dropping UniSEB's brand. We are also migrating students into our academic system, which is absolutely welcome, because they were facing a lot of troubles in their former academic system, so I think satisfaction we've actually increase as time goes by. And we are building a very strong relationship with our distance-learning centers partners, because through UniSEB, we now have this model of partnership, so we are kind of learning how to work with them in a way that our students are the most benefited.

So, I think things are really underway. Remember, we made this acquisition, because we wanted to increase our distribution network, we were stuck with 52 centers, right now, we have almost 200 centers and orders coming through our processes, waiting for authorization in means of education, we are becoming quite a powerful player in terms of distance-learning as well and may these happening illustrating the best possible way gradually step by step, acquisition by acquisitions, center by center, problem by problem. This is the best possible way for us to grow.

Q - Luciano Campos {BIO 16181710 <GO>}

Now last part of the question, in the Portuguese call you commented about Air force that you guys are doing to control dropout rates, can you put that in context of distance-learning?

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

It's pretty much the same thing. Everything we do here I know when Gilberto Castro any more in this call, but for you owing to the first call, we had our operational its actually Director and COO, Gilberto Castro commenting on how we are structuring Estacio to improve our dropout rates, consider that this is one risk in terms of results for 2015. Obviously, he was talking more about our on-campus operations, but the same techniques we will apply for distance-learning we want particularly -- particular thing for distance-learning, although we do not have our students coming every week to our distance-learning centers, the truth is that we can meet in a very efficient way by tracking what they are doing online.

So I know for example, if a student is actually studying or not, how many hours he or she is putting in terms of studying, whether she or he is taking the lessons and so forth. So the truth is that when a student is fully online, he or she is given a lot of clues on how much they are -- how likely they're actual abundant or to drop out. So by doing this, by tracking this eventual trends and they by applying everything Gilberto explained for you who are actually in the call or you better talk it about mapping out too much better what are the trends for the students with trouble, financial troubles or academic troubles acting proactively through the course manager or our course coordinators as (inaudible) Estacio, to invite that the student for conversations have been what we are calling here a dropout central. This is going to be like a team, working here to map this out to come up with a lot of campaigns to help this students to stay. He also talked lot about 20 during reinforcement classes in promising [ph] classes or in disciplines where students are showing more trouble -- online on campus as a matter.

If we can map that is students are having trouble for example with their grades in these disciplines we are going to reinforce this classes. So as to motivate students to stay with us. There is also a sort of motivational thing going on this is going to be led by myself, I didn't talked about that in the call, in the Portuguese call. But I am the one who will make a lot of speech to our professor talking about how important it is for Estacio and for the society to help and to motivate your students to be, to go other way to the end because this is at the end of the day, the interest of everybody in Brazil.

So I think what I'm trying to say that you are going call everybody, professors, coordinators, staff, managers to fight for a student's so as they stay with us, they believe their dream and they allow us to help them to reach their dreams.

Q - Luciano Campos {BIO 16181710 <GO>}

Understood. Thank you. Thank you very much, Melzi.

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

Thank you, Luciano.

Operator

(Operator Instructions) Our next question comes from Vera Rossi of Goldman Sachs. Please go ahead.

Q - Vera Rossi {BIO 1540531 <GO>}

Thank you. Could you talk about your, intakes and the breakdown for the number you gave in the Portuguese call of a 113,000 please, Thank you.

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

Yeah, Virgilio will.

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

Hi, Vera just so to give more colors about the intake, the same shops intake that we have in on-campus. And during 2014 the first quarter of 2014, we release 99,000 students, in this is on the -- consolidation number 1/3 of this enrollments was using FIES contracts, something close to 33,000 students. And they add that the 66% of the other parties non-FIES. What we are considering now in 2015. Consider that 13%, if you are jumping between 8%, 13% that's to easier our numbers here, we are aiming something call so a 113,000 students new students come in 2015. Break in three clusters and non-FIES something close to 78 -- 83,000 students, using FIES, new FIES counters between 25,000 and 30,000 students. Among them, we already have 20,000 students closing their FIES contract or already closed, they have already accepted the contract in SisFIES. And also we are aiming 5,000 students using Privalia finance and among them we already have 3,000 students closing disposals with Privalia. So totaling a 113,000 students, so that can the raise between this FIES that will be between 25,000 and 30,000 and the new intake same shops with read something close to 8% and 13% by 2015.

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

Okay.

Q - Vera Rossi {BIO 1540531 <GO>}

Okay. And in terms of the new contract for FIES, do you see restrictions in the market when the students apply, what are the caps or what are the trends you identify that the government is establishing caps for the new FIES contract?

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

Alright. This is Melzi, we see there is a cap, there is a limit, and as I said in the Portuguese call, if there is one thing that can criticize about the government's behavior or the mix behavior during this crisis is precisely this lack of transparency when it comes to this potential caps they're applying beat up price cap or a volume cap, the truth was that again, as much as I can agree with them, because it was necessary to make such a move in order to bring things back under control in terms of a financial adjustments. They had to be more transparent.

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I mean, it's really, we -- that we -- the innovations have to keep trying to define whether there is a cap or not and it's we're going to vote for students who have to spend a lot of time behind a computer screen, trying to do something that eventually they won't be able to do, no matter how much they try. So this is the one thing I really dislike about what is happening and I think it is a matter of respect. But having said that as I explained during my speech here, Estacio never put a lot of emphasis on FIES, we always saw FIES as a means, it's not as meant, so we knew students were applying to FIES, we tracked it since they declare that they want to study, we asked them whether they want to take FIES or not.

So we know what is happening, but we don't -- actually truth is that we don't follow very much, we don't manage a lot on FIES. So I don't have an answer for this question, we haven't put a lot of emphasis here to try to define the size of this cap whether there is any kind of criteria to distribute this cap among problems or reasons or so forth. We didn't -- we just try to -- emphasize auditing things that were much more under our control. But having said that, I can tell you empirically that there is a cap and the reason of no debt is because at some point there is a message that shows in the students screens says something like; this problem and this given campus has already reached its limit, so finally one or something like that. So it says, clearly says that there is a cap, although nobody knows the logic behind this cap.

The other thing, we can tell you which is also empirical is that this is happening much more or much faster in the Southeast, especially in Rio de Janeiro, Sao Paulo and in the South as well, then in the North and in Northeast. It seems to be taking longer for this cap to happen or to show in the screen in the Northeast and Northern regions, which is somehow in line with what the media has being seen here, that's the government would try to direct more FIES positions to these regions North and Northeast. But again, I can tell you whether it is the 33%, 40% whether it is different region by region, because you're not tracking that in a scientific way, although we can tell you that definitely there is a cap and it seems to be different among regions, okay.

Q - Vera Rossi {BIO 1540531 <GO>}

Okay. Thank you for the detailed answer. And I just have one other question on FIES is, on your new contracts -- on your current contracts, I'm sorry, have you being able to increase that the tuition above the 6.4% established by the government?

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

At the beginning it was difficult, because they came up with this cap 6.4%, which is the official inflation for 2014. There is a huge mistake in that definition and I've tried to explain personally the Ministry of Education a hand full of time and they seem not to understand, or they don't want to understand or nobody. Truth is that they are not taking in account that some schools like (inaudible) as an example, we use our credit system, meaning that there is also a volume variation here -- going on here. Right.

So coincidentally, the price increase starts to apply this year in January was 6.48% across the board, 6.48, the cap was there is like to be 6.41. So I mean no difference at all whatsoever, its 0.07%. But the problem is that students, who sign up for more classes

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therefore students they will have more credits. We're having trouble to go through their amendment process with the FIES system, because they were finding this cap. So it was difficult at the time we decided to it, because we knew there would be a lawsuit about the acting gear there was and the truth is that the sector is gaining all the lawsuit that are running parallel in many states in Brazil right now. So at this point in time that the Ministry of Education has actually suspended this cap is not apply anymore and we're being able or should actually had been able to renew.

They are low on with the FIES system without considering this gap, whether this is going to be like that are not in the future is to, we don't know because that depend on the Ministry of Educations behavior we would be react or not, but the truth is that it is absolutely not fair that they apply this for old contracts, contracts that had already being established between them and the students having us, as the service provider on, okay.

Q - Vera Rossi {BIO 1540531 <GO>}

Okay, thank you.

Operator

(Operator Instructions) Since there are no further questions, I would like to turn the floor back over to Mr. Rogerio Melzi for his final remarks.

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

Well, so let me thank you all for participating on our call today and mainly for having -- being supporting us for this kind of tough times. As it have been too here in Brazil. I think, I'd like to finish this a speech with you, this conversation if you by saying that do not think please that we are undermining what is going on in Brazil. We are not, we know that Brazil is going through a very difficult period here because of the fiscal problems it have ahead at first because of the economic situation everything else, everybody's reading on the newspapers.

We are not undermining the negative effect FIES can have on us even though our strategies that we were relied very much on FIES, we fully and recognize that yes it's going to be a tough time here anything else Estacio want so far less than anybody else in Brazil.

On the other hand, though, as much as we do want to feel over confident or look to be over confident. The truth is that, we really believe that this tough times are actually the best possible opportunities for companies. Companies that have developed fundamental and dealers [ph] companies who -- that have invested a lot on people, processes on their product to actually show their value and to make the difference.

So this is how we want to behave for now on, in terms of mindset we're not over confident, we are not in denial mode here, we fully understand the problems, but at the same time, we think that we are absolutely well sweet and prepare to face it and to keep growing and bringing outstanding returns to whoever trust us and relies on us.

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With that I finish and I hope to see all of you soon in our meetings in our calls wishing you all the best. So thank you and have a nice afternoon.

Operator

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

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