

Q2 2021 Earnings Call

Company Participants

- Eduardo Haiama, Vice President of Finance and Investor Relations
- Eduardo Parente Menezes, Chief Executive Officer
- Marcel Desco, Executive Director of Marketing and Sales
- Marina Fontoura, Vice President of Premium Operations

Other Participants

- Gabriel Menezes, Analyst
- Mauricio Cepeda, Analyst
- Samuel Alves, Analyst
- Unidentified Participant
- Vinicius Ribeiro, Analyst
- Vitor Tomita, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for waiting. Now we're going to talk about the earnings call of the Second Quarter 2021. Everyone, will just be hearing during the call and thereafter we're going to start with the Q&A. (Operator Instructions)

Before we continue, we would like to clarify that anything that we might say during this earnings call about the perspective of business of the company projection and operational roles are based on the belief of the Board of Directors of YDUQS as well as based on information that is available for the company. This document may have such forward-looking statements that is based on uncertainties and risks, which might lead to expectations materializing or substantially differ from those expectation.

We have other operational factors that might affect the results and might lead to results materially that are materially different.

Now I'd like to give the floor to Mr. Eduardo Parente. You may proceed.

Eduardo Parente Menezes {BIO 16707188 <GO>}

Good morning, everyone. I hope that everyone is doing fine. I'd like to apologize for this delay. Our provider had a problem with length. We tried to do this via video and now I ask you that you follow the presentation, the presentation here on the telephone. Now I'm

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going to start on page 3. I think that we had a wonderful quarter, and we had the pre-pandemic and we're going back to the same levels. This is one of the highlights.

We'd like to say that this is the first and length we have a guidance reach because we've operated the business and the result per business unit in the quarter that was very atypical in the late capturing. So I think it's important that we give visibility to the two quarters given this important moment. We reached the numbers, and we overcame the guidance. This is of course of (inaudible) and it shows that we have a pre-forward path and we are trusting that this moment is improving as we have said previously. The Mandatory discounts are fraction everybody that is doing digital transformation trying to have a teaching system that is very robust. So we have been applying since 2019. That had an impact that is very important in the NPS on-campus and digital learning.

Second quarter, I remember you that in the second quarter of 2020 we had a big advancement in 2019. And as we said and at the beginning of the year, we mentioned that we have an expectation that the digital will get through the revenue while we have increased premium and DL representativeness and totaling 47% of net revenue for the semester a big renewal in regards to the first quarter.

We're keeping the standards with a solid capital structure, if you remember last year we had the program (inaudible) we had it was a very severe moment because of the pandemic. There was issues with a lots of revenue from our students, lots of jobs and now we are moving on with out financial sacrifice. We have a solid capital structure leverage. We have this comfort and flexibility as we have shown in the last two question[ph].

We are doing the M&A which I think that we are very, very nice. The operating net revenue is growing a lot in premium and digital, well this has happened since 2018. We're talking about Medicine and M&A. I think that a lot of distance learning and really, digital learning and medicine has had a growth in revenue as it has been demonstrated in the four, five years we have another stable point, the EBITDA reported has grown a lot. We are talking about all the adjusted which is the most correct is 50% growth. Last year same thing with the adjusted net revenue.

In Medicine and digital, the big highlights and growth in the student base, 22% Medicine and we have Digital of 52% year-on-year undergraduate student base growth. We are really focusing, actually as the -- when the seat -- until the seat is approved, it is not accounted for. So, this is very important. We have to be extremely transparent and we opened another 500 DL centers. And we will continue moving on.

The average ticket, and we have an increase in year-on-year, as we said student based on digital and on-site also growing. So, I think that is very important. Everything that we have worked in December with (inaudible) and understanding, if we can give more transparency in our industry has a lot of dynamic issues there is M&A, digital learning medicine.

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We have to be transparent. So, that people understand the different businesses. And we have done that today. We can show you the margin, digital 39%, on-site 19% and I believe that -- this year. Premium and digital are lever of growth this margins EBITDA and this is very superior to our average margin.

And on-site we had not so much of a growth capture, well I can show you the report and this is a big opportunity the On-site is here and if students comes back, the revenue becomes EBITDA almost in it for these three number are very positive.

I'm going to get into the detail, Page 4. What do we have here? We have premium on the right. You can see that it is a third of our EBITDA 29%. On the left, we see the evolution of the revenue second quarter 2019. Of course, we have IBMEC here from the second quarter onwards even when we just get the green and this is we have the student base in medicine. And this is what I always say medicine has had a very accelerated growth and it's a number that is very significant. Most of this growth is organic and operations are maturing. On top in the guidance BRL400 million, BRL430 million, the EBITDA BRL424 million.

If we had the reported income the gain could have been higher because of a (inaudible) thing for (inaudible). We are always based on the revenue. This was reported last year and we have the trustworthiness in the restart post COVID and this is why you will see all throughout this presentation and we've seen the numbers that were adjusted. Same thing is applied to the EBITDA.

You can see the EBITDA of 45% also within the guidance is BRL110 million is the importance of this guidance. The first quarter in the premium was better than the second quarter and it shows the sensitivity. The guidance here has helped us and we are having to explain the second quarter. In the aggregated number I think that we are stable.

We don't have to explain what went from one semester to another. Everything is well aligned. In the middle of the page base of 6.2K students 6.2-6.6. We are within this range. The ticket 5% in this quarter and IBMEC has 5.5K students. Renewal rate above what was last year and this issue of medicine, which is very important 450 new medicine seats approved for 2021 second quarter. Digital learning revenue base and doubling every two years. While we know that the second was better than the first quarter because well, we had a bit of a delay of capturing the new students and the reality of the business is here well displayed. Let me work on that, we can think of the Undergraduate and Lifelong -- adjust in net revenue a growth of 130% and 45% year-on-year. 130% was '19 to '21.

Average ticket on the right is going in parallel. It's very good. This represents almost 40% of the total EBITDA. In the bottom, if you take a look, it's very impressive numbers with student base which is the undergraduate. We had 246,000 and now 511,000 the growth due to the middle graph we -- centers the number of centers and its expansion. This is very important. We are reaching a very, very small cities even we have centers where we have 32 students even. A very simple model. We can work with quality and in small cities we have 500, we have, well, we have 500 students in the city of 30,000.

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So, we can take with this DL centers, we can get education through this, get -- education for these people and keep a profitable operation. When we look at the 2,500 centers 80% are less than three years of age. And actually, it was 1,700 centers, I apologize. We had a renewal rate very good as you can see 77% first-quarter '21 is very stable.

And we continue with the growth in centers and an improvement of 500 points in the NPS. Page 6, Let's talk about the on-campus. On-campus, we have good news in this page. When we look at it, it had a drop in revenue which is very important BRL703 million, and when we look at the revenue and the EBITDA actually the adjusted revenue is approximately BRL700 million to BRL600 million 15%. What we had the results in the current quarter that were better than what we saw in the first quarter because of the capturing of new students, we're talking about a third of these sort of EBITDA of the company and its margin of 19% we had a very big impact in the quarter and then on itself.

The students well, it happens more in the first quarter than the second quarter. So this was a very frustrating moment in the first quarter and we can see a margin of 19% revenue adjusted therefore. Well we are not talking about DLs anymore. We are talking around that we had COVID fears and the integration of Adtalem. So we had a lot of relevance here and we see that the base doesn't consider DL because at the bottom that base is grown without DL on-campus, semi on-campus which is good. We're going to talk about the capture. We see an inflection point with several decrease in risk.

It's an inflection point, that has a big impact. At the moment that it happens. The ticket here in the middle undergraduate we see clearly that I will show you up ahead we're going to see this. We've had an adjustment of ticket very relevant when we look at the ticket, when we look at it, well if you just look at the ticket we wanted to write down a footnote if it was relevant it wouldn't be in the footnote, but it's here, because we don't think that this information is that important.

But our option to read there are many people who ask us well your increases ticket is worse than the competition. There is initial that when you mix information it's not relevant anymore. We want to give you the information that allows you to solve the issue, to understand the issue. So if we had placed medicine here because of a change in mix medicine is growing instead of 9% of growth, we would have seen 15% year-on-year. And we could have had, oh, we had a very good ticket, but the issue is the change in mix. So we rather be transparent. I'm just writing this down to illustrate that difference the concept. And we will report as we have always reported. Thank you for being here and for trusting in us. So on the right of the page. Same thing. Renewal rates very stable 86% no sacrifices. Average ticket on the third consecutive period is stable very important improvement in (inaudible). Now Haiama will talk about revenue.

Eduardo Haiama {BIO 7279971 <GO>}

Thank you, Parente. Well let's continue with the previous slide. Other revenues and the follow-up. How are we working with it. The global revenue. So the guidance is a bit above. We had 2295, now we are 2,258 and we highlight is that in the premium and digital segment is almost good of the total ROL.

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Now the important thing is here in the middle and you see the reduction of the impacts that we had with a loss almost R\$70 million. We have seen some reduction in the impact of laws and the court decisions from R\$67 million to R\$70 million. Now when we look at the adjusted net revenue on the left, we are growing year-on-year 10% and when we look here is 19% to 21%, 22%.

On the right a little bit of the evolution. We have mix of our segment all through the time. We can see that the growth on digital and premium 25% two years ago. And now this quarter is 50% of the growth. Now let's go to slide eight and what we show you a little bit of a what we are calling resuming normality going back to normal. While quarterly is the fourth quarter of '19. Now every segment is behaving in terms of student base, revenue and ticket and the reported value Premium. We have a jump in the base in the student base because of Adtalem, and M&A, but IBMEC regardless of that we are growing every quarter with new capture and down below net revenue. This is present in every quarter regardless that when I look at the ticket, average ticket we suffered in the second quarter of last year into the fourth quarter of last year with the laws and court mandates and the tickets are well aligned for the pre-pandemic period adjusted by inflation.

Digital, the crisis has almost not being told. I mean given the ticket is the only one that said we are the only company that said it would drop we can see that the student base everything is working well. On-site on-campus we can see the base, student base there would be stable, relatively stable former -- we suffered a lot due to these laws and court mandates. Now we're going through the revenue pre-pandemic. The new loans and coordinate time to ticket we lost almost BRL100 per ticket.

We never going back to the standards of the pre-pandemic showing that this is what we mentioned. Now this is recurring and non-recurring. So now we're going back normal. Next slide. Reported cost and expenses. The highlight is bad debts and discount, PDD in Portuguese. Second quarter of 2020 we can see BRL17 million, we can see the previous year there was no reference. So we're adjusting to the percentage of the cost, the cost and expenses and discounts that was very straightforward from the adjusted number. We can see another point that is important.

It was a question in the first quarter. The cost was an increase from a DNA and acquisition and we are talking about the absolute values. The second quarter has created standard here of line. But not least in the middle graph just wanted to show you the cost evolution. Here we're talking about amortization and depreciation

This has grown a lot due to the amortization from M&A and this is a talent, but when we exclude these costs which are more manageable and it's relatively clean and acquisition it seems that it grows, but it is important to mention therefore the case of our talent is just two months and in this quarter we have Athena which we just incorporated from August onwards.

So the comparison is not correct. In which way is this reflected on slide 10. The EBITDA is little bit better 686 actually and we can see clearly that the distribution of the EBITDA is very balanced a third for each segment on-site on-campus digital learning and premium.

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In terms of reported EBITDA for last year there were question non-recurring costs or not and we're just in number for EBITDA if we compare it now the 10% in the adjusted.

If we are going to keep the previous year and this was a recurrent number. We would have grown 214% and this doesn't make any sense with the 349 the margin of the EBITDA non-adjusted is aligned with the previous period and even reported of this adjusted a quarter is also aligned showing that the reported the way that we reported is correct to give visibility to anybody that wants to do any future projections and the net income here are two things that we do the EBITDA of the quarter that is BRL23 million but the other one, -- the other thing that we do is to have the cash net revenue since we are amortizing the payment with the M&A and the acquisition of Adtalem amortization of BRL32 million is for the semester. So our net revenue cash or I should say cash flow non-recurrent would be from BRL160 million to BRL270 million as you can see on the right of the slide per quarter.

And on the bottom line we can see the difference between the reported and the former IFRS adjusted net income, you can see that the net income adjusted \$145 million. When we adjusted by the IFRS would have been BRL152 million. Why are we having this difference? In mechanic that I have to do the calculation of the rentals we believe that in the first year of IFRS 16. I have a smaller revenue, and my accounting will be higher if I just had rental expenses.

Next Slide 12. Let's talk about the cash flow. If you get our (inaudible), and if you look at the first line, you will see a drop of BRL350 million, but we have to do a few adjustments. To do a comparison quarter-on-quarter. Both are very alike and here is the path of the peers, and if we can see here in the first order and the first quarter of 2020, and you can see here that should have dropped in December of 2019 and here, I'm going to show you a few things for January 20. Besides Q2 (inaudible) and the bonus that would have been paid in the second semester of last year we are saving almost BRL220 million of cash that would be a normal semester here.

Besides, we have to think about the mechanics here and what is important the operational results of the company. So ever since that went up, we know that because there is a comparison here in terms of cash generation. And finally there is one thing that is not really recurring the decision here that was visioned before, but it was only paid now, it's a one-off payment of BRL45 million and when you do that adjustment, it looks similar. So as was said before we have good cash around BRL2 million with low leverage here and that allows us to continue with our investments, which is what you see here on the right. That is aligned with what we had before and there is -- there was an acceleration until the end of this year. The total investments this year is probably going to be a little bit above what we had last year and then very well focused on digital transformation and IT as well. So in these three years, two or three years, we'll have a little bit more investment on those aspects especially in IT with some changes in the legacy systems. As the highlight here in terms of investments. I'm going to mention two things.

One would be the new NPS that we have in Maracana in which we're looking at the first unit of Estacio in Brazil. (inaudible) is the unit that is close to Maracana the Stadium and the other one the Presidente Vargas for medicine which is nowadays within one of the units

that we have right now, but we're going to do that in another building in the region. Well, besides all that, so on digital transformation and IT we know that represents 44% and usually around 40 a little bit above or a little bit around 40 and that has brought good improvement in the experience of our students with a consequent improvement in NPS. We also have better retention and better teaching quality.

And I will turn it over back to Mr. Eduardo now. Thank you.

Eduardo Parente Menezes {BIO 16707188 <GO>}

Thank you. Now we go to page 13 now. We've looked at digital transformation where we have this IT as well and I think there are a few things that allow us to think about this in that manner. Of course we don't have much time to do this but still I think it is important for us to see that perspective. On page 13 you know people have been talking about digital transformation a lot, but they forget that behind all that there is a lot of people, there are many factors, there is hardware and software program, right. If we don't have that good quality, we're not really going anywhere. We're not really going to be able to fly very high I would say. Well we've put a few examples here to the right. Everything is on the cloud nowadays. Our applications have gained a lot of momentum. We're able to do a lot without interfering with everything else. All of the code is really used. We have an API that allows us to work in a continuous manner. So we have been developing this for a long time. These things they usually take a few years to run the test and everything else.

Now we're running these test with computers and not humans, very few things that only really in Salvador, for instance, they will have the same experience as someone who is in Sao Paulo. So these things they allow for that even though they have different features. We're able to add or remove things from these apps as necessary depending on the profile of the students or the way that we want to work with them. Now to the left of this chart here, a lot of people have been talking about digital transformation, and this part here is very important, it has to do with students. They have to understand what they're paying for and they need to know how to negotiate their debt if that's the case. So that is -- there is a good relationship with our clients with our customers in a way. So that's something that we've learned a long time ago and we continue to improve that. And on top here you can see that we're changing the way we are teaching and the way we people are learning. So we're able to change the way they are learning and we want to be more engaging. We want to give them content that is more up today and there is also high quality. I'm going to talk about that later. You're going to have a completely different experience that they had before and through that we're really able to do something different, something interesting, different from the rest of the market. So we were just dreaming about this. If you think about it one year ago as we thought about where we are or where we would be it is completely different. We're continuously learning and taking things to the next level.

So on page 14 I just have a few examples of that. It is 500,000 people DL and on-campus, thanks to this new platform, the EnsiMe. Well, we had almost five million digital events and mock tests. We are looking at 400,000 log-ins to virtual labs impacting 30,000 students. 90% of our student base is also students using the student app and we are actually also looking at the other institutions, educational institutions around us.

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When we look at the cell phones, when we're looking at that kind of competition, we know that they're using games, they're using that kind of experience. So that's not really focused on the studying per se. So it's very important to have them know that they can study through their cell phones with sponsored Internet usage that we're reporting as well.

We also have a great faculty app, which is a reference in the market. Already in use by 6,000 features and we have digital transformation in administrative areas as well, which allows them to do the entrance exams, the enrollment process is easier. We have 40 percentage points versus 2020 in terms of the renewal satisfaction level.

So there is a very important increase before the end, the next quarter or the next semester, they already know how much they're going to pay in the next one and what they're going to be willing to study in the next one. So that's very engaging for them.

And they understand well if I study more credits I'm going to pay more, if I want to study fewer credits, I'm going to pay less. What used to happen is that you know students started to choose at the very end or at the very beginning actually of the semester. Now they can do that beforehand and point ahead of time.

Now, on page 15, I just wanted to show you a little bit about the ecosystem and the channels. Everything begins here with teaching. So what is EnsinMe? EnsinMe is something that we created back in 2019. We understood that distance learning would be interesting and if we want to have high quality that could be, I mean we would have a serious investment there. But there would be diluted because it would be so many people that would be serviced with that.

So, we were discussing how to do that. So we wanted something that could be used with the best students with the best features. There wasn't just about the content but about engaging people as well. So, we created that curatorship. We are braced the (inaudible) coming from very good universities here in Brazil and also abroad.

And they will define an update everything in real-time. I was looking at something about sports psychology and there was vehicle, a very important for sports reference, really talking about that. The other day, I was talking to one of the people in the Secretariat of Rio about being diplomats, and all that, and that's going to be also in the platform.

So, we have so many references, so, many people talking about life, talking about the career, et cetera. So, it's really very rich content and technology allows us to do that. For someone who had a presentation here for instance, they would go to the auditorium to talk to, I don't know 300 people. But now we're talking about thousands of people.

Well, we also have the questions database. So, that was the process really features were simply go to that questions base and see the grades and give us a report with those grades.

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Now with digital, we have run as few different pilots. We're going to implement that with larger scale and there is going to actually students are going to do those exam directly on the system. They're going to see what questions they did right, what they did wrong and the questions that they did right or wrong. In the beginning, they didn't really help us get a lot of insight but now computers are showing us where we have to change and improve the questions database. That is very nice, because it's digital, it's for the app, it's for the web. We can use its a white-label digital platform, basically.

And Athenas for instance, which we purchased last month in around 40 days everything was running already and we can see content consumption and behavioral data in real-time. So, you know, what they're reading, what they're not reading, what kind of things they're asking about. What they're really learning now. Ever since 2019 we've had the digital platform and digital classes. Remember I was talking about distance learning, but we noticed that teaching materials, they are very important for students, there is maybe a different format, they can use spot test, Internet, ask questions and all that.

And that is a very important factor to increase our NPS. So, ever since 2019, we have that and this year we were working on it. We are looking at the feedback on features. We're looking at the assessment. We're looking at what works, what does not work, and we're trying to translate that into the system into an improvement.

I have a subject where there are 120 features approximately and now we can also do this comparison, say, okay, this feature did well on this or that assignments and so on and so forth. So you can see the point for improvement, everything that they did right or not. So that we can reinforce that and also there is a student segmentation. I mean that is my experience at a classroom. If you have 30 people or 50 people, they all have a different background.

So you sometimes focused on the ones that are facing more difficulties, but those the other ones are not going to have such an engaging experience. So, now, when we are, when we know what the questions are really easier for us to see, okay, these students is easier for them. So they're going to have this kind of approach. Now these other students is not that easy for them. So we're going to give them a different approach. So now we're able to do that. So divide them and to have a more professional thing. So this set of knowledge will interact with the channels and with the product.

And here for instance on page 16, you will see we have so many different products. We have the online, you can see here the pictures, the one with a finger is the online. These are also have teams. You have the virtual app and have the feature. So you have different products with different brands. These are different ways for us to deliver the kind of content that very high quality content that we have. What we have here is we're looking at a system that up until recently added a limited access, but now it's completely different, it depends on how much they're willing to pay, where they are, what they want to study but the thing is fundamentally we want to have high quality for all of them. So, we're starting with online, distance learning it goes from a BRL100 to BRL450 depending on the course and everything. We also have the on-campus which is a bit more expensive. And by the way, we have the online, we have the premium DL, and we have the Flex when it comes to DL, right.

Bloomberg Transcript

And now, as I was saying, now we have the on-campus as well, but we have the semi on-campus and we have DL on-campus per se. The semi on-campus is really a combination of lessons were before we'll go to the university and let's say, four times a week. Some of those lessons are going to be live. Some of the other lessons are going to actually have to prepare beforehand and for semi on-campus instead of having four hybrid subjects are going to have two and then three online for instance.

And so on and so forth. So, the idea here is to show you the different channels, products, and platforms that we have to deliver the good content that we have developed. So, it is our educational service with elite content, I would say that could be for any kind of audience even before we didn't have access to that beforehand.

Now on the next page, we have a few results. Here to the left, we see that the first half basically of 2021. This is the evaluation that we have so far. And we're changing the pattern from 25 and 63 and 13, we now see 57 and 43 of course there is a lot that we have to do still, we want to improve the content even further and we hope to show this for everyone next year.

We have a few indicators in terms of the MEC, the Ministry of Education and Culture evaluation and also in terms of NPS that are very good. So of course last year it was very complicated. It was the peak of the pandemic, and we just don't want to have a comparison with the reference of last year, because it's not really fair.

So, we're showing you versus 2019 to have a better reference. So, you know that in 2020, we also have very good NPS. So, that's a very good level for us to work with and to overcome any challenges.

Now on Page 18, we have four positions that we had in the past four years. We believe that we had very good acquisitions actually. There were few specificities we have a very good national system with IBMEC with Medicine. IBMEC being an knowledge institution has a very important responsibility to work with this ecosystem in terms of content and Athenas was a very good thing that happened in Acre and Mato Grosso, Tocantins actually Rondonia and Athenas was a very good momentum I would say where all those places, all those hubs they're doing very well right now.

We paid 100 actually 600K for medicine seat and it's doing great. We don't usually like to have the EBITDA compared or looked at just individually. But still this is what we have here on this slide. We have Unitoledo, Adtalem, Athenas and QConcursos. And here we have the expenses of course Adtalem and Athenas, they're going to go until 2023. We have expenses until 2023. And here to the right, we have two QConcursos. It was the price was BRL208 million which was six times the cash generation. They really capitalize on March. So it doesn't make sense to talk about EBITDA, but anyway that was the number that would be the number.

The EV cash flow. So we're not talking about EV-EBITDA after the synergy because the idea is not to go for an integration, it is completely separate I would say. I am part of a council there with three other people here. And it's interesting to see the Internet traffic

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there. We look at that monthly and we have so many active users and that could help us reduce CAC from now to the future. But it's really open-minded people and I am around 50 and I can see that they think about technology in a different way from a different perspective.

So we're working with them to create this opportunity for external suppliers to help YDUQS to help all of our brands really and go beyond, right. So these are very good acquisition. These are the recent acquisitions. They are very good ones. We did what we could in terms of our capital and respecting our profile and we have very interesting expectations above them. Now on page 19, just a few final remarks. I would say that these are the main messages. I'm sure you're probably tired of me speaking here, just a final message. Well, premium and digital continue its solid growth that would be one of the main messages. It's good EBITDA. We have medicine as well with administration following or having all seats. We're probably going to have this expectation of around 6,200 or 6,600 undergraduate students in 2021, 450 seats for approval in 2021 second semester.

We also have those new hubs for this year for next year. We had five higher education institutions where the authorization of the Ministry of Education and Culture where this made for the law major in the format. So, since everything is now in Aura and in Ensineme, it is very easy for us to prepare reports.

We have basically two years that are there on the digital platform. They're done time and good to go. So, since we are looking at small cities and all that, I think that lot major students, they're going to come from those small cities. Cities where they didn't have universities. They didn't have the universities hub, the poles so we call -- as we call them.

So, I think that's the expectation we're going to have these people coming from smaller cities to study that's probably going to be very positive. I wouldn't put this in my spreadsheet as an upside here in the short term. Well, that was the first message, Premium and digital continue with solid grow.

The second thing on-campus resuming normality. I think that we are ready to restart and why didn't we have around 50 and these students they had a little bit of a difficulty. I mean, they have lessons last year, they have lessons this year and it is complicated. We have so many people that want to go back to studying. They want to go back to working and studying the normal way I would say. They want to resume normal life. So, we have to this was earnings of question with the expectation of all units operating with students back on side by the end of 2021. I am not promising anything, of course but I think it would be interesting. We had 20% of students going back last semester. Now we're looking at around 60% over the next few months. Aura has had a very good impact in terms of performance of the students and we had like already mentioned this never mind.

So now, the less message here, now is digital ecosystem improving quality and NPS. I know I have talked about it already about the acquisition of Qconcursos. We have Ensineme cause an improvement in the quality of teaching, and we also have investment in digital transformation and IT.

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Now on Page 20. We weren't so sure about all this during the pandemic, but now in medicine we're looking at a number of students. If we look here, this is the volume and the average ticket since interesting against the reference and the reference against would be the second semester of 2020 and when we look at digital, both digital and on-campus we are looking at around two-thirds of our profits of capturing students. So it would be around 10% to 20%, different again last year. We want to have a good positive impact against last year. And this last third is very difficult. We are looking at a very special phenomenon right now which is there is this difficulties that is still not obvious.

We're trying to be ready you know for everything that happens. I mean in terms of vaccinations people are feeling better right now. What we can tell nowadays is that we're 20% better in terms of volume. We have very good ticket. When we look at on-campus, we're bit better than in the previous year. So I think that would be all.

I wanted to thank you all for your attention and thanks. This is a very important moment for us. It is worth all of our efforts everything that we've done. I wanted to thank everyone who is connected all of these employees, teachers, who have been so resilient and helped greatly and I would like to thank everyone for the trust especially during these difficult times that are almost over now.

Thank you so much. We will begin with our Q&A session now.

Questions And Answers

Operator

(Operator Instructions) Well the first question is from Samuel, BTG Pactual. Samuel, you have the floor.

Q - Samuel Alves {BIO 18720076 <GO>}

Hello, everyone. Thanks. First of all about the -- about what you were showing on slide 20 about the digital system. Could you give us a little more details about that curve that you're expecting to grow? Any increase actually in terms of the figures about the base effect or are there any other factors in 2021 and also about CapEx. I just wanted to understand if there would be recurrent or not? Thank you.

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

Thank you, Samuel, for the question. Well, we usually, you've probably been around for a while, you've already seen our results and other years as well. And I would say, I'm not promising anything but it is now more than 10%, it is around 20% and there could be some acceleration. We do not think that we're going to lose momentum. We're keeping up with the previous semesters, the previous years.

Q - Samuel Alves {BIO 18720076 <GO>}

And what about CapEx, Eduardo?

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

Well, it's probably going to be a little bit higher than what we had last year. We had about 50. So it is normal rhythm. No differences.

Operator

Our next question is from Vitor from Goldman Sachs.

Q - Vitor Tomita {BIO 19238819 <GO>}

Hello, everyone. Thank you for the presentation. I have a few questions. Could you tell us about the competitive scenario in terms of prices about digital, about Flex? There wasn't so much of an impact in the first semester for the ticket. So I was wondering? And for Digital and for CapEx could you tell us more about that the Digital CapEx were kind of developments and investments in the acquisition of Qconcursos we're going to have an important accelerator of this investment. Thank you.

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

Thank you, Vitor for that question. Well digital is very competitive, but it's a changing where we saw three years ago is no longer valid. There are many new hubs and since you have a costs for content production and also see if that is high you change the profile of the competition of that competitive scenario. We believe that price is going to drop at some point. In our mind, it would be up to 10% in the space of around three years.

Now we have to see what kind of speed, right. We said that for a long time and this is still not dropping, not dropping for the second semester. So we put 0 to 5, minus 5 expecting that stability in the semester that ended. So since the market is still expanding, we still don't see such a competitive scenario, but that's probably going to happen. But still, we're going to -- we're ready for that. If you think about the margins, if you think about the situation of the sector, our EBITDA is now separated right. We have DL separated from the other aspect.

So we believe that that's going to lead to lower cost, and whenever we're not satisfied, we're still going to have some space to expand because of the margins. That's probably not going to happen and this year. And what about CapEx Eduardo?

A - Eduardo Haiama {BIO 7279971 <GO>}

Well. Hello, Vitor. About that, order all that is done already hardware or software. We also have data lake. But as for hardware per se, we had some older systems running that was probably outdated already. And as for IT what we're doing is changing part of the legacy system that one allow us to do as much as we wanted, that's probably going to be done this year.

And we'll have something to finish next year, and also until 2023 but much less and the rest has to do with digital transformation. It's a huge change, in how we interact with students, teachers, content that's the context.

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Q - Vitor Tomita {BIO 19238819 <GO>}

Thank you.

Operator

Our next question is from Gabriel Menezes from JP Morgan. Gabriel, you have the floor.

Q - Gabriel Menezes {BIO 21728834 <GO>}

Hello, everyone. Thank you for the call. Wanted to know about non-payment and accounts receivable? And also about the perspective that you have for everything that is due in 2022?

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

Well for non-payment and accounts receivable ever since July 2020, we said that things were improving, and I would say that ever since 2020 around July and so July now, it's a positive impact, the positive trend. If we compare what we have now against last year, it's much better, and that even better compared to the pre-pandemic time.

And that reflects on PDD now are working capital, we had good acceleration with digital. So there was an improvement. That doesn't have to do with the seasonality of -- in on that. So, right now for the second semester in July and August, I would say that we have good collection and it's also a positive trend.

Of course, it's going to be pinned, on how digital is going to look like from now on. Whenever we have new students that makes those numbers go up a little bit. So, that's good and, but as time goes by that number usually starts to drop, but that's normal. It's not something that is showing that the operation wrong or anything normal.

A - Marina Fontoura

Well. Hello, everyone. This is Marina from the Premium Units. About the second part, you were asking the second question. Well, our expectation we are looking at this very carefully and we don't think there are going to be huge definitions right now about how that's going to work after the moratorium in 2023, but our expectation is that, it's going to be very well organized.

We have that program for physicians the first time we had the second one, the second wave and we're going to have more medicine seats as well after the moratorium. So, it's not defined per se, but we've had conversations about how to organize that, and expand the number of medicine fee.

Q - Gabriel Menezes {BIO 21728834 <GO>}

Great. Thank you.

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

Thank you, Gabriel.

Operator

Our next question is from Mauricio Cepeda from Credit Suisse. Mauricio, you have the floor.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Hello. I'm Mauricio Cepeda. And I just have a few questions about the growth that you're expecting in the second semester. I wanted to know a little bit more about what you're expecting? And also about the costs that some of you mentioned there are few new campaigns going to be launched. And I wanted to know more about that. So would you -- are you thinking of changing the profile? Are you going to also be looking at the competitors to adapt to the situation? That's also a question that I had.

Finally, about the cash flow impact in the first and the second quarters is that connected to any specific factors? Do you think that has changed the payment schemes, et cetera?

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

Well, Mauricio, I'm not sure if I understood your questions because your sound wasn't greater. The first one has to do with the students that we have now. There is also going back to on-campus education. And the third has to do with the change in cost profiles and the competition. And also working capital, is that right?

Q - Mauricio Cepeda {BIO 21783651 <GO>}

The cash flows?

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

Okay. I'm going to turn it over to Marcel to start answering those questions.

A - Marcel Desco {BIO 18634268 <GO>}

Hello, Mauricio. Thank you for the question. About the profile, were students for this semester, yet it is different, it depends on the modality. If we think about distance learning that would be an audience that starts at any time at any point during the year. So, we don't see any unmet needs really. We're still capturing those students very well in that modality.

So both on 100% Digital or Flex and all of the cost apologies. And for on-campus education we see a new audience that was expecting something normal in the first semester. We see these people already after June, July we see them starting their courses and since that no time we did, we stop our services. That's also very good. We have this good wave of capturing students who may be were frustrated with another higher education institutions. Maybe because you know their courses were not confirmed. They didn't have enough people. They didn't have forum to start the course.

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Okay. Let's see your second question. The redemptions of on-campus education, let me tell you about what we have today. Today we have some idleness. I mean there are some student groups and some courses that have fewer people and they could. So, we have some idle capacity there, that's it.

So, of course we're always looking at reducing costs. We have put some of the savings as a recurrent. So, the delta that you're going to see now is much lower than if we had said well, this is our new reality and that was very important but when you look at the Campi what happens is the following.

We have certain distancing nowadays because of safety and that limits the number of students and one question. I had, I don't know 110 people in the beginning of last year and 30 this year because of social distancing, because of having them in just one classroom in February.

So, we have this capacity nowadays, where we can absorb more people than we have. So, basically every student that comes we have to think about those factors and it's very different for DL and for on-campus. So, let's say that their ticket is BRL200 they are going to have margin of 60%, 70% that's going to bring me a BRL140, let's say.

So, whether ticket of BRL700, it's basically a non-campus student is worth around five DL students. So, really, we have to consider those factors. We expect to have a redemption that maybe is not that strong in terms of capturing new students and all that, but it has still a great impact for EBITDA.

Now, about the other question about the profile. In our basket of references here as managers, we have that universe that was (inaudible) and see a now has extended so much. We have put so many other institutions in our basket. Because in the end, we have a business portfolio when we look at our old preferences, they are -- they really depend on on-campus education much more than us. So, if you think about Medicine, about any other DL forces in our competitors, they are doing some movement or trying some initiatives they are actually they're trying to copy from what we have done.

So I think it's a completely different value when I think about DL or on-campus, when I think about Medicine, I am looking outside of our sector, because of the growth indexes that we have. They are much more compatible with the educational system that is outside of the sector.

So, it is very different. I think that our portfolio if you think about the intend of separating the EBITDA per business unit that's the point. I understand it's a small factor, and it's still a good opportunity there are just a few people looking at this, and the people who are doing so, they have a different purpose sometimes.

They're doing that on Friday evening. They put someone to look at that. So, I think we're trying to make it easier by separating the EBITDA. And then we have the portfolio. Our portfolio is well-distributed, the risk as much lower and we understand that we should look at the business units separately. So, thank you Mauricio for that comment.

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

Well, about working capital let me just tell you very briefly. Collection has improved in many of the layers. Usually the second quarter is a bit lower. Because you usually have higher trend in the first quarter then it drops in the second. It's seasonal, it's normal. It's something that we usually noted. And now in the second quarter since we had a very good result in the first quarter, it didn't really drop that much.

So, that's what made the working capital go up a little bit, but we're not working on any specific campaigns either to maintain the students or to renew anything on the country. For the semester we have anticipated the renewals I think many things have helped students choose their subjects in an easier way and there are more aware of what they're doing and actually if you look at the curve it's very good and the profile has improved overall. Financially speaking it is a very good scenario.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Okay, thank you for the answers. I was just wondering about some of the strategies that you're using. If you could talk a little bit about that may be? And percentages, how much are we anticipating in terms of new students and accounts receivable?

A - Eduardo Haiama {BIO 7279971 <GO>}

Well, for accounts receivable what happened for the second quarter we had, as I was saying before we usually have this drop naturally on the second quarter, but this time, we had a very good result on the first quarter, so that drop that didn't happen. So in the renewals with all the investments that we have put into digital transformation that's curve of renewal actually improved and collection went up as well. So in terms of non-payment we're looking at a better scenario now for accounts receivable this collection rate.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Okay. Thank you.

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

Yeah. I'm having trouble with Mauricio, Haiama sound. His audio is not very good. So it's difficult to hear his question, Eduardo is saying.

A - Eduardo Haiama {BIO 7279971 <GO>}

Yeah, I mean I couldn't really understand his question. No problem going to ask him to repeat, if necessary.

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

Well now thinking about Premium, I just wanted to say that it depends on what we're going to have in the future. In Midwest and South of Brazil or Sao Paulo might need more of that sector, Premium or Medicine there are certain things that we're looking at in terms of the digital world as would help us with the main business as well, but with Premium,

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we're happy with IBMEC and we are still developing and we're still expanding but yeah if anything happens I will certainly review the strategies for Premium.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Thank you.

Operator

Your next question is from Vinicius from UBS.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Good morning. Just a quick question. Wanted to know about the M&A dynamic. How is your cash flow? And are you looking at other possible M&As? Eduardo is talking about what makes sense, right or what's going to happen in the next few months. So, is that going to change the M&A scenario as well? Can we imagine a more active pipeline for larger acquisitions, or is it still going to be aligned with where you have done so far?

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

Thank you for the questions, Vinicius. We have a pipeline of things that are aligned with what we have done in the past few years. M&As and Education they have a little bit of science, and a lot of hours. So we're talking about people have this emotional connection with the assets in the end. It's not always very direct, especially right now where we're seeing that it's been difficult in the market. We have to be very careful. But again, we're very happy with what we have done and we have overcome many frustration.

So there are good things happening in the large M&As, well, that depends these conversations, they happen whenever necessary. We don't have any negotiations ongoing, but it doesn't mean that maybe three months from now, we're not going to have something in mind. Right now there is nothing in our perspective.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Okay. Thank you, Eduardo.

Operator

So our next question is from Itau BBA (inaudible)

Q - Unidentified Participant

Hello, everyone. Thank you. You were talking about NPS, and the significant increase, right? Is there any initiatives to maintain that engagement?

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

Thank you, Luca. Well, yes, for sure, there is. I usually spend three or four hours a week looking at that, and there are many people doing that all the time. I mean NPS is a very

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good indicator. That is not just that, we usually separate students in categories DL, on-campus and then you start to identify what they are doing. It's not just they have paid, they have not paid. You also look at the grade, if they're using the system et cetera. So way before that the moment of truth when they're not paying way before that you're already working on their engagement.

And that's what's going to really change it. If you have someone who is motivated and entering the system and studying and doing things, it's a completely different connection from a person who just pays for the course and doesn't really do anything and then at the end of semester, they may drop-out. So you have different approaches.

If they decided to do a DL course, for instance, but then two weeks from, then they didn't enter the system, they didn't log in. We have someone call them and say, oh, is everything, okay? Have you got any questions about how to connect to the platform, et cetera, et cetera, where someone missed exam somebody calls them and asks is everything okay? They need help, et cetera.,?

So around three years ago we started working in that regard. Whenever they said, I want to leave we try to capture them back, retain them and now we are working with other engagement factors way before that. I think that's a great victory. We want to maintain the same level that we had last year without sacrificing with discounts or letting go that or anything. Retention for us is probably even more important, at the end of the day. If you think about the lifetime value even more than capturing students. So we have been very successful in that.

Q - Unidentified Participant

Thank you.

Operator

Well, since there are no further questions, I will turn it over to Eduardo Parente for the final message.

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

Well, I would like to say I'm sorry for the delay. I think it's probably an issue with (inaudible), our telephone provider here. And well, I wanted to thank you for your trust for your patience. We understand that people were saying, well, where is trigger you now. I think that resumption to on-campus education could be a relevant trigger. When we look at our accounts here, when we think about the values in the business and the difficulties that we're looking at and all that we think that it makes sense.

I just wanted to thank you again for your trust, for your messages for very positive comments that we have received about the way that we've been conducting our business all these years, especially during the difficult times, I must say that we lost (inaudible) and then we have this huge economic crisis and then COVID-19. But we're still -- the results and we're still even expanding somehow. So in 2021 this is what probably, we're going to

have in last year. So that shows that we had solid plans and we're able to continue with these solid plan.

We're now looking at different structures and initiatives for the future. And I believe we have a concrete consistent plan for the future. I repeat that so many times that people probably think it's boring to hear it, but it is important to say that we are still growing. We are still expanding. We're very happy about our future. Thank you so much once again.

Operator

This is the end of the YDUQS conference. Thank you very much. Have a great day.

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