

Q3 2013 Earnings Call

Company Participants

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

Other Participants

- Bruno Giardino, Analyst
- Clarissa Berman, Analyst
- Felipe Cruz, Analyst
- JC Santos, Analyst
- Marcello Ganem, Analyst
- Marcelo Santos, Analyst
- Ruben Couto, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, thank you for standing by and welcome to Estacio's conference call to discuss the third quarter of 2013 results. This event is also being broadcast simultaneously on the internet, via webcast, which can be accessed on the companies' IR website www.estacioparticipacoes.com.br/ir, together with the respective presentation and the earnings release.

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

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

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

Rogerio Frota Melzi {BIO 16212298 <GO>}

Okay. Thank you, very much. Well, good morning everyone. Welcome to our conference call to discuss the results of the third quarter of 2013.

Virgilio Gibbon, our CFO, is here with me today and he will be helping me with the presentation. Just to remind you that we're going to have a question and answer session just as soon as the presentation is over. I hope it does happened this time (inaudible) call. So let's make it right this time. So let's go straight to slide number two of our presentation, which is also available on our website.

Well, in line with our performance in recent years, we once again recorded impressive results with gradual and sustainable EBITDA growth and a healthy and smooth margin gain. For us, this sequence of positive results is a direct consequence of the maturity that our management system has achieved, and is also a clear sign of the potential we have to grow in a sustainable way in the coming years.

Our excellent performance was chiefly due to another highly successful intake cycle, as we reaped the benefits of all the changes implemented in the last few years. For the seventh consecutive year, enrollment reached record levels, with 85,000 new students, 25% up on 2012.

Our average on-campus and distance-learning ticket increased once again reflecting the health of our business model and laying the ground for significant net revenue growth of 25.3% over third quarter '12 to R\$438.2 million. In this context, confirming once again the scalability and efficiency of our business model, our results increased substantially over 2012. EBITDA totaled R\$100.9 million, 51.3% up on first quarter 2012, with an EBITDA margin of 23%, up by 3.9 percentage points.

Net income came to R\$86.3 million, almost 117% more than last year with earnings per share of R\$0.29, an increase of 81.3% year-over-year, despite our recent issuance of new shares.

Our accumulated operational cash flow is positive at R\$123.7 million, R\$25 million higher than the same period of the last year, reflecting the continuous improvement in cash generation and creating a promising scenario for this indicator also in the coming years.

I will now hand over to Virgilio, who will go into the details of our results. Virgilio?

Virgilio Deloy Capobianco Gibbon {BIO 16679141 <GO>}

Thanks, Melzi. Good morning everyone. To begin, I would like to call your attention to slide three, which deals with our operating performance.

In the first chart we show the student base at the close of the third quarter 2013, when we had 340,000 students, 19.7% more than in 2012. In same-shop terms, growth came to 17%. It is also worth noting the acquisition of ASSESC in Florianopolis, Santa Catarina,

announced in June, whose approximately 900 students will be added in our student base in the coming quarters.

Our on-campus student base totaled 265,400 students, already including the 7,600 students acquired in the last 12 months. In same-shop terms, growth came to 14.8%, reinforcing the sustainable organic student base growth trend following seven consecutive record high intake cycles. Our distance learning base grew by 26.5% over the second quarter to 67,400 students.

From this quarter we adjusted our disclosure of on-campus and distance learning intake excluding, students not enrolled in class. This adjustment facilitates the understanding of the base that generates revenue and ticket for the remainder of the semester.

As you can see on the graph at the side, net operating revenue increased by 25.3% over the third quarter reaching -- on the third quarter last year reaching R\$438.2 million, thanks to the expansion of the student base and the increase in the average ticket.

In the third quarter 2013, the average on-campus ticket grew by 6%, in line with the inflation registered in the period. Our capacity to increase prices in a sustainable manner, at a similar pace to last year's, is proof that students have a higher perception of our quality and are attributing more value to our product. The average distance learning ticket recorded an increase of 2.5%, occasionally below inflation, partially due to intake campaigns which are more concentrated in odd quarters, but mainly due to the launch of EAD Mais, a new product which dilutes the course curriculum and the value in two more semesters. It's worth emphasizing that the 6% gain in the on-campus ticket would have been even higher without the reducing effect of FIES FGEDUC revenue that today represents approximately 70% of our FIES student base. Remember that we adopted this new FIES accounting criterion as of fourth quarter 2012.

Moving on to the slide four, here you can see a vertical analysis of our operating costs and expenses. Our cash expense recorded a significant efficiency gain of 3.5 percentage points over last year, thanks to gains in the following lines. One, 1.6 percentage points in personnel, thanks to another quarter of efficiency gains from the management of faculty costs and the maturation of the academic model.

Two, 1.6 percentage points in the INSS line, due to a retroactive benefit on INSS paid on the one-third additional vacation expenses, totaling R\$5.2 million. And three, 0.6 percentage points in third-party services, confirming the scale gains in this line.

Selling expenses represented 9.3% of net revenue, generating a margin gain of 0.4 percentage points, due to the 0.6 percentage points increase in the PDA/net revenue ratio, demonstrating the organic improvement in our PDA over 3Q12.

General and administrative expenses represented 13.3% of net revenue in 3Q13, and recorded a 0.1 percentage point year-on-year margin gain, chiefly due to 0.8 percentage point growth in the personnel line. As a result, this line recorded an efficiency gain despite the continuation of the impacts we saw in second quarter 2013, increase in the headcount

due to investments in new areas, the redistribution of bonus provisions in 2013 and wage increases due to union agreements.

Moving on to slide five, here we present our accounts receivable. Our average net student receivables period was 77 days in the third quarter, two days less than in the last year same period and five more than third quarter 2012. Excluding FIES net revenue and receivables, the average receivables period was 80 days, five less than in the second quarter 2013.

As you can see on slide six, our FIES accounts receivable increased by R\$22.9 million over second quarter 2013, due to the increase in the number of students using the financing and especially, the concentration of our contract amendment processes in the opening months of the second semester. In fact, we had R\$135.3 million in FIES transfers in this third quarter, R\$60.6 million up on first quarter 2013, due to the increase in the student base.

The average FIES receivables increased once again, by five days in the third quarter over second quarter 2013, since the concentration of contract amendment processes in the odd quarters tends to increase the average number of FIES receivables days. It's worth noting that, at the end of September, we still had about 7,000 students contracting FIES that, by failing to pay their tuition when they decide to hire the financing, end up impacting our days of receivables. FIES carry-forward credits remained in line with second quarter 2013, as a result of repurchase auctions and tax payments that have been occurring normally.

On slide seven, we have the aging of our receivables. Our third-quarter receivables portfolio remained healthy. Thanks to the continuation of our strict debt renegotiation policies, in the third quarter only 10% of total receivables came from renegotiations with students.

In addition, the percentage of receivables from renegotiations overdue by more than 60 days accounted for 29% of total agreements, or only 3% of total accounts receivable. Our criteria remain rigid, clear and objective, exemplified by the fact that we provision a 100% of receivables overdue by more than 180 days, complemented by the FIES provisions.

Slide eight shows our cash flow in the third quarter. We recorded a negative working capital variation of R\$7.3 million, mainly due to the R\$9.1 million increase in our accounts receivable and the R\$10.6 million increase in taxes and contributions mainly to the recoverable labor tax, which was partially offset by the improvement of R\$7.7 million on suppliers and R\$5.6 million in salaries and social charges while CAPEX excluding acquisitions totaled R\$32.6 million. These variations, plus EBITDA of our R\$100.9 million, generate positive operational cash flow of R\$61 million, maintaining the good cash generation level of this year.

I will now hand you back to Melzi for his conclusions and final remarks. Thank you.

Rogério Frota Melzi {BIO 16212298 <GO>}

Okay. Thank you, Virgilio. On slide number 10, I would like to begin my conclusion by emphasizing how proud we are of achieving EBITDA of more than R\$100 million for the first time in our history. It may appear to be symbolic, but when we compare it with the results we found five years ago when we began this new phase of Estacio, and especially when we consider that we have not had any major acquisitions over this time, we really feel proud and confident about it.

We realize that this financial success is largely due to our ability to attract new students, marked by our seventh successive all-time record intake and once again, let me reinforce that we've been growing our intakes by more than 20% year-over-year very much in an organic way, which is remarkable. Moreover, we're starting seeing some improvement in our ability to retain students, now with some great help from FIES.

We are also fully aware, however, that behind our successful growth of the student base it lies a series of non-financial outstanding results, which have had a decisive impact on our students' choices. One of these drivers is the result of the ENADE exam and, subsequently, the Preliminary Course Grades, CPCs and General Course Indexes, IGCs. This is the reason we are very pleased although not fully satisfied with the good results in the last ENADE cycle, which is the most relevant in terms of student participation.

We had 28,000 students taking the exam, representing 214 course-campus combinations, and 61% received satisfactory grades, 11 percentage points more than the last time. We are confident that this input will be reinforced by the other variables that are considered to calculate the CPCs and IGCs, and in this context, we believe we will achieve a highly positive result for these items.

We are also continuing to implement projects that are extremely important for Estacio's future. We recently concluded the implementation of our Quality System, a set of tools that allows us to monitor, almost in real time, our students' level of satisfaction with our services. We also have other major initiatives, such as the Hospitality, Branding, Innovation and Relationship with Alumnis projects, which will help us ensure the health of our student base over time.

In addition to the robust organic growth in recent cycles, this quarter we announced Estacio's largest ever acquisition with the formalization of the commitment to purchase UniSEB, with headquarters and a beautiful campus in Ribeirao Preto, in the state of Sao Paulo. UniSEB has over 37,000 students and 14 on-campus graduate programs, 13 distance-learning undergraduate programs, in addition to graduate, extension and non-degree programs.

As we mentioned in the last conference call, when concluded, this transaction will substantially expand Estacio's penetration in the distance-learning segment, adding 164 new units, and marking its definitive entry into Sao Paulo state. Estacio has also strengthened its presence in the on-campus post-secondary segment by adding a highly

regarded university, with a General Course Index rating of four, headquartered in Ribeirao Preto.

We also keep strongly investing on building the new businesses suggested by our strategic plan last year. For example, in September we launched some new programs in the graduate segment, called Nova Pos, New Graduate Program, including a partnership with Harvard Business Publishing through which Harvard's case studies will become part of Estacio's graduate course syllabus. Our students will receive the cases in Portuguese electronically and then discuss them in class. Throughout the 18-months program, students should have contact with at least 72 different Harvard cases in the various MBA disciplines.

Estacio's Nova Pos program also offers individual coaching for students, aiming to develop their skills and to work on the weak points in their personal and professional lives, so they can have a more promising career. We have also entered into a strategic partnership with Grupo Phorte to offer our graduate courses through an extremely extensive distribution network. With highly effective management and a focus on results, Grupo Phorte will offer more than 100 Estacio-brand graduate courses in the domestic market, complementing our current portfolio.

Not only will the partnership expand our supply capacity and distribution channels, but it will also enable us to expand our national presence and therefore to create greater opportunities for expanding the number of students enrolled in our graduate programs.

Still in November, we are launching our new short-term, non-degree programs. With this in mind, we created a new brand, Voce Aprende Mais, You Learn More. We will offer over 60 courses, initially via distance-learning, where classes will be recorded and the content made available to students so they can decide when and how they would like to study. These courses will be certified by Estacio, and will make maximum usage of the content generated by our undergraduate and graduate programs.

In addition, our Corporate Solutions area is beginning to put together a portfolio of highly attractive and promising clients, demonstrating that we can build an extremely important business on this front dealing directly with top-tier companies in Brazil. We will keep you informed of the progress of this portfolio in the coming quarters.

Finally, we have a team that is evaluating our participation in the next round of Pronatec bids, defining which courses and locations are most appropriate for Estacio and, especially, reflecting on the best means of delivering a product with the same level of quality as the other courses in our portfolio, without causing any problems or interfering with our core operations.

To sum up, here at Estacio we are now reaping the fruits of the seeds we planted some years ago and at the same time planting new seeds in preparation for fresh harvests in the years ahead.

That brings us to the end of our presentation, so now let's go to straight to the question and answer session. Thank you.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the Q&A session. (Operator Instructions) Our first question comes from JC Santos with BTG Pactual. Please go ahead.

Q - JC Santos

Good morning, everybody. My first question would be regarding the integration process of UniSEB. I understand that you guys are still waiting for the approval from the antitrust authority. So if you could give us an update on this timeframe as well, but also if so far, in terms of delving a little bit deeper on the operations, if you kind of already identified further opportunities to be extracted from this deal? This would be my first question.

And the second question would be regarding CapEx. After, as you said, seven record admission processes, you have been adding a lot of students, and I believe that throughout the next years, I was just wondering if you have any kind of spare capacity, type of issue. So you do have expansion projects? I was just wondering if this number would need to be expanded as well.

And also on the CapEx, I am sorry, that would make three questions, but also on the CapEx, I would like to understand a little bit better the tablet project, if you could give us an update, if this is going to be expanded. We see that the CapEx number came from R\$2 million, R\$3 million per quarter to R\$7 million this quarter. Is this going to be expanded to other units and courses? And how has been the feedback so far in terms of the usage of the product and so on and so forth? Thank you.

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

Ok, JC. Thank you. You have the right to make three questions, since the one in Portuguese did not work, right?

Q - JC Santos

Exactly.

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

We tried, it was not our fault. As for UniSEB, you are right. There is not a lot we can talk about, because we are still waiting for the antitrust, CADE's process. As far as we know, everything is going fine. They are asking information, we are giving all the possible information we can and the most -- the best possible way in the quickest way as well. But I know, we have to wait, there is not a lot we can talk.

FINAL

In the meantime, obviously we are studying, we are thinking about what we will be able to do, always respecting the limits they imposed to us, because you do not want to run any kind of risk at this point in time. What I can tell you without going into the discuss we can have, we can give you any kind of details, but I mean, what I can tell you is that we feel very, very good about UniSEB's acquisition. The more we understand about that, the more we see the opportunities they have, the better we feel about the move we just made.

We have a lot to do with our ability to increase revenues there, I think that the name of the game there will be attracting students and obviously keeping expanding the operations, not only by opening new programs, but also by trying to open new learning centers.

And I think, as I told you, from what we have seen so far, I think this is going to work pretty fine given our capacity and the skills we have in Estacio right now. So bottom line is that we feel very good about that. And I'm sorry we cannot open a lot about this process, you know how this works. As soon as we are able to release more information, we are going to come up with a full plan and a lot of details for you, so you will be able to understand why we feel so good about this move.

As for CapEx, this question about how much spare capacity we have, it varies a lot depending on the regions. What I can tell you is that in the Northeast we are really getting full, especially in the night shift, so we are just about to make some investments there in other buildings, in some particular cities. The same thing is happening in some campus in Rio de Janeiro, so we are investing a little bit as well here in Rio to make sure we can receive all the students we are going to get now.

And we are also getting back on track in Sao Paulo, which is great news for us. I mean, we have already started our process for 2014 and Sao Paulo is giving wonderful signs of recovery, which makes us really enthusiastic about that. But having said that, I would not expect any kind of major variance in terms of percentage of net revenues we are investing in CapEx expansion.

It may vary a little bit, if it does vary, probably we are going to compensate that change with lowering our maintenance CapEx, that's the way it works here, all those figures, something between 5% and 7%, we are very likely to last for the years to come here at Estacio, which makes us really confident about our capacity to generate cash flow, because as EBITDA grows, we think we should be able to add a lot of cash to our bank account.

As for the tablets, what we are doing until now, we are keeping the strategy, we adopted at the beginning, only a handful of programs, the most representative programs for us, because we wanted to learn how to operate such a big network. There is a lot of our logistics challenges here, as you probably wondered, so as we learn more about that, as we feel more confident, there is a, I think there is a chance we are going to increase this operation for 2014. However, we are just about to have a meeting to discuss what we are going to do next year.

FINAL

So, at this point in time, I do not have this information for you. What I can tell is that, even if we are going to increase, which I think will happen, we are going to increase the number of programs that are offering tablets, we just launched in the second semester a new technology known as Bring Your Own Device. This is something that is really modern in terms of education, the education segment, and this allows our students to use their own devices to download every piece of information of the games, the apps we are developing, so as to avoid us giving them our own tablets, and this is being tested now. I think, as far as I know, it's been working fine so far. So this could potentially offset the kind of investments we would eventually have to make in our tablets program if we actually increase next year.

So, bottom line for CapEx is that we don't expect any kind of major variance in terms of percentage of net revenues for 2014. Okay.

Q - JC Santos

All right. Thank you very much for the information.

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

Thank you.

Operator

Your next question comes from Felipe Cruz of Itau BBA. Please go ahead.

Q - Felipe Cruz {BIO 17343069 <GO>}

Good morning. I have two questions. My first question is related to the potential for margin expansion. Do you believe there is additional space to improve profitability from growing the average size of classrooms from your current levels, providing further personnel cost dilution, and if you see other drivers or initiatives that should contribute to the maintenance of the current pace of margin expansion going forward.

As for the second question, you mentioned that 7,000 students were still in the process of contracting FIES in the third quarter. From these students, do you have how many of them already managed to contract the program and regularize their status in the fourth quarter?

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

Okay, Felipe. Thank you for the question. In the first question, on the margin expansion, the answer is yes, we are expecting more opportunities for classroom dilution for the next few years. Just an idea, we have now 34 students per class in average, after this intake in the second semester and in 2009 this number was around 26 students per class. We truly believe that we can reach something around 40 students per class in the next couple of years, without changing our good practice of managing classes and reducing teaching cost for the next one to two years. So, we still have an opportunity to increase our efficiency and reduce our teaching cost for the next few years.

FINAL

And another lever is the online class. Today we have less than 15% of the total class in online classrooms. So as the time goes by, and we are still maturing in our academic model for the next three semesters at least, we can grow close to 20% the participation of online business in total class that we have in Estacio. So we can keep online class 65 students per class, so it is also a very strong opportunity to dilute cost as the online class increases the participation in our portfolio of classrooms.

And for the second question, about the 7,000 students that was in the middle of the process to contract in the first semester in the FIES, we already closed 4,000 of these students, but we still have more students coming, so this account keeps on the same level. From the 7,000 students, we converted 4,000 but we still have something around 7,000 to 8,000 students coming. Remember that we have until December to convert the students for the FIES contract in this semester. Okay.

Q - Felipe Cruz {BIO 17343069 <GO>}

Okay. Thank you.

Operator

The next question comes from Ruben Couto of Brasil Plural. Please go ahead.

Q - Ruben Couto {BIO 19172367 <GO>}

Good morning, everyone. Thank you for my question. Could you provide more color on the directorship change that are underway in Estacio's academic office that you just announced? And how this is related to the, is relating actually to the development of that academic model 2.0? And is this happening due to the UniSEB acquisition? Just wanted to get more clear view on this matter. Thank you.

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

Hi, Ruben. This strategy we announced yesterday has nothing to do with UniSEB or distance-learning strategy or whatever, it is just a personal decision by our academic Officer, Mrs. Paula Caleffi. She made a decision regarding her personal life. It has a lot to do with her plans to come back to what she herself calls an academic track, that's her goal for the coming years.

That does not change a lot here, because everything in Estacio at this point in time is so well defined, the teams are so I'd say mature at this point in time that we should be able to deal with these kind of situations, and the situations will always arrive it does not matter, how well you feel about our company, people still will have their lives and we'll make their decisions. But I think our company is in a point right now that absolutely makes me confident that this kind of change won't have any kind of impact in our strategy.

As for UniSEB, obviously when the time comes for our integration, we will make some adjustments here in order to be able to properly integrate this asset and when this time comes, we will let you know.

Bloomberg Transcript

Q - Ruben Couto {BIO 19172367 <GO>}

OK. Thank you. And, if I may, could you comment a little bit on how you see the Ministry of Education reacting to all this noise surrounding Brazil's fiscal deterioration? I mean, in your relationship with the Ministry of Education do you believe there is any change that the Government is looking at the sector with all about PROUNI that we have been hearing over the past months? Could you comment a little bit on that and how you are seeing these issues? Thank you.

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

Yeah, as far as I know, when I answer -- I talk to them very often, there are no issues whatsoever on their table. That's my perception, obviously, I cannot talk on their behalf. This thing about the PROUNI, for example, I can tell you that the Minister of Education did not know about that. This was a decision by the Brazilian IRS and obviously it's a wrong decision and we are going obviously to defend our interest altogether. We are actually getting organized as a sector to be able to fight for our rights and I think we have a very good right in that direction, in this case particularly.

When I talk to the Minister of Education, and not about PROUNI, but about the public policies as a whole, they still seem very confident and they seem to believe a lot in what they are doing. I think these problems, not only PROUNI, but mainly the FIES, I think they have become huge flagship for this Government. And I considering that we will have Presidential elections at the end of next year, I think the chance that they are going to change anything, especially at this point in time, is really small. But again, this is my perception, so never question me about this perception in the future because that information could be released only by them.

Q - Ruben Couto {BIO 19172367 <GO>}

Okay. That is helpful. Thank you.

Operator

(Operator Instructions) Your next question comes from Bruno Giardino from Santander. Please go ahead.

Q - Bruno Giardino {BIO 15974970 <GO>}

Good morning, everyone. First question comes to your expectation for since the growth next year. Would you expect such good numbers for student admission next year-end? Would you change at this point your expectations for this 7%, correct me if I am wrong, but 7% increase year-over-year of your own campus organic base? That's would be my first question.

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

Bruno -- Hi. The 7% year-over-year this is something for the medium term. When we talk about medium term projects at Estacio, usually we use this figure between 5% and 7% of our organic growth, that for the student base. As for the intake for 2014, the truth is that

every semester, we kind of get ourselves questioning for how long is going to be possible for us to keep growing 20% plus year-over-year and the thing is that it has been happening for seven semesters now and we are obviously happy with that.

We do not release this kind of information for specific years, you probably now, but what I can tell you is that we have already started our process for 2014. And I cannot tell you how far we are, maybe 15% or 20% of our way and the numbers actually are impressive. They are still very strong, they are still coming in a very, I'd say, encouraging way and obviously if we can keep this kind of pace, I think this is going to be a wonderful surprise for everyone next year.

But, I think the moment we are living here is so good, things are so in place that, Virgilio has a calculation here, he says that even if we just repeat the same numbers, the same intake, the same number of new students in 2014, our student base should grow at least by 9%, meaning that the 7% it may work in the medium to long term, and this is how we like to think of our future here, right. But for 2014, we may be just ahead of another outstanding year for Estacio. Time will tell.

Q - Bruno Giardino {BIO 15974970 <GO>}

Okay, that's great. And my second question would be on the results of ENADE, when we look at Estacio's consolidated year, it was a quite good improvement, but we still see some problems in Sao Paulo and you just comment that you have seen some improvements in operations there. And I just would like to know if you have a special plan for this front in the academic area for improvements of ENADE test with your students in Sao Paulo.

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

Bruno, Sao Paulo actually was -- Sao Paulo improved a lot, but the problem is that Sao Paulo, in 2009, had a very low score. I think it was around 154, so -- and in order to become a three you need 194. But they did very well in the ENADE exam, which is just 20% of the total score. So we are now waiting for the remaining of the formula to be calculated, so let us just see where they are going to get.

Our internal calculations kind of give us a lot of hope that Sao Paulo will be able to turn a three this year. We cannot tell, because as you know, it is a bell curve, so it depends a lot on how the others performed

But from our internal perspective here that Sao Paulo may turn into a three already this year. If it does not turn into three, what I can tell you is that it is moving in the right direction, because it is going to get -- really, really close to turning into three, which seems, I'm sorry which implies that whatever is happening there is bringing us to the right direction.

And I think this is true almost everywhere in Estacio. If you look at the numbers, program by program, city by city, you can see evolution in almost all of them and this is what we really like it about this last ENADE round, is this evolution, I mean, forget a little bit about

the absolute numbers this quarter we took and check what happened back in 2009, if you compare, we are talking about our three-year's period normally, we are talking about some students who are not in the new academic model, but still took this exam last year. And we are talking about a big turnaround in a matter of three years in segment that usually takes three, four to five years, which is an average time of a graduation program in Brazil, in order to make things better.

So we feel really good about that. We are not happy -- when I say we are not happy, because we really set the bar high here in Estacio. We want to perform and to outperform everyone. We want to be safe about this scores, and we use that as indicators of how well we are performing in academic terms. So we are happy, but we are not satisfied. We are going to improve a lot over the next years, the next ENADE cycles. And I hope you will be there to see us doing better.

Q - Bruno Giardino {BIO 15974970 <GO>}

Excellent. And just a final follow-up, do you plan to offer Pronatec courses by the next round of offering, perhaps next year? Or are you just in the phase of studying if it's possible to make it or not?

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

Compete, you know it's a bid, you have to compete. I cannot tell you whether we are going to win or not. What I can tell you is that we are going to focus on cities and programs where we think we can do really well, instead of trying to do something really comprehensive in the beginning. We would like to start, I can tell you in a very responsible way. If it does work, if we can do this properly, if we can set up a nice thing here then we can expand in the following rounds. But for now, our decision is that we are going to compete.

Q - Bruno Giardino {BIO 15974970 <GO>}

Excellent. Thank you very much. Have a nice day.

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

Thank you, Bruno. Same to you.

Operator

Your next question comes from Marcelo Santos of JPMorgan. Please go ahead.

Q - Marcelo Santos {BIO 20444938 <GO>}

Good afternoon. Thanks for the question. I wanted to understand a little bit more EAD Mais program, what kind of students are you attracting? EAD Mais applies to all the courses, you can give little bit more color on that. And also on the intake campaigns, you mentioned that on the odd number quarters you usually have more intake and that generates more discounts over revenues. But when we make a year-over-year comparison, you are comparing odd-to-odd quarters, you see a little bit more pressure

on that front. So, I am just trying to understand if you are spending more, giving more discounts on intake or any color would help us.

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

Okay, as for the EAD Mais, this is an idea brought by our marketing folks, because the truth is that some students do not want to take six subjects at once in a given semester, which is the average number of disciplines they are expected to take. So instead of preparing a program to last 2.5 years, which is an average program for what we call technological programs here, we decided to spread this more over time, so as to allow the students to take fewer classes, fewer subjects on every semester, and therefore lowering the average ticket, which also helps them to face this financial responsibility that they do, but they make, when they make a decision to join us. So we believe EAD Mais is a solution for students who are not willing to take all those subjects at the same time, who would be willing to wait for longer in order to get the diploma,

maybe 3.5 years or so, and who would value this idea of paying less for the same program, but it's still we can wait for a longer time.

So that it's, I mean, we are testing this now. If it works fine we keep it if it does not, we give this up later. But it did have an impact this semester. I think there are almost 2,000 students signed this EAD Mais, and obviously it explains part of the ticket we got in the distance-learning segment.

As for the second question, okay, -- as for the discounts that we saw in this third quarter, to analyze that I think we have to compare with the first quarter in 2013. As you saw, we have 26% in the intake cycle over last year else our intake is going up, we have the discount going up over the net revenue. This is very normal at Estacio, as we have a very long period to convert these students that are classified in the exams for the first semester, second semester almost to the end of September, we still confirming the enrollment of these students. So, we have to give discounts of one and two tuitions to convert these students in August and September.

When you compare, I think the first quarter the intake cycle goes -- went up 19%, and the discount rates, I think the figures are around 33%. So, the intake was 19% year-over-year in the first quarter and discounts 33% year-over-year in the same period. And now in the third quarter we have 26% year-over-year in the intake. Those are very strong intake coming in the second semester, we are speeding up this growth, comparing year-over-year, and also the discounts went up to 39% because of this discounts in the first and second tuitions in the semester.

As time goes by the fourth quarter, this comes down because now the students have to pay three tuitions during the fourth quarter. So, it is very normal. We will see the reduction of these discounts when the intake cycle is would be lower than the other year. So, I really prefer to increase the intake cycle and have these discounts a little bit over the first and third quarters, then lowering our intake and lower even more the discount rates for the same period. Okay?

Q - Marcelo Santos {BIO 20444938 <GO>}

Okay. Thanks a lot.

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

You're welcome.

Operator

The next question comes from Marcello Ganem of Oceana. Please go ahead.

Q - Marcello Ganem {BIO 19791539 <GO>}

Good afternoon. I have two questions. The first question is regarding the G&A. I would like to know if the increase in G&A to support new businesses is over, and if you see a significant room for G&A dilution in 2014.

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

Hi, Marcello. Yes, I think over the next years, you'll have -- we will see more dilution in G&A. It is true, we had a step-up this year, not only because of the reason you mentioned. We are preparing Estacio for covering more ground in the future, entering new businesses. And obviously that requires an upfront investment in people, especially in people, not only in people, but especially in people.

And also remember we are trying to smooth the provision we built for bonus at the end of the year, and this also has an impact in our G&A structure. But I think yes, over the following years, the next years we are going to see more dilution in G&A, and that is going to be an important source for margin expansion for Estacio.

Q - Marcello Ganem {BIO 19791539 <GO>}

Okay. And the other question is about Pronatec. I would like to know if you see Pronatec as a huge opportunity for private schools to capture a huge number of low-income students that try to get in either in a public university or in a private university through ProUni, but are not successful and those students do not even consider taking the FIES, because they have a very low income. So, Pronatec is like a very good way out for those students.

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

I think it is early to tell, Marcello. It's a new program, nobody knows at this point in time, how successful it will be. I think it is a great attempt by our government trying to offer this option to students who would not be willing to take to go directly into the university system.

But I think we will have to wait sometime in order to see the kind of students who are likely to show up and the kinds of gaps they are going to bring, that we are going to have to fulfill by our own means. Also to see how the dropout rates will be in this segment.

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By having said that, I think it is a good opportunity. Yes, I would not bet our entire strategy into something that does not depend on us, because it is a public policy, and again, as every single public policy can change at any time. But I think it is a great opportunity for us, especially to try to use our idle capacity, morning and afternoon shifts. If we can do that, I think it will be very helpful.

And I think there may be another positive side effect, although it is very early to say that, which is we are going to have maybe one year, year and a half to work with these students, try to convince them to stay with us after they are done with their Pronatec programs. Why not take or go into a regular university program, and then get a second degree, therefore increasing their chances of having a better professional life's in the future?

So, I think it is a wonderful opportunity we are going to try now to see how it works, and also to see whether we can deliver a good service. If we can, if we think it is good, then we are going to invest more.

Q - Marcello Ganem {BIO 19791539 <GO>}

Can we understand that you are going to offer that in the beginning of the next semester in a linked basis, like just a few thousand slots for the first semester?

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

Yes, I think so. We are going to define it. We are just working on that right now. We are defining the cities and also the programs we would like to compete in this next bid. It won't cover the entire country, it won't cover the entire -- all of the programs. It has to match our own capacity, so that's it. But the chance is that we are going to increase in our, I'd say in a more controlled region, where we can see how we are performing, and learn more about these students, about the program, about the cash flow and everything else. And then, as we do everything in Estacio, we may end up expanding this into other regions, if we feel comfortable about that.

Q - Marcello Ganem {BIO 19791539 <GO>}

So, you will probably start probably by the Rio de Janeiro area and nearby, and not out like in distance areas?

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

There is a good chance.

Q - Marcello Ganem {BIO 19791539 <GO>}

Okay.

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

It could be it.

Q - Marcello Ganem {BIO 19791539 <GO>}

Thank you.

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

Obviously I cannot open it to you, because it is a bidding process, right. So, if I tell you where we are going to try, obviously I'm giving a lot of information to people who will eventually compete with us. So, that is kind of classified information. But we are going to try it at this time. I think that is the most important piece of information to you.

Q - Marcello Ganem {BIO 19791539 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) The next question comes from Clarissa Berman of Credit Suisse. Please go ahead.

Q - Clarissa Berman {BIO 17652852 <GO>}

Hi, thank you for taking my questions. I have two questions, actually. The first one on COGS, I wanted to better understand this payroll benefit, the INSS that you had on the quarter. My understanding is that this is a retroactive one-off positive impact of the 150 basis points, in the margin this quarter. Is that correct?

And then the second question is on the EBITDA margin guidance for next year, are you still comfortable with the number given the outperformance, especially this quarter, that we have, but in all quarters in fact? And I mean, is there any chance you are revising it for 2014? Thank you.

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

Hi, Clarissa. As for your question on COGS, yes, it is a kind of one-off, it is retroactive for five years, and it goes five years back. But if you read the report carefully, you see that there is another one-off effect that happened last year in the other direction. It happened last year, did not happen again this year, which was a reversion in our provision for contingencies and so forth.

So they are kind of equivalent, which implies that the margin growth we are seeing here is actually the margin growth we are getting through our own operational capacity and ability. So that cannot explain, that doesn't explain the evolution you are seeing in Estacio.

And for next year, our official guideline 2014 is coming, the time to deliver those 20% right, is also coming, that is what we committed three years ago, by 2011, I think, and obviously we feel very comfortable about delivering that at this point in time. We feel like it is in our hands and unless there is something really out of control, I think we are going to deliver that in a very proper way.

As for increasing that, we are going to wait this new intake cycle and when we are done with that, maybe the first quarter of next year we may come up with something new for you, but when the time comes. For now let us stick to our 2014 commitment, and be happy that we are going to get that.

Q - Clarissa Berman {BIO 17652852 <GO>}

Okay. Thank you.

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

Thank you.

Operator

The next question comes from Marcello Ganem of Oceana. Please go ahead.

Q - Marcello Ganem {BIO 19791539 <GO>}

Thank you for your taking my other question. Could you give us like an objective for like a target for the G&A as a percentage of sales for the next let say, three to four years? I mean, would it be reasonable to say that we could get to let say 10% of G&A as a percentage of sales in three to four years?

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

Marcello, we can't give you this information, because we do not work this way. We do not open this kind of detail, especially in a call like that -- this one here, which I know, is usually a little bit more strategic. If you want to talk about this you can talk to Flavia and our IR people later. They would be happy to help you with that.

What I can tell you is that, there will be some dilution in G&A. I'm enthusiastic about that, because we have all of these expansions very much under control right now. So, I would wait for something really good in this particular line for the next years. Okay?

Q - Marcello Ganem {BIO 19791539 <GO>}

Okay. Thank you.

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

Thank you.

Operator

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

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

Okay. Thank you very much for participating in our call. As we have said on recent quarters, we are going through a great time here in Estacio in terms of fundamentals, results and perspectives for the future, always seeking more, always trying to improve, always trying to prepare Estacio for the years to come.

If you have any further questions, let us know, myself, Virgilio, Flavia, and our IR team will be here for you. Hope to see you again in the next quarter, and I hope you all have a great day. Bye.

Operator

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

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