

## Q1 2021 Earnings Call

### Company Participants

- Frederico Da Cunha Villa, Chief Financial Officer
- Mario Ghio, Managing Director, Vasta
- Roberto Valerio, Managing Director, Kroton
- Rodrigo Calvo Galindo, Chief Executive Officer

### Other Participants

- Andres Coello, Analyst
- Lucca Brendim, Analyst
- Marcelo Santos, Analyst
- Vitor Tomita, Analyst

### Presentation

#### Operator

Good afternoon, ladies and gentlemen, and thank you for waiting. Welcome everyone to Cogna's First Quarter 2021 Earnings Conference Call. We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the company's presentation. After the company's remarks are completed, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions)

Also, today's live webcast, both audio and slide show, maybe accessed through Cogna Investors Relations website, [ir.cogna.com.br](http://ir.cogna.com.br) by clicking on the banner One -- First Q '21 Webcast. The presentation will also be available for download. The following information is available in Brazilian reais in accordance with Brazilian Corporate Law and Generally Accepted Accounting Principles, which now conform with International Financial Reporting Standards, IFRS, except where otherwise indicated.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Cogna management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of the company and could

cause results to differ materially from those expressed in such forward-looking statements.

I will now turn the conference over to Cogna's CEO Mr. Rodrigo Galindo who will begin the presentation. Mr. Galindo, you may begin your conference.

## **Rodrigo Calvo Galindo** {BIO 17238232 <GO>}

Good afternoon everyone and thank you very much. I hope your families are well. Thanks for being with us talking about our results in the first quarter 2021. With me on this call Frederico Villa, our CFO, and IR Director, and the CEOs, Roberto Valerio at Kroton; Mario Ghio of Vasta; Bruno Giardino, our CFO, and Vasta IR Director; and Eduardo Honzak, our Corporate Finance Director and IR Director.

I'll begin today on Slide 3 with an overview of what we delivered so far. And let me highlight the process of Kroton restructuring. We made it clear from the beginning. But in 2020 we would be restructuring to begin in 2021 capturing our profitable operations. And I believe the results show especially Kroton that the adjustments begin to provide results.

Let me highlight talking about the restructuring of Kroton. We already see the first results with a recurring EBITDA margin of 9.3 percentage points. So we are confident that all the adjustments promoted in 2020 have placed Kroton in a positive operational way. We highlight that Kroton average collection days closed the quarter at 67 days, seven days, fewer than last Q, consolidating our leading position in the industry, so that we have accounts receivable that are now very robust. This indicator shows a reduced default level and it demonstrates improvement in our receivables provisioning that we made in 2020, now adequate to the company revenue level. So we feel comfortable about our receivables.

To reinforce that, during the presentation, you will see that our coverage ratios they make it very clear that we are at a very comfortable position, with PEP students 66%, PMT 80% and Out of Pocket 61%, that's the coverage ratio. So it means we are in a very comfortable position. And very adequate for our balance sheet to be very healthy. Still, about Kroton, we highlight that student intakes has grown 5%. So even in the most critical period in 2020 where we had the pandemic we've grown 5% and Roberto will make it really clear. So we are ready for a robust growth in more digital segments.

Now hybrid plus premium, digital and digital while digital has grown 43% and hybrid 43% - and hybrid, sorry 15%. We also want to highlight a post-CapEx operating cash generation BRL117 million at Cogna. If we exclude BRL62 million of advance credit card receivables, we still have a very healthy position facing a consumption of BRL147 million cash. More important is to highlight that we successfully concluded the debenture covenants renegotiation process keeping us in a very solid cash position.

There is a net debt of BRL2.9 billion and average duration of 25 months. This is because of the covenants we renegotiated. We believe that it shows the company commitment with our strategy that we've been pursuing which is to grow our profitability consistently.

and sustainably prioritizing segments with an asset-light business model so that we have a higher growth potential and high return on invested capital. So that's our strategy and the recent numbers of Kroton to show we are on the right track.

Slide 4 now. Let me highlight that we -- I am going to provide more details on the post-CapEx operating cash generation. As we can see on the chart, we point to a growth of 1.9 percentage points in the company consolidated margin reaching 29% this quarter, with a recurring EBITDA of BRL366 million compared to BRL44 million in the same quarter last year. It's important to remind you the first quarter of 2020 did not have the full impact of the pandemic because it only started by the midpoint of March.

On the right, you can see the operating cash generation. Despite the impact on EBITDA, we delivered operating cash generation of BRL170 million. So that's high-quality EBITDA. Cash generation, post-CapEx cash generation, if we adjust by the advance on credit card receivables, we still see BRL62 million, still substantially higher than the BRL147 million of consumption in the first quarter.

Now on Slide 5, our messages on the successful renegotiation of the debenture covenants, which led to us obtaining a waiver that includes in the last 12 months adjusted EBITDA all the extraordinary PDA adjustments of Q2 and Q3 2020 totaling BRL644 million between Q4 2020 and Q3 2021.

So with that, it is important to highlight that Cogna has reached a net debt adjusted EBITDA ratio of 1.97 times in Q1 2021 compared to 1.89 times in Q4 2020. As we apply the PDA adjustment, that has already been mentioned, to both numbers, the company reached this comfortable position and a turning point in the company leverage already this year and then a downward trend, which is again a comfortable position.

With that, I'll give the floor to Roberto Valerio, our Kroton Managing Director who will be presenting our operating and financial highlights at Kroton.

## **Roberto Valerio**

Thank you, Rodrigo. Good afternoon everyone. Let's take a look at Slide 7, where we will talk about the results of Kroton's restructuring in 2020. As we can see, the results of Q1 '21 make clear that Kroton is on a positive uptrend of profitability and default reduction. In this respect, I think it's important to highlight that despite the drop in revenue that was impacted by the graduation of students and the delay of ENEM and lower intake particularly in on-campus content because of the pandemic. The recurring EBITDA grew by 18% in the period with a margin expansion to the tune of 9.3 percentage points. The major highlight of the delivery of reported EBITDA are focused on the economy of operating costs and major streamline of marketing expenses. We worked hard in all lines and we could reduce them in addition to marketing expenses that already reflect the new strategy focused on digital rather than offline media, something that was the topic of the Cogna Day last year.

Additionally, we also have a new PDA level, which has enabled us to extract this improvement. We are very confident is that the reduction of units and streamlining the operation and also in corporate areas, not only have brought lower expenses but also have enabled us to the transformation that education sector is going through. Therefore, we believe that Kroton is in the right path to deliver EBITDA growth still in 2021, despite the many challenges that the pandemic is imposing on us.

Moving on to Slide 8, I'd like to talk about Kroton's restructuring from the cost point of view. In this slide, I show financial and economic information of the Kroton campus, particularly those 45 units that we've mentioned in this respect. I highlight that non-recurring expenses to the tune of BRL82 million in first Q 2021 has a portion of BRL35 million which are derived from write-offs, they have no impact on cash and the expenses connected to Kroton's restructuring on this slide are in line with what we announced in Q4 2020 when we opened up the details of this project to you. We'll still have BRL60 million to be recognized as non-recurring expenses in 2021, and of this BRL22 million, they have no impact on cash. Also, BRL9 million was posted to CapEx in Q1 2021, and BRL10 million in this first quarter, but we are very comfortable that the operating results of Kroton in the first quarter are clear evidence of the potential of value creation that this restructuring project will have, particularly since fourth quarter 2020

Now Slide 9. Let's talk about the operational results of Kroton. Here, I'm going to show the indicators related to account receivables. Here, we closed the first quarter 2021 with an average term of payments of out-of-pocket students of 67 days, seven days less than what was reported in Q4 '20 making Kroton one of the best in the sector of higher education and this reflects default reduction that shows of improved provisioning of account receivables done in 2020 in line with the level of the company revenue, has really paid off.

Out-of-pocket student PDA dropped by 2.9 percentage points to 13.1% of net revenue and I still point out that the coverage ratio of 61.2% and the lower volume of account receivables is still lower BRL456 million according to the slide and I believe that all of this data show that the criteria that we've adopted is in line with the company's new reality.

And now, Slide number 10, let's talk about new enrollments, and like Rodrigo said, (Technical difficulty) It is important to highlight that if we exclude IFRS 16 that reclassified rents below the EBITDA line in results, the recurring EBITDA, ex-IFRS 16 growth 91% because of a drop of 20% in rent expenses because of the restructuring. That's how Kroton continues delivering strong growth on digital focusing on going back to a growing profitability and a lighter balance sheet. With that, I thank you all for your time. I close my presentation and I'll give the floor to Mario Ghio, Vasta Managing Director. Thank you.

**Mario Ghio** {BIO 17352490 <GO>}

Thank you Roberto. Thank you for your participation. Slide 13, we'll look at operating numbers of Vasta beginning from subscription revenue, Vasta delivered revenue from contracts from our complementary solutions and from our learning system based on Textbook, the ex-PAR. Now in subscription, Vasta delivered a double-digit growth of 11% in 2021, including the fourth quarter of 2020 and Q1 of 2021 highlighting the subscription

revenue ex-PAR, which includes traditional learning systems and complementary solutions that have grown 21% in this period of time, a bit below that mentioned.

Now, non-subscription and PAR business, we had an impact on this segment because of the utilization of Textbook, that is the re-utilizing the textbooks or buying second-hand books, families are having to do that. So we had a lower revenue from this segment. It's important to highlight that despite the impact on the adjusted EBITDA of the company because of the lower revenue, Vasta continues in a trend of expansion in this commercial year with our subscription business growing and increasing their participation so that it can be higher than 85% in this commercial cycle that will end on September 30, now 2021.

Now, I'll close my presentation and we give the floor back to Rodrigo, who is going to present Platos' operating results.

### **Rodrigo Calvo Galindo** {BIO 17238232 <GO>}

Thank you, Ghio. Now, I will begin Platos' presentation on Slide 15, that's the OPM offer for internal client Kroton and external clients, that is other educational institutions that has already started. As you can see in the first Q, the company delivered a 14% net revenue growth vis-a-vis Q1 2020 reaching BRL25 million net revenue. In 2020, we focused our digital graduate programs, because it is more profitable, more scalable, and it has more growth potential. Now, as we analyze the revenues of digital graduate programs and my base of students 32% and the net revenue grew 28%, the margin had a drop as you can see on the right, but it's still high, 30%.

This drop is because we became more conservative in provisioning, because of PDA, and this is something we did in all Cogna businesses and also OPM, it's the beginning of the OPM offer to external clients, but in time, it will gain scale. So Platos is consolidating as a fast-growing company growing revenue 28% this quarter and maintaining EBITDA margin around 35%.

Slide 17, now I'd like to talk about the details operational results of Saber. Company had an impact on revenue because of the pandemic, had been a longer effect than we expected and a more critical moment at the time when parents make a decision. So that generated a lower student base, and a negative impact.

We closed this period at BRL178 million. Now on the right-hand side, we can see a compressed margin because of these effects mentioned that impacted the revenue and therefore our margin, which ended the quarter at BRL56 million, the margin is 31.3%. So it's not bad, it's important to highlight we had efficiency gains in Saber operation, but they were offset somehow by the challenging scenario with the pandemic.

Now Slide 19, let me show you this vertical of Other Business. On the left, we can see the net revenue of Q1 '21 was BRL81 million. This is not related to performance, but seasonal effects of the National Textbook Program, which is included in this vertical. It had a positive contribution, and additionally, the profitability of this business unit was favored by a lower

cost associated to the sales of collections to the National Textbook Program. So recurring EBITDA of BRL29 million and margin of 35.7%.

Finally, we'd like to highlight, we gained market share in the National Textbook Program and the repurchase of K-12, and for high school titles, they have not made the choice of titles. But we're very optimistic, because of high quality of our titles.

With that, I will close this part of the presentation. And then I will invite Fred Villa to continue with our presentation.

## **Frederico Da Cunha Villa** {BIO 18677215 <GO>}

(Technical Difficulty) seasonal effect in the National Textbook Program revenue and the effects that have been partially offset by the growth of Platos, all of these factors together drove Cogna's net revenue to BRL1.262 billion against BRL1.67 billion in Q1 '20.

Now on the graph to the right, we can see in the company's consolidated the positive effects of Kroton's restructuring and the better profitability in our vertical and other businesses, and together, they brought about an expansion of 190 points -- basis points in the company's recurring EBITDA margin, closing the first quarter '21 at 29% with recurring EBITDA at BRL366 million.

Therefore, we believe that the good from results in cost savings, improvement in corporate expenses and a reduction in default and better efficiency, the operating results of Cogna are on a positive path for the coming quarters.

Now, moving to Slide 22. I'd like to talk about the result of the net income over the period -- adjusted net income. Therefore, here we have a bridge chart where we show that the company is moving from a loss of BRL91 million and we have non-cash effects that we have adjusted to show what our adjusted net income would be. So therefore, we have excluded the non-cash impact of amortization of intangibles, and added value to the tune of BRL73 million. And as mentioned before, BRL24 million in impairment and another BRL35 million stemming from Kroton's restructuring. So we've moved from a loss of BRL91 million to net income of BRL42 million.

Now, on Slide 23, we're going to talk about debt and leverage. Here we're showing two charts. On the left, we have the company's net debt and adjusted EBITDA. Here, I have net debt, gross debt, and the company's leverage. We have successfully renegotiated our covenants that closed the first period of 2021 with net debt over EBITDA of 1.97 times, according to a new criteria of adjusted EBITDA, that excludes the extraordinary PDA adjustments of BRL644 million that is BRL415 million in fourth quarter of 2020, and BRL229 million in the second quarter of 2020. And this negotiation has a retroactive effect to Q4 2020.

Therefore, Cogna closed the first quarter with a sound cash position BRL3.9 billion, long-term net debt of BRL2.9 billion, so our average term is 25 months. We have a debenture amortization timetable that is well distributed over time, the company reports financial

capacity to honor and amortize its liabilities over the short, medium, and long-term. Therefore, we keep a conservative position and therefore, I close my presentation and pass the floor to Mr. Galindo again.

## **Rodrigo Calvo Galindo** {BIO 17238232 <GO>}

Thank you, Fred. Let me close the presentation on Q1 '21 on Slide 24, where we will talk about prospects for the future for Cogna and each business unit. Let me reinforce some of the things we've already mentioned. In Kroton, two messages, a strong growth in digital which helps our B2C postsecondary business, a lighter and more adapted to our new digital. 15% in hybrid, we are growing very healthily as Roberto mentioned and profitability as Kroton is growing 930 basis points in margin and having a shorter time for receivables.

We've had a difficult year, we made difficult decisions in 2020. But they had to be made and we did our homework and now we begin to harvest results. At Vasta, we protected subscription revenue, organic growth, that's important, it continues to grow and the company is becoming a subscription company more and more, 85% coming from subscription. We did feel the effects of the pandemic in the number of students enrolled into schools and our partner schools and also in book sales. But we believe this will become less relevant in 2022 already. We also highlight that our plan to integrate the Eleva platform has already started and it is ongoing.

At Saber, we have an impact with the pandemic in the number of enrollments and this was partially offset by efficiency gains, but we believe that as we conclude Eleva transaction, Cogna will begin to harvest the benefits of this segment without having to allocate direct capital.

So this is a growth company with high margins and a lot of room to continue to grow especially with external clients in our OPM services. That's something we've only just begun, and it has a lot of room for growth and value to add.

So my final message to close today's presentation is that, this was a difficult year, but we built the basis for growth. In 2021, we will still suffer the impact of the pandemic, but I think we already show better results because of the measures we've taken in each one of our business units, they are aligned with our strategy, our focus is on growing profitability consistently, prioritizing asset-light segments that have a higher growth potential and a better ROIC.

That's how we end our presentation today. Thank you all for participating. We'll now open the Q&A session. Thank you.

## **Questions And Answers**

### **Operator**

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Thank you very much. Now we'll have the Q&A session. (Operator Instructions) Our first question comes from Vitor Tomita from Goldman Sachs.

**Q - Vitor Tomita** {BIO 19238819 <GO>}

Good morning, everyone. Thank you for the question. We have two questions. One, about how you viewed the competition scenario in the first Q, especially in Distance Learning?

The second question, can you give us an update on the 25 platform.

**A - Rodrigo Calvo Galindo** {BIO 17238232 <GO>}

Vitor, I'm going to make Just a brief comment and then I'll send -- I'll give the floor to Roberto because he will give you details about that. We're very optimistic about the actions in the development of the B2C platform. We are paying a lot of attention to do two things, Plan our work in a very robust way, know where to allocate capital more efficiently, and we have a talented team that has specific skills and we need the right people for this project. This is our focus now. We're very happy with the progress in this project so far. We cannot provide many more details, except that it is moving as expected. We know clearly where we want to take this concept of the B2C platform, what we want to develop and now we need the talented people, the people with the right skills and let me give the floor to Roberto, he will give you more details about this answer the second part of the question.

**A - Roberto Valerio**

Thank you for the question about the competition in Distance Learning, in this cycle, we had two phases. The first phase, where the market was more optimistic, in the first part of the cycle in December, we had a large number of new enrollments. We were doing very well. And then, well, the market realized that it would be a difficult year for on-campus activities and then well after the new year began, we saw a slower growth in Distance Learning, the market was more aggressive. We showed in the numbers that I presented that we were very strict in our criteria to select offers maintaining focus on ticket amount and so we had two phases in this cycle. First, where we had higher volume in Distance Learning and then, well, looking forward, this is a very competitive market. There are a number of players, some players growing and we believe that WE will continue to be competitive. We want to attract quality students that is with our criteria so that we can really convert high-quality students that can have a longer duration with us, so that we can have a higher contract value.

So I didn't mentioned this in my presentation, but we've had a big growth in Distance Learning Intake although we spent less in marketing than we did in Q1 last year. That is by investing less cash, we're bringing in more students and protecting the average ticket, but it's a competitive scenario.

**Q - Vitor Tomita** {BIO 19238819 <GO>}

Thank you very much.

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## Operator

Our second question comes from Lucca Brendim from Bradesco BBI.

### Q - Lucca Brendim {BIO 21345319 <GO>}

Hello, good afternoon I have two questions on my side. One, now, you've already mentioned Distance Learning average ticket, please tell us the behavior -- tell us more about the behavior of the average ticket. I believe you've had a drop but then considering the same programs, I'd like to hear more about that.

And now your new marketing strategy, more targeted, did you see any differences in the profile of students now that you have a different intake maybe age or any other differences, maybe they're using more digital. And so that's it. (Technical Difficulty)

### A - Rodrigo Calvo Galindo {BIO 17238232 <GO>}

-- there is no nursing, there is no engineering, so I mean I cannot really speak. (Technical difficulty) Thank you Leandro, thank you for the introduction. Here in addition to what Rodrigo has said in terms of higher volumes, I'd say that Distance Learning evasion is concentrated on the once-a-week programs. So we've had enrollments in once-a-week model, although they didn't have to attend class every day. Even so, they go once a week or twice so week and we saw an evasion mostly concentrated in these two segments in digital and once-a-week model which is totally out of the normal because, well, the conclusion is that it's the pandemic impacting evasion, the cluster of Distance Learning students that are part of the on-campus space. Now talking about the future, I believe this will come back to normal, the once-a-week and premium, but since we are very confident that intake will grow, we will have a reduction of the pressure on one hand, if the pandemic is over, and also on the other side, if we continue growing at the pace that we are.

Leandra, answering your second question. In 2021, we have a repurchase of Primary School one, and the repurchase was postponed and must happen in 2021 or '22 and the volume is big and if it doesn't happen, there will be repurchase, but if it does, there will be a choice, and then we believe that this will increase our market share, we are increasingly at each choice process, we have grown our market share. So we are very optimistic that if what we imagined happens, we will be able to increase our market share.

### Q - Lucca Brendim {BIO 21345319 <GO>}

Thank you very much. Thank you. Galindo.

## Operator

Our next question comes from Andres Coello from Scotiabank.

### Q - Andres Coello {BIO 16205255 <GO>}

I'm going to ask in Spanish. I'd like to know if the variation of Saber with Eleva has changed in the first quarter? And second question.

**A - Rodrigo Calvo Galindo** {BIO 17238232 <GO>}

Hello, Andres. I will answer in Portuguese. Is it okay?

**Q - Andres Coello** {BIO 16205255 <GO>}

Yes. Portuguese, please. Thank you.

**A - Rodrigo Calvo Galindo** {BIO 17238232 <GO>}

Yes, there is a variable price component in Saber and there is a minimum, so regardless of the revenue, there is this minimum and the same price reduction criteria that we have in the operation to price Saber, there is also in the operation of Eleva, so if there is one -- more revenue in one of the operations, prices will level off and if revenue falls, these prices will come down until they get to a threshold, after which there will be no more reductions and the criteria are the same for both companies.

**Q - Andres Coello** {BIO 16205255 <GO>}

Thank you. And the second question is about technological evolution. We have seen the IPO of a company that is like Airbnb and they offer the opportunity for everybody to put out their courses and I remember in the Investor day, you talked about the creation of a platform. I'd like to know more specifically, what you are doing in terms of technological innovation, and if you have talked about any business model where you would open the platform to third parties?

**A - Rodrigo Calvo Galindo** {BIO 17238232 <GO>}

Andres, I'm going to be more general in the answer. And if you want more specific information you can reach out to me. We believe that, well, if we believe that it makes sense to go international, in fact, the platform model is what will get us there. So when we decide to go international, to go global, the natural path will be through our platforms, the Vasta platform for basic education and for youngsters and adults, the new platform that we are building, there was announced in Cogna Day. So these are the natural paths. If we take the platforms that partially do what we intend to do in our B2C platform for youngsters and adults, most of them are global and sell to other countries the solutions that they also sell in Brazil.

So I believe it's only natural, that what is digital, what is scalable, what is a technological platform will be an easier way to do that. But what have we done? This is a long-term work, we've been working to change the mindset of the company since 2017. So it's been four years. So we moved from a culture where business and technology were separate and now they are together, a culture where we only rendered B2C service, now we have B2B in higher education and basic education and removed from a more static and functional culture to a more agile culture.

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So all of that pave the way for us to leapfrog in terms of the technology, but now inside the platform, we have two ways to develop the B2C youngster and adult platform and they are not mutually exclusive and part of this platform will be developed and then other part can be speed up with a small acquisition of start-ups and what we believe is that a combination of in-house development and acquisitions is what will give us the speed that we need. I'd say that today at Kroton, we have a digital map that is completely different than two years ago and we are bringing to these platform (inaudible) and we are about to announce that the leaders of the platform teams who are the people who will help us build this digital culture, which is what we need to build this B2C platform.

This has happened in Vasta. Vasta platform has been built and the business is totally digital at the moment. Today, we have a platform culture and we have embraced a way to build the business at Vasta and the technological solution at Vasta is a more robust platform for K-12 content in Brazil. We have over 50% of web traffic of K-12 content last year. So we are very happy about what we have done in terms of technological projects and the quality of our projects has also grown tremendously. And in this platform, we would take a last step to bring a total digital culture and I believe that the -- and message is that it's a long process. But we started back then. So we're very well positioned to play this game that requires a digital change in culture.

**Q - Andres Coello** {BIO 16205255 <GO>}

Okay, thank you.

## Operator

Our next question comes from Marcelo Santos from the JP Morgan.

**Q - Marcelo Santos** {BIO 20444938 <GO>}

Good afternoon everyone. Thank you for taking my two questions. One, I'd like to hear from you about the admission exam at the midpoint of the year, do you believe that you will already see more on-campus activities, more on-campus students enrollments, and what about Distance Learning new enrollments. Do you believe there can be a decrease, I mean, maybe some of the students who enrolled for Distance Learning would like to be on-campus more. So, that's my first question.

My second question, it seems to me, we're now in a more comfortable position in terms of leverage, and so maybe you have some space for M&A, is there anything in your horizon or for M&A for adult education or something else?

**A - Rodrigo Calvo Galindo** {BIO 17238232 <GO>}

Hello, Marcelo. This is Rodrigo. Thank you for your question. I'll answer the second part, then Roberto will go back to the first part. The answer is yes, obviously, I mean we still naturally this evolution in the indicators of net debt, net debt-EBITDA. So there is still a lot of work to do in 2021 and then we will have not a very relevant growth, but we will have a growth in this indicator and then after that, it will begin to have a drop. We feel very comfortable with this indicator now after we've made the renegotiation of the debenture

covenants where we've excluded what was non-recurrent, what was one time only extraordinary, for example, PDA last year

And so now we feel that we are in a more comfortable position. We may see some space for M&A not transformational M&A, but some M&A. What's the priority? Platforms or pieces of platform that can accelerate our ecosystem building our ecosystems for young and young adults and adults, our B2C platform, which is quite complex. So maybe we can buy pieces of the solution. And the second priority would be some medical schools that would make sense in our portfolio. Today, we have a number of medical schools that are very well rated by the authorities. And that have very high ANAT [ph] grades. So if we can have high quality, high score, then we are going to be discussing about ANAT. And the second thing would be that our medical schools usually have a high margin.

So therefore, we can also bring high margins coupled to high quality. So if we can buy more medical schools, it would make a lot of sense and we would be adding value qualitative value and financial value. So this would be the plan for M&A. That is, we don't really have anything concrete. But we do have some space after we improve these indicators and we would be in a good position for these this kind of M&A. I mean I'll give the floor to Roberto who will talk about the admission exam.

## A - Roberto Valerio

Thank you, Marcelo, for the question about the admission exam. We are a bit more optimistic in terms of on-campus student enrollments. We are now modeling our numbers and so we believe there will be some recovery, but not yet going back to the same levels of before the pandemic

If the vaccination continues to make progress as we've seen today on the media, then well, then maybe we can be a bit more optimistic in terms of on-campus enrollments.

Now Distance Learning, I don't think there will be a decrease. We have a number of new Distance Learning centers hours although it's built by the competition. So we believe that this will -- we believe this will continue to grow. I don't see there will be a drop there.

## Q - Marcelo Santos {BIO 20444938 <GO>}

Thank you. Thank you very much.

## Operator

Now I'd like to give the floor to Cogna for their final considerations.

## A - Rodrigo Calvo Galindo {BIO 17238232 <GO>}

Ladies and gentlemen, I wish to thank you all for being with us in this earnings conference call. We begin 2021 harvesting the benefits from the hard but necessary measures we implemented in 2020. These were some harsh measures we had to make, we had to take in 2020

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We were in a comfortable position, the company is now at a new level of cash generation, in the second half, we will see that even more clearly. Thank you all very much. Our IR team is available to answer any questions you might have. Thank you and have a great afternoon.

## Operator

Thank you very much. This conference is closed. Thank you very much for participating. Good afternoon.

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