Q3 2012 Earnings Call

Company Participants

- Rogerio Melzi, CEO
- Virgilio Gibbon, CFO

Other Participants

- Bruno Giardino, Analyst
- Luis Bresaola, Analyst
- Marcelo Santos, Analyst
- Thiago Macruz, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the Estacio's conference call to discuss the Third Quarter 2012 results. This event is also being broadcast simultaneously on the Internet via webcast, which can be accessed on the Company's 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 be only able to listen to the call. We will then begin the Q-and-A session when further instructions will be given. (Operator Instructions)

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

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

Rogerio Melzi {BIO 16212298 <GO>}

All right. Thank you very much. Well. Good afternoon everyone. Welcome to the conference call to discuss the results of the Third Quarter of 2012 for Estacio.

I'm here together with my team and also with Mr. Virgilio Gibbon, our CFO and now officially Estacio's Investor Relation Officer who will assist me in today's presentation. I wish to remind you that we will have the question-and-answer session at the end of our presentation.

So starting on slide number 2 of our presentation which is available on our website, Third Quarter results show EBITDA growth and margin increase in the same magnitude as in the first half of the year, with margin climbing 300 basis points over the previous year. Under the same shops concept, this gain would have been a little higher around 320 basis points in line with our expectation, and once again bringing sustainable evolution without unpleasant surprises as a result of our management model which was implemented over the last four years.

Estacio's net revenue this quarter came to BRL349.6 million, a 21.3% increase over the same period last year. This revenue growth was due to the expansion of the student base and the increase in tuition fees which are only possible because of the improved perception of the quality of our product and infrastructure as well as increasingly better services provided to our students.

This revenue growth combined with our management model, the increasing penetration of our academic model in the student base, and our growing capacity to plan and control faculty costs, translated into EBITDA growth and margin gain. Though PDA, provision for doubtful accounts, was still higher in the period although already reflecting an improvement in relation to the first half of the year, other expenses were kept under control to the use of tools such as (metrics) budgeting, continuous internal benchmarking, and the growing centralization of transactional activities in our services center.

As a result, EBITDA grew 43.3% over the previous year, and our EBITDA margin rose by 300 basis points in comparison with Third Quarter '11 confirming our expectation to deliver the margin gain guidance for 2012.

Our net income in the period totaled BRL39.8 million, a significant 28% increase over the same period in the previous year, mainly driven by the 43.3% growth in EBITDA, which offset the expanding increase in financial expenses on account of direct servicing. As a result, earnings per share increased from BRL0.38 to BRL0.48, which is a 28% increase over the Third Quarter of 2011, once again reflecting our capacity to deliver excellent results to our shareholders.

The highlight this quarter, however, goes to operating cash flow, which reached BRL67.6 million, a BRL62 million evolution when compared to the same quarter last year. Our average days of receivable keep improving as our management model responds to our call, and our action plans become reality, while other cash flow variables are also showing gains.

Actually this result was not even there because we faced operational problems with the repurchase of FIES certificates which should have occurred on the last day of the quarter and could have added another BRL10 million to our final cash.

It is worth noting that this amount was normally received in the first week of October and so will benefit our cash for the Fourth Quarter.

Over now to the positive financial results, we at Estacio are continuing with our project to build the biggest and the best post-secondary institution of our country. This quarter, we implemented solid initiatives aiming at the satisfaction of our stakeholders, which included the holding of the fourth Annual Faculty Forum, which brought together 550 teachers from all over Brazil for a three days event in Rio de Janeiro.

Also the launch of our new and pioneer social network called Didatic@, which we run for our students on the digitized books using our academic model, and this happened in an unforgettable event for 300 guests held in a Rio movie theater. And also the launch of Estacio's Excellence Program this semester, which will encourage, reward and then identify, standardize and spread the best practices developed by our campuses.

We also remain committed to our strategy towards the FIES program, which already had 39,500 students at the end of the Third Quarter of 2012. Here at Estacio, we aim to use FIES primarily for students who need financial support, thereby improving retention and increasing the number of graduates, which is the ultimate reason for this program created by the Brazilian government.

Although it's still based on some empiricism, it is possible to say that the adoption of FIES significantly improves the retention rates, probably in the range of 5 to 8percentage points, therefore with a potential rate positive impact in future earnings.

Last but not least, and taking in account the interest of our shareholders and long-term investors, we are completing a long and detailed Strategic Planning exercise that works with a horizon of 2020. In this exercise, besides identifying the key trends and proposing concrete action plans for our core business, we will also define the best opportunities in the education sector which are still outside of our current portfolio.

So we will be able to take conscious and structured action on new fronts. With such a plan, which will be announced to the market in the coming months, we hope not only to ensure our current business growth, but also to seek ways to maintain and expand our growth rates on a longer horizon in order to avoid highs and lows while continuing our pursuit of outstanding returns over invested capital.

I will now turn to Virgilio, who will go into details of our results.

Virgilio Gibbon {BIO 16679141 <GO>}

Thanks Melzi. Good afternoon, everyone. On slide 3, we showed enrollment numbers in the second half. For the fifth in a row, we came to a record high intake cycle.

This time 74,800 new students joined Estacio's undergraduate programs, an increase of 21.6% over the same period last year; 7,100 were new on-campus students and 70,700 were distance learning students. After the third intake process, our distance learning has more than 44,000 new students showing a 27.8% intake growth when compared to last year.

This growth confirms the recognition of (inaudible) and the greater quality of our product. It's worth mentioning that the student base figures presented do not include the latest graduate intake cycle which so far has already 5,700 new students enrolled, 15% above last year, and also the fourth intake of the distance learning segment.

On slide 4, we show the evolution of our student base which closed the Third Quarter at 284,400 students besides the 4,000 students for our new unit in Sao Luis.

We ended the quarter with 231,000 on-campus students, 11.6% more than the same period the previous year continuing the organic growth of the student base. Considering only the on-campus undergraduate segment, the student base totaled 218,600 students, 11% growth over the previous year. Here I wish to point out that under the same shops concept excluding the acquisitions of 2012, our growth would have been 8.7%.

Our distance learning base grew 31.3% over the same period last year reaching 53,300 students. Net operating revenue totaled BRL344.6 million (sic; see slide 4, "BRL349.6 million") in the Third Quarter, an increase of 21.3% over the Third Quarter of 2011, due to the growth of the student base and the significant increase in the average ticket during the period.

Average ticket increased by 7.8% and 12.2% on the on-campus and distance learning segments respectively, once again reflect our strategy of increasing the tuition fees, which is only possible with an improved perception of the quality of our product and recognition of Estacio's brand.

Moving to slide 5, we see the cash cost analysis which presents a margin gain of 4.8percentage points over the Third Quarter of 2011 mainly due to significant gain of 2.4percentage points in personnel cost, reflected increasing efficiency in the control and the control of faculty cost leveraged by the greater penetration of the academic model, the student base.

Two, the gain of 1.0percentage points in the labor tax line resulting from the end of the labor tax step-up and the gains of 0.8percentage points in rentals and of 0.8percentage points in third-party services, which shows our discipline in real estate contract adjustments with our partners and third parties.

Moving now to slide 6, we're showing the (despesas) SG&A expenses. In the Third Quarter, G&A expenses reached 13.4% of net revenue with a 1.4percentage points margin gain mainly due to, one, the 1.1percentage point gain in the third-party service as it has been noticed in the recent quarter, thanks to our strict budget control.

Two, the 2.1percentage point gain in the provisions for contingencies which occurred due to the following factors, reversals obtained from revised calculations or labor lawsuits and provision write-offs due to payments made during the period.

Selling expenses represented 9.7% of the net revenue in the Third Quarter causing a margin reduction of 2.1percentage points for the Third Quarter of 2011 mainly due to the result of a 1.8percentage point increase in the PDA net revenues ratio still reflecting a worse scenario compared to last year, but really show improvement in the first half when the loss was 2.5percentage points.

It's worth reminding here that the provision for FIES receivable as we explained in the First Quarter causes an increase in account over 2011. Fees anticipates the provision for these students while our standard provision criteria wait for 180 days to constitute the provision.

The increase in PDA in the Third Quarter when compared to 2011 reflects the increase in (delinquents) on the First Quarter of 2012 and still does not capture a gain from better receivables management and the move from delinquent students to FIES which took place during the Second Quarter. Such effect will be perceived during the Fourth Quarter with the reversion in the amount of tuition overdue more than 180 days.

On slide 7, we show our accounts receivable. Our net average days receivables excluding the PDA balance and FIES receivables stood at 60 days in the Third Quarter, six days less than in the Second Quarter of 2012 and two days less in relation to the Third Quarter of 2011.

The reduction in accounts receivable and the improvement in average days receivables reflects the good work in the reduction of delinquency on more active students already capturing the initial benefits of students facing financial distress moving to FIES.

Gross average receivable days shown in the last row of the table consider both FIES and total gross accounts receivable without excluding the PDA. Gross average receivable days declined once again, this time by five days in relation to the Second Quarter which is a direct reflection of the improved management of our receivables and the FIES process.

As you can see on slide 8, FIES carry-forward credits increased by BRL8.6 million in the quarter with a conversion of BRL61.5 million in cash from FIES certificates this period either through tax payment or buyback options. In this context the average FIES days receivable in the Second Quarter stood at 92 days, a reduction of 77 days from the Third Quarter of 2011 and just four days more than the Second Quarter of 2012 reflecting a good work regarding the FIES contracts amendments which are concentrated in all quarter.

It's worth noting that if the one-off delay in the FIES transfer for us do not happen, our FIES days receivables would have been 76 days. Given this scenario, I would like to reinforce that our FIES accounts receivable of around BRL45 million were about 1.5 or 2 times the net monthly revenue from FIES is adequate for the sustainable expansion for the FIES base in our operation which already accounts for 18% of our own campus undergraduate base.

On slide 9, we have the aging of our receivables. We can see that we remain firm in our credit policy to avoid expanding the student base at the cost of credit negotiation that are unfavorable for the Company, and which put at risk the future solvency of such receivables.

Thanks to our strict debt renegotiation policy in the Third Quarter, only 8% of the total receivables came from renegotiation with students. As shown in the table at the bottom of the slide, we present a reduction of 5percentage points in relation from the Third Quarter of 2011.

In addition, the percentage of receivables overdue more than 60 days represents 31% of all agreements or only 2.6% of our accounts receivable maintaining the excellent numbers reached in the first half of 2012 and underlining our debt renegotiation policy.

Our criteria remains strict, clear, and objective as the provision for another percent of receivables overdue for more than 180 days. As mentioned in our earnings release, the provision for eventual delinquency of FIES student is done as follows.

One, 2.25% for students with guarantor has shown that the future loss of the FIES portfolio will be 15%, which is approximately three times higher than the historic loss of the ex-FIES student portfolio.

The provision considers 15% of credit risk over 15% of delinquency. Number two, 7% for students who are part of the FIES Guarantee Fund until March 12, 2012 and 5.63% for students who are part of FIES Guarantee Fund after April 2012.

Going to slide number 10, shows our cash flow in the Third Quarter. The small chart on the right shows the variation in the working capital was a positive BRL23.5 million including CapEx not related to acquisitions, which amounted to BRL22.7 million (sic; see slide 10 "BRL23.7 million").

EBITDA was barely consumed resulting in a positive operational cash flow of BRL67.6 million, once again reflecting our higher cash generation in 2012. In the Third Quarter, the positive operational cash flow was consumed by the negative financial result, BRL11.7 million, invest money in acquisitions BRL38.9 million and dividends paid BRL16.7 million.

Nevertheless the positive operational cash flows and the increasing (inaudible) were sufficient to more than offset this negative effect taking our cash position to BRL183.3 million at the end of the period, an increase of BRL16.1 million.

On slide 11, we see that the operational cash flow BRL67.6 million compared to an operational flow of BRL5.7 million in the Third Quarter of 2011, an increase of BRL62 million and when considering the first nine months of year, the improvement comes to BRL138 million year on year.

This improvement in operational cash generation reinstates the level of maturity of our management model showing how it drive results in a relevant indicator in a short period of time for a such complex organization. This new level of cash flow has been enough to honor the service of our debt, to invest in our expansion, and to make small and mid-sized acquisitions, reinforcing our growth strategy and guaranteeing our best strike in the sector.

With that said, I turn to Melzi for his closing remarks.

Rogerio Melzi {BIO 16212298 <GO>}

Thank you, Virgilio. Just to make a quick sum up before we move on to the Q-and-A session. On slide 12, I make some comments on a few important points for the year 2012 and the following cycles.

The only update on the scenario for the end of 2012, we registered strong expansion in the first half and again in this quarter. We also know that our delinquency levels have been improving with positive effects on our accounts receivable and average days receivables which directly influences our cash generation capacity, which was significantly higher in this nine months of 2012.

Since this at some point will also result in lower PDA rates, we can reaffirm our projected margin gain for the year in a range between 300 basis points and 350 basis points with a good perspective for our Fourth Quarter.

I'd like to take this opportunity to reaffirm our commitment to achieving our margin expansion target for 2014. I believe that the recent results posted by Estacio, which is already in the seventh consecutive quarter of EBITDA margin increase, as well as the transparency and the clarity with which we disclose our results combined with the predictability of our gains and the objectiveness of announcements about our growth strategy should not leave any doubt about our capacity to attain this new operational level in the upcoming cycles.

Add to this upsides such as increasing demand resulting from FIES, acceleration of tactical M&As and also greenfields and an eventual authorization to increase the coverage of our distance learning operation, and the scenario could become even more promising.

I take the opportunity to comment that yesterday we had approved by the National Education Council the opening of (inaudible) campuses in the state of Rio de Janeiro which will therefore start operating in 2013. However, as we also worry about long term in Estacio, we have been working very hard and enthusiastically on our strategic events which aims to expand our horizon beyond 2014, and to the final, the Estacio of 2020. In this study, not only do we map in a detailed way the evolving trends and future growth avenues for our current operations, but we also look for opportunities within the education scenario that are currently out of our portfolio.

By doing this, we expect to achieve the leadership position in post-secondary education like we always dreamed in a gradual, sustainable, and responsible way, with excellent returns for those who believe in us.

Although we have not concluded the entire training process yet, we are announcing two changes in our structural organization that already reflect some of our most intermediate long-terms.

One, liquidation of a distance learning office which will be run by Mr. (Marcos Lemos), a professional who has been with us for several years and (Ronald Cianoldo), the Director of Services Center.

And two, the creation of a non-regulated progress office under the responsibility of a new executive in our team, Mr. (Marcos Barbosa), who was previously running our (inaudible) consultant, HSN Education. He will be responsible for products such as Academia do Concurso, short-term (inaudible) related problems, graduate problems, and also a new segment for corporate education.

In the coming months, we intend to share with you, with the market, the main conclusions and action plans resulting from this strategic planning, and also to provide more details on our moves.

Well those were our comments. Let us now move to the question-and-answer session.

Questions And Answers

Operator

Ladies and gentlemen. we will now begin the question-and-answer session. (Operator Instructions)

Thiago Macruz, Itau.

Q - Thiago Macruz {BIO 16404924 <GO>}

We've seen a very healthy decline in the dropouts of the distance learning operation. Well my question is what sort of managerial tools do you guys have internally to make sure that this is a sustainable improving trend, and that the distance learning dropout ratio converges to that of your on-campus operation? Thank you.

A - Rogerio Melzi {BIO 16212298 <GO>}

I think there are two factors that help us to explain this new trend. One is that as this problems become more mature, and we have all the students -- the students in the third, fourth, and fifth periods, chances are that this evasion rate will naturally decline because if the students are much less likely to dropout than new students.

So I think one is just pure mathematics. But also there is on our side kind of a learning curve because we also need to learn how to deal with these students. They are very much online students. You know that in our distance learning model we do not require students to come every week to the campus.

So we need to learn to how to get in touch with them, how to keep in touch with them, and how to use all this information in order they actually end up leaning towards as they use digital connection to us to better learn, to better understand how their behavior and in fact to anticipate their moves.

I think we are doing this in a better way now. And I believe that as we create this new office -- this new area to focus a 100% of the time in this student operation, they will learn more and more about that. So we will come with more innovation and more technology to help keep these students.

I think that there will be a convergence bringing this evasion, this dropout rate towards what we have in the on-campus operation with one very important difference. You know that until now we do not have FIES for distance learning students.

That may happen, but I mean, it doesn't depend on us, right? And I also mentioned early in this call that the FIES, it's proving actually to be very important in terms of improving retention.

I mentioned that in our on-campus operation the first analysis that we are running here shows that this number can increase by something between 5percentage points and 8percentage points. So if this happens only to the on-campus students, chances are that in the future there still will be a gap because unless the FIES also is valid -- gets valid to distance learning students, we will never be able to close this gap.

But under the same conditions we think there'll be natural convergence, again, one, because our students are getting older, and two because you are learning more and more on how to deal with these distance learning students.

Q - Thiago Macruz {BIO 16404924 <GO>}

Thank you, Melzi. Just a follow-up question if I may. Do you think that Didatic@ helps anyhow in this sense to make sure that those students that don't have to go to the distance learning center that often, they feel that they are a part of a classroom or something like that? Thank you.

A - Rogerio Melzi {BIO 16212298 <GO>}

Yes. Absolutely. I mean everything you bring in terms of technology, especially using these tools because -- you speak for these students, they're so much used to social networks, for example Didatic@, for those of you who are not aware of this, a new social network just launched for just -- not only for distance learning, but for everybody who is using digitizing material at Estacio. So they'll be able to get in touch with each other all across the country.

So yes, I think it does help. But I mean, if -- on one hand it may be more difficult to us to work with the students because they don't come to campus on a weekly base. On the other hand, there is a new trend -- one of the trends we are studying in our new strategic planning and it is called (learning analytics) by which you can use a lot of information that the students give to us when they're browsing, when they're doing their stuff in the Internet, for example, they give a lot of clues to us on what's going on, and this doesn't happen with on-campus students. We never know how committed they are to their studies.

But this is not true with online students. So I think that may really help us to offset this kind of a gap we have when comparing to on-campus students. But yes, the Didatic@ will help. And we also have one or two other innovation.

I didn't -- we didn't put that in our communication yesterday, but one of the things we are bringing as well -- we are now creating -- formally creating an innovation area within Estacio and the first year or two years -- first two years this new area we will focus very much on students' perception. We want to understand -- better understand how they are seeing all this evolution in terms of technology, of learning experience.

So we are very likely to bring a lot of other innovation like we did with Didatic@. Then we will make this experience not only for online students, but also for on-campus students even better stuff. And I think those things will actually help us a lot to improve our retention rates, okay.

Q - Thiago Macruz {BIO 16404924 <GO>}

Okay, Melzi. Thank you.

A - Rogerio Melzi {BIO 16212298 <GO>}

Thank you.

Operator

Luis Bresaola, Deutsche Bank.

Q - Luis Bresaola

My first question is related to distance learning business. You guys are requesting a couple of more units for 2014. I'd like to understand what's going to be the strategy over these units? Is it going to be proprietary or in a partnership mode?

And my second question is related to the campus operation. You guys gave the range between 5% and 7% for growth, and I'd like to understand if it's still the service you brought on now for next year, if you guys could give us as far as -- in terms of growth for next year? Thank you.

A - Rogerio Melzi {BIO 16212298 <GO>}

Okay. Thank you Luis. For distance learning it's not only a couple, we are requesting 61 new learning centers. This is official data. We currently have 54, but only 52 are operational right now. We want to more than double the number of distance learning centers we operate.

However, that doesn't depend on us. It's a very long and bureaucratic process that has to go through the ministry of education. We've been trying this for more than a year now.

I think we've come to a point where I'd say possibly that we're going to be successful. We are now higher than it was few months ago. We are just about -- we have to be -- before going to this -- so you understand -- before going through this process to -- this authorization to increase the number of centers we're going to have, we first need to go through the recognition of our current operations.

The ministry of education has to come here and they have to -- it's like an accreditation process. They have to make an assessment on what we are already providing.

They've come here before to do other things. They know we are operating very well. But I mean that's what the legislation says. They have to come in here and they have to officially recognize that we are doing in the way they expected us to do as soon as they do that.

And again I think this is very likely to happen still this year. It's already scheduled. They should have come in October. They will come only in November, and then maybe by December -- so no later than January, we will be able to know whether we are going through this or not.

As soon as we get this recognition as we call here, this accreditation, we're going to be able to go this new step towards increasing our coverage to this new 61 centers.

Our strategy is to use the centers we already are -- where we already operating campus -- campuses, so half of the 61 new centers will be located in our current campuses, right, if it is where we already are operating with Estacio, especially in Sao Paulo -- Sao Paulo City.

The other half, we'll go through partnerships pretty much with high schools, local high schools in cities where we do not have operations yet. The model will be different from what other competitors do in the market in the sense that we are going pretty much to rent space and also to rent some kind of capacity, say for example, going to rent the libraries there, from desk, offices and so forth.

So we're going to pay a fee to them, around 20% of revenues for each one of the centers and we are going to be fully responsible for the operation of the centers and also for the marketing in this new center.

We think this is going to bring us much more control on our operations. I think another interesting aspect on this expansion, Luis, is that we have 54, we are going to add 61. We think that with our model that is very much online as I mentioned before, as students do not need to come every week to campus, right, we think that with these number of centers we are going to be able to pretty much cover almost the entire country.

So we don't need much more centers than this 120 or so in order to cover the entire country. We're going to more than double our capacity with very little additional investment.

As for your other question for on-campus growth, this is our official guideline, 5% to 7% between now and 2014. We are going to keep this for now.

However, with some kind of upside risk in that scenario. And why is that? For on-campus, we have already started our admission cycle for 2013. We are already very early in this process, I would say 15% to 20% of the entire process and we are running really, really above last year.

Again it's even kind of a surprise to us, how well we are performing again with our on-campus admission cycle. Obviously we still have 80% to 85% of the way to go, so it's very early to make any kind of commitment. But if this pulls through at the end of the cycle and we're going to get that by maybe February or so, chances are that you may need to review December, but not yet. So for now it's 5% to 7%.

Q - Luis Bresaola

Thanks Melzi.

A - Rogerio Melzi {BIO 16212298 <GO>}

Thank you.

Operator

(Operator Instructions) Marcelo Santos, JPMorgan.

Q - Marcelo Santos {BIO 20444938 <GO>}

I wanted just to have an update on Academia do Concurso, how has it been doing and what are your plans for it, if you could just share a little bit more?

A - Rogerio Melzi {BIO 16212298 <GO>}

That's a good question Marcelo. Thank you. Academia didn't do very well this year. We very much run our own campus or potential operation for Academia do Concurso in a way that we didn't lose a lot of money that was to go.

In the meantime, however, we were preparing our distance learning platform for Academia do Concurso and we are getting ready to go probably by First Quarter 2013, we will be able to try for the first time to use this online platform.

And I think this can start -- it's starting the situation by 2013. It's going to be really, really helpful. But to be honest with you. And you guys know I'm always honest when I talk about Estacio, the thing is that Estacio was not absolutely well prepared to have this new operation until now. It was kind of a small business, very high to focus on that business when you have something as big as our core regular business here, right?

And this is one of the reasons we decided to create the view after here with Mr. Marcos now because now we're going to have a lot of focus, now we're going to have an executive director, a 100% of his time looking at this business, and looking for opportunities, and again bringing innovation, and thinking more about strategic ways in order for us to go this business.

We think it's a valuable business. There are cost synergies between this business and our regular business, but at the same time we needed to put more focus on that. So now with Mr. Marcos, myself paying much more attention to Academia and also what you call the three problems or the short-term three problems, non-regulated problems that will be solved through the Academia do Concurso as well, I think that can be a good surprise for 2013.

Q - Marcelo Santos {BIO 20444938 <GO>}

Okay. Great, thank you.

A - Rogerio Melzi {BIO 16212298 <GO>}

Thank you.

Operator

Bruno Giardino, Santander.

Q - Bruno Giardino {BIO 15974970 <GO>}

I just wanted to know how are you dealing with the restriction of student that has some kind of register in bad credit deals, how are you dealing with these guys when taking an FIES loan, or even when they are due to do the amendments for the existing contracts?

A - Rogerio Melzi {BIO 16212298 <GO>}

That's not a big problem to us. I mean, I don't have the number on top of mind here, but to say --

A - Virgilio Gibbon {BIO 16679141 <GO>}

Four hundred.

A - Rogerio Melzi {BIO 16212298 <GO>}

Virgilio says that's like 500 students only. So what you do as long as we have commitment from them to keep at FIES, if this blacklist comes from us, we can go there and review that, but eventually in some -- in many case actually they are blacklisted by other companies, say, for example, Casas Bahia or so when they spend a lot of money.

So eventually there's nothing you can do about that. So in those situations you need to wait until the end of the semester. If they don't pay this kind of debt they have, then we have to cancel FIES because they won't be able to renew the FIES loan.

Then we have to re-invoice them, write directly to them obviously when this happens, there is a reason they will not be able to pay. So we then watch these guys very carefully to see whether they are paying us or not.

If they're not, then they go into the regular process by which they will have a lot of trouble to renew at the end of the semester. So I would say they don't reach for us because the number of students is too low, right, and also because, I mean, they owe us more than a semester of tuition.

So not a big deal for us. When we see that they are coming into FIES, we try to solve the situation, and it depends on us, and it does -- I mean, not much we can do.

Q - Bruno Giardino {BIO 15974970 <GO>}

Okay. Thank you.

A - Rogerio Melzi {BIO 16212298 <GO>}

Thank you, Bruno.

Operator

(Operator Instructions) Since 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 Melzi {BIO 16212298 <GO>}

Well thank you very much. I just want to thank everybody again for participating in our conference call.

Also to mention that as we said last time, we are living a great time here. The stars really seems to be in place, I mean, everybody is aligned towards the same goals, our results, our fundamentals. And now even our long-term goals are getting more clear with our strategic planning as we get ready to go.

We will share with you all these plans and long-term view as we speak in the coming months. So again thank you very much and hope to see all of you very soon.

Operator

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