Q1 2020 Earnings Call

Company Participants

- Eduardo Haiama, Vice President Finance, Investor Relations
- Eduardo Parente Menezes, Chief Executive Officer
- Rogerio Tostes, Investor Relation
- Unidentified Speaker

Other Participants

- Analyst

Presentation

Rogerio Tostes {BIO 6148759 <GO>}

The presentation will be done with -- by the CEO and then Q&A with the Directors that are here with us. The slides of the presentation are being transmitted in our website at www.yduqs.com.br, and we are doing the simultaneous translation for the best governance and the translation will be in English. (Operator Instructions)

The conference can -- the disclaimer is that, the Company's financial information is presented based on the consolidated numbers in Brazilian reais in accordance with Brazilian law and the accounting practices adopted by Brazil. We are doing the presentation based on information that is available to us as of now.

Now, I will give the word to Eduardo Parente; he will start the presentation.

Eduardo Parente Menezes {BIO 16707188 <GO>}

Thank you, Tostes. Good morning, everyone. Thank you for being here. And I hope that everybody is doing fine.

It's interesting for 2020, it's been a long time since we did this earnings call, but the big change is that in these times that we are suffering, we are all suffering, we can look inside and looking at the first quarter then we can talk about other things, but we can look inside and we can see the robustness of the company that we built and it's a great deal of you invested in this company.

We have this situation that is not trivial. We had the issues with the FIES financing. But since we faced a lot of challenges before and I am certain that in absolute terms we will leave this crisis even stronger than when it started. So, I'm going to start by Page 3 in your presentation talking about the COVID-19 pandemic.

We worked a lot even before the crisis to assure that from this standpoint of our students, the people, the health of people, and also the cash flow from the cash flow operate standpoint and the operations we go through this period with a smallest impact possible and here are a few examples.

Page 3, we can see on the side of the student in one week, we could get everybody studying at home getting classes broadcasted live and we had the same teachers as well. This was a battle that we trailed and we prevailed. And we already had technological background in our company, so it was easier maybe easier than for us to implement this than maybe the competition, but we once again have 15,000 classes per week here -- well, that was on campus transferring the distance learning, of course, no impact on classes. We had now -- we have now more classes than before and more students than before.

And in medicine, we also continue with the higher standards of the theoretical classes in the virtual environment. Also we have if you seen a lot of things that we have from the technological standpoint applications sharing information and over 95% of our students are participating in the class has 95% engagement. And we have practical classes some we can get a virtual solution through high-tech tools and those that we cannot they're being accumulated. So when we come back to the on campus at the end of May, June, then we can replenish this curriculum once again. But here is a perspective that no students, I repeat, no students are going to lose the timeline for their graduation dates and this time is being well used the time that we are all staying at home.

Here community we see a lot of things that we can talk about. We have the -- we have always seen the initiative. Well, we had the Christ Redeemer with the physicians. I don't know if you remember paying homage to the Physicians. We were part of that. And we are helping that has always seemed is an idea. That we had read at the beginning of the pandemic during the quarantine. When we announced that the ENEM exam was not going to take place, we had a high percentage of our students that are especially students they come from the public learning context.

And well, there are a few opportunities here to implement technology to inform these students. And this is a very good tool. It's an initiative to support the public school students for the ENEM and the entrance exams and we are used to talking to all social economic strata, but we want to help people that need aid and the public schools sometimes they don't have a lot of resources. And we had a platform that we recognize. And actually, from -- it's recognized from abroad and we have a lot of content.

So, we talk to our partners and we got the content of writers, our partners; and in three weeks, we gathered, we amounted, we amassed the content, which is basically the content for ENEM that is available for the distance learning that is available for all the public high school students for free this content for -- to study for the ENEM. We had over

200,000 accesses, 10,000 users using this tool Resolve SIM, loosely translating to, yes, we can solve it.

Now from the standpoint of the company itself, I think that it's very interesting that we are talking about the financial help that we give to people that lose their jobs. We want to help the students to accelerate, we want to cover all the students from the educational insurance standpoint up to six months.

Also, we have an overview that is very pinpoint. When the pandemic really diverse strength in Europe we anticipated and we wanted to do the correct closing of our accounts. What was -- we really had all the numbers well closed, we captured everything and we're going to talk about that up ahead.

In this world post pandemic, we have a low leverage, 1.1 times net debt over the EBITDA and the extended net debt amortization is on schedule. We're going to talk about that later. And we also had a hundred actions to improve working capital and reduce the impact of delinquency. We are ready to do this and the big focus here is to make sure that on the medium long term we want to keep the students enrolled and this is one of our main goals. We need to have a strong cash flow to keep the capacity and bring whatever add whatever is necessary and we want to regain the growth also in medicine and the other areas.

Let's go to Page 4, please. You can see some numbers on the responses to the implemented actions on the pandemic. Let's remember March 13, we started the official quarantine in the State of Rio De Janeiro. It was right around the time in the State of Sao Paulo as well. And right around that week between 13 and the 23 all the classes, except a few, all the states except a few started quarantine.

We are using Microsoft tools, Teams, we are using it to provide a class. That has a lot of things that we have idea, I guess, that we're going to implement when we come back to the on-site. And obviously, we have here 50% of attendance once we started with the virtual classes, we started to build up the operations and we had some students with hardware issues. We have the partnerships with our students and we want to offer special conditions for those that did not have it, something that was very interesting.

But we have the teachers and I see is this in my class, right -- the people at the beginning, the first-class people had difficulties accessing this new digital environment. And now today everybody is basically digitally fluent. This curve we got last week to 70% attendance on the live broadcast of the classes and we record these classes. A lot of people that have difficulties accessing the class in real time with a lower broadband, they can see the recording of the live class. But once again 81% of the people are watching the classes in real time. This is marginally good, but it's practically the same as we had in the normal operation on the onsite.

So, now we are really expecting that the students are focusing on the content and they're watching it from the comfort of their homes. Here is an interesting phenomenon. If you look here, in the northern part of the Brazil, we had Internet issues as well. We have a couple of -- we have some of the students watching the classes together and people are gathering to watch the classes. Once again, the dropout rates are marginally the same, practically the same as last year. We can see April year-to-date 3.6% in 2019, 3.9% in 2020. And here we gather all the Executive Directors. And we discussed this issue and we look at the previous numbers, obviously. Nobody has a crystal ball here.

But in a couple weeks and two months of everything that is happening, we are looking at the best case scenario really of our projections going down here. We can see the cash. There's a reduced impact on collection if you compare April 20 of 2020 if you compare to April of 2019. We have a series of actions here to reduce or delay the cash outflow. We're paying bonuses, dividend CapEx. All of that is scheduled for the future. Some contract renegotiations as well, some are permanent, some are only for a period of time, but all this contracts are being rigged negotiated. We are applying the MP 936 node professional teacher that has their -- the teachers are working. The -- we are really presenting -- we are keeping 99% of our employees at home and the workforce is in home office routine.

Let's go to Page 5; we can stay here with in what was in range. Well, we are a little bit disappointed here with the -- on-campus we had an expectation of having more students; and on March 13, really everything stopped, it grind it to a halt. We had an expectation of going over 10% of getting the intake, more intake of students and that didn't happen. Hear that 82% is the stage of completion that we shown of intake expectations; once again digital learning is the big highlight.

And an interesting point is here the intake in the first semester in digital was higher than the two previous semesters. What happens on the on-campus at the moment that we had at start of the crisis, the pandemic, I think it was 13 to 16 of March the intake continued very strong. And well, the intake was still maintaining good numbers until the lockdown.

Here the big message of the highlights of the quarter; those of you that follow us up ahead, we know that we have a big battle to fight. The last relevant year we gathered over BRL1 billion from -- we lost BRL1 billion with the FIES financing. So, our plan was always to let's fight the FIES issues, reducing costs and that's what we were we were doing and we are still doing. What's outside of our plan and our expectation are few of the impacts, the COVID-19 pandemic. The first 5,000 as additional students that we didn't get with the intake, our renewal was worse with also people what the end of the intake and the renewal was worse than the previous year. We have in these, I think, it was March we had an impact really important impact. Everything that I'm trying to show here in this slide that this has an impact on costs. And up until the time, it's not less than what we expected.

I think that the big message here is that even though we had loss here in comparison to the previous year, the adjusted EBITDA, a loss of 9%, we have a very strong focus on once against distant learning. We had good numbers, the on-campus and FIES was growing more. The revenue was growing and one thing that we think there was important and it's important to look at the sector six months before and now more we are looking at an 81% cash conversion and it's a low level of indebtedness.

Here an important highlight, it's important to mention is that we had the approval finally from CADE finalizing without any restriction, the CADE didn't question any part of the operation and know we have a talent integrated with the cash position of BRL1.5 billion.

Please go to Slide 7. What do we have here on Brazilians in a challenging scenario. Looking at on-campus student base, we have a drop in 1% of obviously. And what is important here is that we have the FIES -- well, issues that we've had them for a few quarters those issues. We had left here and record intake with 7% if you compare to the same period of last year of '19. Here the FIES base was less relevant as you can see in the quarter projections. Our base here was -- is 9% of students. And this is a new FIES student in terms of behavior that is very much like the other students. And here this year that loss that the FIES base represents every quarter for us, it will not take place from 2021 onwards.

Another important thing in our financing we had 16,000 students on the first quarter of '19 on 9,000 students in the first quarter of 2024, the PAR students. Now we can see the retention rate. There is a loss and the average ticket if you do not count it on the FIES. We were talking about BRL758 in the first quarter of '19 to BRL739 in the first quarter of 2020.

Digital to learning; let's see the expansion across the board. Here the new intake record, the base of the digital learning really grew 31%; it's very robust. We had a strong base. It was a base of 10,000 students that grew substantially. The number of DL centers last year we had 635; now we have over 1,000 DL centers with a good retention rate. And a loss in the renewal the retention rate of the DL. We can see 82.8% to 81.8%. We see the DL net revenues growing 27% and the EBITDA growing 29% if you compare to the same period last year.

Let's go to Page 9, medicine; great opportunity ahead. The student base grew 16%. The average ticket also grew 10%. Net revenue is 30%. We had an expansion in the paying base, to see the expansion in Mais Medicos one -- the one unit, our unit -- new unit in Citta America; it's a great, great success. A lot of people are seeking and really hospitals are referenced -- are looking for our students that graduate from the Citta center. We can see -- did I have a drop? Okay. So, we had -- by 2021 we had 15 campi in operation by 2021; we have over 10,000 students by 2024 in medicine.

And we also have in our PhD world, in the context of a statue, we are investing very strongly in the expansion here. And along with talent, we have a preparation for residency. And we are evolving in this value chain. There's an operations expansion through the medicine value chain value chain with the SJP Med, the medical education.

Eduardo Haiama {BIO 7279971 <GO>}

Hi. Now I'm going to talk about net revenues, the Slide number 10, position for growth. Let's start by the net revenues of the foremost DLs. In over the last two years we had an increase of 21%, also 8% if you compare to the previous year and the lower graph we can see a drop of the FIES base in our effect as a whole. It was 25% in '18 and in this first quarter of 2020 10%.

In terms of numbers, let's see, our net revenues reported in the first quarter of last year BRL933 million and this quarter we had lost BRL70 million in FIES space. We have a growth in distance learning and growth in the delta of medicine, so that loss actually has been come -- we have a compensation of the losses of FIES; and from next year onwards, when this loss is almost a zero -- we will have an increment that is robust in our revenue.

On Slide 9 -- 11, I'm sorry, looking at costs and expenses shorts-term pressure; we have a growth in cost and expenses of 6%. This is due to the M&A and the restructuring of the group. A few points; let's talk about the expenses that are we commented. The expenses related to the COVID-19 contingency plan, getting the classes online broadcast. So, the students will now lose the semester. This is an additional cost. Second point. We're talking about here the bad debt. Well, even though the quarantine started at the end of March, it has some effect. And also what we have to talk about the earnings, we can see the non-renewal. There's going to be an adjustment for that.

Also, it's important to highlight that this is mix of the increase of the bad debt. When you reduce the percentage of the FIES in student and then you have the mix that doesn't have the FIES financing, of course the bad debt increases. The third point, it's important to mention, on the graph on the right lower, you can see here the advertising costs improved 15% in comparison to the first quarter of '19. And I commented in the fourth quarter that that increment as you proceed of '19 against '18 and 2020, the expectation of the number itself, it was in absolute terms almost the same as '19. But this growth that we can see in this quarter is more of a formality of costs. And the trend is that over the next quarters, we will converge so that the absolute numbers in this line are online with the numbers presented in '19.

Let's go to Slide 12. As we commented, the EBITDA is suffered. We had about 9% drop adjustments, of course, because of the M&A. And here the main impact in this line there is an increase here in the non-recurring items. I also reported the advertisement costs. But here the important point to highlight was the generation of cash flow. If you look at the accounting number, the generation of the cash flow is 121% of the accounted EBITDA, we do an adjustment. And 136% receivables, but we had reportage from version of 121%, cash adjusted by BRL136 million due to the delay of the FIES transfer in December of '19.

The cash conversion, we had 81%, which would be one of the biggest ones in the sector. Another point that we should mention again, which was mentioned before, we can see that the cash conversion. We had the non-recurring impacts and it was lower impact in comparison to '19.

So, the solid cash position after the application, we ended post payment of the acquisition of Adtalem. We started BRL1.5 billion below the budget. So, the first quarter in March of everything that was captured in April and here the payment from the payment of Adtalem was BRL2.2 billion with the new -- with the cash that we received due to the acquisition.

Now remember one thing in terms of value, we paid at the end of the day when we acquired we -- it was BRL1.9 billion once we acquired by the value of the firm. When we concluded because of the mechanisms, the payment, effective payment was BRL1.8 billion. In terms of costs, it's important to mention that even with an increase of costs we had over the last capturing, here the cost of the company is very low. Even with all the debt, the new debt, it is -- the CDI rate plus 1.5%.

So, let's go back to Eduardo Parente.

Eduardo Parente Menezes {BIO 16707188 <GO>}

Well, let's go to Page 14, the Adtalem acquisition being concluded. We already explained this. We had the closing in the April 24. We received a cash with an operation of BRL389 million, the net debt cash, so the enterprise value is BRL1.8 billion.

In terms of financial performance with the Adtalem management in IFRS 16, we can is see here the net revenues BRL853 million and this is going to show in terms of our results. In regards to the synergies, the ones that we identify, a few things that we can mention. This has been easier than we expected. We had predicted a very difficult time. Nonetheless, we are seeing that there is a lot of culture values and the passion for the student really we can perceive that very well in the M&A and there are additional good things and we are very excited about this.

We can see the leadership of the market. We can see the niche students are much higher. We used (inaudible) all the ones that you know. There is the issue of IP, which is always very interesting for us. This is very positive here as well because of the easy -- how easy it was to do the integration and introduce the digital content.

For example, to widen on the on-campus courses, units operating in an easier way and it's easier to integrate some units of the course portfolio between institutions. It's easier to -- it was easy to integrate thousands of students; and in synergy, we went beyond what we expected. We had over -- by the preliminary data in the case synergies above BRL80 million.

The most obvious here is the online teaching in the on-site that is very important and we have technologies that are being implemented here to facilitate that. And obviously, this is a big economy that is being displayed in the details of the budget here on the revenue.

In pricing, how do you do the market testing and research and we have a structure even though the origin, the structure is much more flexible, much more technological. And we identified a lot of actions that now in the intake we have a great expectation in those results, the cross selling as well, mainly medicine and law we have the base as here, and other themes here. The fact is that BRL1.8 billion that we talked about the enterprise value is 9 times of EBITDA that we had recently. And our expectation is that over the next days, the range of the synergies that we already mentioned and identifies of above BRL80 million, that's preliminary data indicates; it shows that all the initiatives were identified. And each of them are being implemented. As a reflection of that, we expected good synergies through 2020 and we can see the numbers for this year.

Let's go to Page 15 to conclude, conclusions and perspectives for 2020. I think that EBITDA in this quarter above -- below of what we expected despite a slowdown, but the -- we have a solid base of students here, the numbers are growing. To keep the operation running, we think that we are benchmark in the market, not only in the market, but it's a benchmark of the market that services all of the market, not only across the CND universities and small universities that have 15,000 students. We are delivering comparison to your then. We are delivering to the to the student at your home. The quality is superior, far superior than the competition. We are convinced that the fundamentals are here; they're still solid as we mentioned.

The cash flow generation is still good. It's still solid in the balance sheet. Here we have the numbers or a bit worse than last year because of the COVID pandemic and now we are leaving. Once we leave the situation in two, three months with the cash generation and the operation that is robust, the base here we have -- we're starting to look at this with a lot of -- it's a solid position even more than what we mentioned and talked to you and the expectation for 2023. Our expectations for 2023 has not changed internally.

Last but not least, we always talked about if you look at here the -- we had the distance learning that was 22% in the past and now we grew a lot and we also have the three growth leverages, which is medicine and the M&A. And we are going to emerge even stronger after this crisis.

A lot of people that we talked to, they are going through difficult times, of course. And it will be a difficult time for everybody. But we have an expectation to run a good business with responsibility looking towards the future. I think that really we're going to come out stronger in the distance learning people are getting more used to working digitally in the digital context. And they understand more and more how to stay home, what you do at home, and I think that is very positive for this digital market.

So, to summarize and conclude, we are alert. We are looking every day at the signs of improvement or worsening of the situation. We every day are thinking about how can we assure that the operation is robust, but we are looking at the future. We are looking at the post pandemic crisis. We informed those students that we are looking to the future and how can we use our strengths to really regain growth in the moment of post crisis.

Questions And Answers

A - Rogerio Tostes {BIO 6148759 <GO>}

(Question And Answer)

Thank you very much. Now thank you, Eduardo. Haiama.

Well, let's go to the Q&A session. And just remember to type at first line if you have any questions. And those of you that are in the webcast, you can just ask the questions and we can answer your questions.

The first question comes from Mr.Marcello Santos. Mr.Marcello, please.

Q - Analyst

Good morning, everyone; thank you for accepting my question for this earnings call. Well, I just wanted to ask you a question about the -- what we see the smaller companies that don't have an online structure as good as yours, and they don't have the agility to do the transition to the virtual learning. Do you think that in the second half of the year that's going to give you an advantage in regards to the competition, and maybe you're going to offset a lot of the impact on the of the lockdown getting the students from those competitors that do not -- that did not adopt it?

And the second question is can you talk about the opportunities of M&A? There are companies doing M&As. Do you see an opportunity to do an M&A or the idea is to wait and see what -- if you can comment on those future opportunities for M&A please.

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

Well, I'm sorry, I pressed the button and I think that I just turned everybody here out.

Well, I agree with the numbers, I think that this intake of 20.2 -- 2022, we are getting ready for it, even more in the details than we had before. So, external transference, and I think we increase the number of courses, we are -- we have over 80% of our students thinking that the solution -- this is a solution that we have -- is good or very good. And the onsite -- they're saying that about the digital learning or more so.

I think that we have -- this is the moment of truth for the sector. If you think about this three-four years ago, the situation was that the students came and they were strongly -- well, they have the capacity to finance themselves, mainly with the FIES financing. And with the end of the FIES financing, we had -- there were -- the conditions were less attractive for the students. And now the financing is coming out of pocket -- out of the pocket of the students. In the end, you think well, now, you're saying those students that really can pay for an education and we can see also those service providers us they can provide a quality service for the students that can fit the pockets of this (inaudible) that makes it easier for the students to pay and we are strong in that sense.

And those that cannot adapt to the pockets of the students, the size of the pocket of the students are going to become weaker. And the idea is to give the opportunity for those students and to give the opportunity for those that are more robust and technology and in cash flow the companies that will take the technology to more students in the market a bigger chunk of the market. So, I think that we will have people with -- well, our competition is going to have difficulties and the intake of students some will not survive and I think that the pandemic tends to accelerate the adjustment of the market.

In regards to M&A, I don't think things change in a relevant way. I think they accelerate a few processes. A month ago, maybe more, we are -- we're looking at the question. Hey, do we have cash rewards, but for a long time -- now for a long time or for the time the pandemic left, we start to look at all the opportunities of all sizes. I think that there is a lot of things that we have to get on the table understand and analyze.

A - Rogerio Tostes {BIO 6148759 <GO>}

Thank you. The next question Mr.Samuel Elvis. Please continue.

Q - Analyst

Good morning, Parente, Pedro. Two questions from my side; first in regards to the PDD, you mentioned in your question in the comments about the provisions. And then there is a component at the end of March, which is natural because of the declaration of the scenario. But just to understand, was there a perspective effect in the debt of the quarter or is there anything else in March?

And the second question is, do you -- can you comment on the issue about some class entities, which is reduction. Did you have any issues with that -- did you have -- maybe, you have to solve that in the future?

A - Eduardo Haiama {BIO 7279971 <GO>}

Well, Haiama here talking about the provision for the doubtful accounts, but that -- well, no, no, there was no extra things here. The -- well, we didn't change regardless of the impact of the COVID. now can you comment on that the provision here for the bad dead since the quarantine started in the second week of March, where the intake is lower. The perspective here is -- well, let's remember how our curve of bad debt accelerates with the dropout and we didn't change the criteria, we didn't change the perspective. The perspective is the same, but it accelerated because of the dropout and non-renewal, but I'm going to give the word to Parente.

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

Well, since we are doing the webcast and I think that the question is from Maria Clara as well, there is a flexibility or a discount if there is a strong dropout. So, I'm going to -- well, we have a strong pressure really and sometimes we see anxiety in -- to help those that are in need. There was, I don't know, three four weeks ago, some time ago a boom of help and we had -- even the public policy helping -- I mean the politicians helping the -- to try and propose and help the students. There is a situation, where there is a lot of people trying to make an effort to help people and students at this time. We anticipated that actually to that.

Once we look at the people that are going through the difficult times. We had this kind of 12% and well, there are people that lost their jobs that cannot pay 88%. So, this from the social standpoint, it's questionable. We look at the efforts of trying to provide R$600 for the for the workers that are not registered. We have to look at the help given to the population as a whole. We've had a program here, but that from the business standpoint, it doesn't make sense, because my intention is -- well, my intention is to help the people in need so that the people can continue studying and can continue advancing themselves.

Here in Rio de Janeiro, which is our biggest base and we have 10,000 -- well, for each month of the pandemic, where we are getting at the people, we're getting them scholarships really with -- we are seeing the students that lost their jobs, we are looking at one by one of the students seeing -- well, we are going to have a few people that are going to lie, but we understand that if part of the cost of the process for the scholarship, a process for the students. We already mentioned the 10,000 scholarships. We had an extension from the payments, and maybe once again the -- but that is within the tuition fee, and we want to really avoid the dropout.

We are seeing the second cycle that is very good, and we are taking that throughout Brazil now. And all the instructors in Brazil in this moment, we want to take it to all the other brands of YDUQS, so people need to enroll in the scholarship. We're going to see one by one and we're going to try and focus these resources that we have on those that needed the most.

These scholarships, these concessions on the tuition, we are going to do the renewal of the students. We can work with those that want to renew their studies. We have the mechanics of the monthly fee for the tuition and all the programs certainly if we approve a law here and there the cancels or that gives you extra benefits. To the tuition we -- our expectation really is where we talked to the regulators, and we are extremely sensitive to the -- to what is happening to the students. This is being recognized by the public powers and we are working with this issue diligently and we have our view here of the -- our vision is that in the end the good will prevail and we will stand by our students.

A - Rogerio Tostes {BIO 6148759 <GO>}

Our question is from Suzanne Salaro. Please, ma'am, continue.

Q - Analyst

Good morning, thank you for accepting your questions. We have two. At the beginning of the discussion, Eduardo, you mentioned that you did not change any expectation for 2021 for the results and performance. Can we -- we can read along the lines that in 2020, we are expecting a stronger recovery of the result? This is the first question.

And in the -- secondly regards to the point of the discount in the tuition or the full time, a 100% scholarship, is it going to be throughout Brazil, how many scholarships are going to offer monthly for all the units in Brazil?

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

Hi, Suzanna. Great to hear you.

Let's talk about this. 2020 is still very early. Something very interesting is that we have a very good overview of what might take place in two-four year to four weeks and a good prediction for 2021, but there is a lot of variables here. In fact, we don't work right now at this moment with a lot of changes in '20-'21, but once again we have We have talent joining YDUQS. We have medicine and law growing regardless of coronavirus and we have the end of the FIES losses.

Hello. Am I here? Yes, okay, I'm back. I'm back.

So, when we add all this, the growth of the distance learning and medicine, the joining of that talent at the end of this year, base losses at the moment. We are still losing a lot with the FIES than what we are losing or will lose with the COVID-19 pandemic. So, once the situation is solved and we all go back to normality, we can foresee that everything is under control and we are keeping our expectations the same for 2021. What is the big concern is not losing any opportunities and keep the student base. This is a key for us, so we can go through this strong winter in 2020 and emerge victorious.

Well, we are expanding throughout Brazil this week; on Saturday and on Monday actually, we started to announce this. But now we have this strongly, we are expecting 50,000-60,000 scholarships in this program is in offer, the semesters for this month; it's per month. And we are counting three months depending on the need I have stories here that are really heartbreaking from the students that are people that get one, two -- hello? So, the set of scholarships and the number of favor student, it's about 50% of the students; 50,000-60,000 exemptions for one month at the end of the year 50,000-60,000 minus --

Q - Analyst

Okay. Just a follow-up. You have that insurance. Are you going to direct the student for the insurance?

A - Unidentified Speaker

The insurance, we have, it says 2015, and if you lose that scholarship and you have the conditions to receive the insurance, we're going to activate the insurance. Once again, we assembled a cell, a working group to service those students, so they can get a good and fast response.

A - Rogerio Tostes {BIO 6148759 <GO>}

And let's talk about -- let's talk to Mr.Victor Garcia. Please continue.

Q - Analyst

Good morning. Well, more along the lines of the distance learning with everything that is happening with the quarantine lockdown, it's possible to have an impact on the -- well, the fit and base on the on campus, but there are some small players on the other hand that don't have the structure to have a robust distance learning as you, so that gaining market share that you might have in the distance learning can offset the impact in the student base In the context of the student base on the onsite.

A - Unidentified Speaker

Victor, I'm going to answer the question, but if I'm wrong, please ask me again. We have the expectation of distance learning to still keep the same numbers. Maybe this is the thing that we can have the same information. As per the quarantine, our numbers has improved, of course. I think that those competitors that do not have distance learning once the tide recedes, they're going to try and find different paths to compensate for the FIES losses. And I think that every company has their own path to trail and we chose the distance learning with medicine and it allows us to generate cash to consolidate. We think that this is the winning pathway. So, I've talked to our director of M&A. He's on the phone. We had people we had competitors with a difficulty keeping the costs and now the costs are higher than the their students can pay, so our take rate is very high for medicine.

And the on-site has a smaller margin and we have a big efficiency; it's very efficient. And we can see small operations that don't have the online. They don't have that efficiency. And here the big issue is that you cannot nowadays have costs that do not add anything to the training and the graduation of the student. Once you go to our units you can see that everything is functional, everything is beautiful, but it's very (inaudible). We don't have parking lots.

We work with students that have a lot of quality to deliver the content, but not necessarily they had their training with research, advanced research; we have that, but it's more the exception to the rule. We have a strong online content. With all this, we see the difficulty in the small players. Of course, those that really don't have this path already established. Well, really they're going to get weaker and we can use that weakening as Marcelo has said to use that weakening should compensate for any eventual losses that we have in our on-site. The distance learning is still the same right, correct? Thank you.

A - Rogerio Tostes {BIO 6148759 <GO>}

Next question. Mr.Venus. Please Mr.Venus, continue.

Q - Analyst

Good morning, everyone. Thank you for the question. Two questions; first, can you tell us even if it's qualitative on how your curve of dropouts and bad debt -- provision of bad debt is behaving and there wasn't a lot of a lot of pressure in your budget and when can we expect that? You have your different projects -- products being affected at the second cycle of intake in the second semester. Do you have different products that can service a different base of students in the second semester?

A - Unidentified Speaker

Thank you, Venus. Provision for bad debt, the question to understand a little bit more, the distance learning and onsite; is that it? Is that what the question?

Q - Analyst

Exactly.

A - Eduardo Haiama {BIO 7279971 <GO>}

Well, this is very interesting. During the crisis, we are learning. To what we are learning very fast. I always saw that distance learning. These are the ones that have more difficulty and well, we can see that in the this period of crisis, not getting into the details.

Historically, for us here, the distance learning, we always had similar numbers to onsite and post-quarantine, the collections actually improved relatively speaking.

So, the revenue here the collection today where we're living as Parente has said, we have that levered of the distance learning giving support to all the operation gives us more comfort for the cash generation. And we on the onsite method, it's not that the other side has worsened substantially, but in fact the distance learning improved in terms of collections in terms of revenue now. In regards to distance learning premium, we tested that it Unitoledo that was our first brand that we tried the distance learning without Estacio or being a competitor of Estacio in practice, but it was very positive results.

When we saw distance learning with the Adtalem brand, we started with a pilot in Fortaleza in the Northeast. We are starting to operate with a different distance learning from Estacio and this is the first operation with the three brands. We operate with YDUQ, Estacio and the one in the Northeast. Distance learning premium, we have extra objects for learning and for that, the quarantine really helped us. It was a big test, enormous test that we did with the on how the onsite adhered -- onsite estimates adhered to the distance learning premium besides all the information that we have in our models for learning. We start to use asynchronous, the meetings with the teachers. We include that to -- well, the real timing the asynchronous classes. We include that to reach a different segment now. For the second semester, we can use all the other local brands that we got from the M&A. I don't know if I answered, but this is the expectation. Thank you.

A - Rogerio Tostes {BIO 6148759 <GO>}

The last question comes from Mr.Kayo Moscargini. Please proceed.

Q - Analyst

Hi. Good morning. Two questions; one about the earnings and the other one is provision for bad debt. Apparently, we have the tuition deadline set by May already, and about the distance learning, I want to understand the difference between the monthly payment and the PAR financing. There was a drop in the PAR financing. There was a drop and I want to understand what are the drivers.

A - Eduardo Haiama {BIO 7279971 <GO>}

Well, in regards to a provision for bad debt, PDD, in Portuguese well, and the revenue is still at the beginning. And since we are at the inception, we are seeing the same trend that we observed in April. Once again, we are still at the beginning. You have to see what's going to happen until the end of the month. Our tradition is that things are not going to change. We follow day by day as Parente has mentioned. We have the revenue that has -- that relationship between the accumulated accrued and the daily as for the provision for bad debt for the monthly payer; well, this has dropped. PAR has the amount of students that are in subscribe is dropping. The trend should be that is maintained.

As to how much the situation is in regards to the monthly payer and the first quarter is the period of intake when you'll have the invoicing and the monthly and the students has to pay the monthly fee, the tuition up ahead in the future. At the beginning, you have a very low provision for bad debt. The provision for bad debt or PDD is well, we start when we see the dropout rate increasing and the non-renewal that starts to impact the digital product. So, it's more natural that the student starts to pay by month. And when you do a negotiation that is broader, it basically in the months of and take the trend is that the intake is going to be lower.

Q - Analyst

I understand. Thank you very much.

A - Eduardo Haiama {BIO 7279971 <GO>}

We close right now the Q&A session and I would like to give the floor to Mr.Eduardo Parente for the final -- final thoughts.

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

Well, thank you. Once again to you all ladies and gentlemen; thank you for the trust invested in us. I think that this is a very difficult time. But those of you that know us, we -- that we have a very fine-tuned team that has leverage has worked with all of the team and we are extremely engaged from what I can see over the last six weeks. We want to really educate people we want to get things right, make things right and certainly we will be stronger out of this pandemic and this crisis.

Thank you all.

A - Rogerio Tostes {BIO 6148759 <GO>}

The earnings call of YDUQS is closed. Thank you for your participation and have a wonderful day.