

Q2 2019 Earnings Call

Company Participants

- Eduardo Parente Menezes, Chief Executive Officer
- Gustavo Artur Ciocca Zeno, CFO, Director of Investor Relations
- Rogerio Tostes, Director of Investor Relations

Other Participants

- Caio Moscardini
- Leandro Bastos
- Marcelo Santos
- Mariana Hernandez
- Roberto Weissmann
- Samuel Alves from BTG Pactual
- Susana Salaru

Presentation

Rogerio Tostes {BIO 6148759 <GO>}

(call start abruptly) (Operator Instructions) The conference might contain some predictions about the future events that are subjected to risk and uncertainty, and should those statements do not state correct they might have substantially different from what we expected. These are only opinions issued on the date that they were actually done and performed, and the company's is not obliged to update them.

Therefore, I give the word to our CEO, Eduardo Parente.

Eduardo Parente Menezes {BIO 16707188 <GO>}

Thank you, Tostes. Well, good morning, everyone. It's a pleasure to receive you here on our second quarter conference. Well, what we're going to start today is a sequence of what we have found over the last conferences, in terms of results and how we see things up ahead.

I'll start on Page 3. Well, we're going to be 50 years next year. So in those 50 years, we build a brand, national brand, a very strong brand, very recognized. As you can see, we have 93 Campuses, 110 DL Courses, 710 DL Centers, 500 Cities, 8 School of Medicine and 97% of courses with satisfactory grade. Now as we have been evaluated 84% of them, had a great 4 and above 5, so we have a view of reaching out to the student, we're

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company -- educational -- of educational institution that is very strong well. But we need to move up ahead.

What do I mean? We need to get closer, even closer to our students, broadening the scope going farther, going to other niches. Now, we thought that to bring this would drive us the more flexibility to had partnered with YDUQS, YDUQS as I said in Portuguese. In this way, we can have a different position in the market and we can develop therefore new businesses and providing services for other institutions, teaching institutions. Anyways YDUQS was formed with the thing the new name for the company, the overall company, Estacio, and it's the new way to start with an umbrella of companies. Well, during the presentation, we're going to refer back to that, once I talk to -- once I talk about business learning and medicine, which are as you know very important part of our vision. We are focused in businesses that maybe as a whole might not seem so big, but they're growing. And we need -- well to that our structure and this will facilitate things.

Now, I'm going to Page 4. These are the highlights for the second quarter '19. I think that on the left you can see, the students base is the ticket -- the average ticket and the cost reduction. These three boxes -- well, we have a very difficult economy as you know, rebuilding the three and these are the results that we're very proud, and we think that it creates a very strong base for growth. We're talking about using this regaining of economic growth in our favorite [ph] cloud 3% of the grow in the student base. If we get the biases out, we basically have growth of 10%. Now, this is the biggest base that we ever had as at Estacio. This is reflected upon the quality of the teaching and the process that we are repeating to become more granular and focused.

Looking at the lifetime value of the student. Now, we have an increase in 1% in increase in the retention rate in both the DL and on-campus versus the second quarter of 2018. This is a record in growth. Well, this is a historical record.

Now, talking about the average ticket. We grow as you can see 3% average. We basically move not sideways but we are growing in parallel, the base that is what we have growth in the medical student base, as you can see 7%, and we have done different pricings and we've applied that very confidently in the first quarter, once again very granular application here, and this is very positive.

Now, the cost reduction. We really mentioned that in regards to the previous quarter -- while on the previous year's second quarter, well we still had the entire year to capture a complete year of these initiatives. The results are, you can see 5% reduction in costs per student, and this makes the right side of the page very solid, very consistent with what we've been showing as the potential. Now, this cost reduction has really helped us to fight a lot of the FIES that we know, we do that it was going to be significant, the Student Funding FIES. Now, we have the gross margin 58.4%, we have an ex-IFRS 16 for 57.7%, and margin of 36% of EBITDA and our cash conversion of 66.5%.

Now, student base in detail. As I mentioned, -- I'm sorry, Page 5. It's a little bit of what I already mentioned of student base. Very relevant loss in number of the students that were funded by the FIES, it was a loss of 37% of our base. We knew that we were going

to lose those students. We think that up until the end of the year, we are still going to lose another 19,000 getting to standard 30,000 FIES students. There is something up ahead, so we start to see FIES as maybe as a side. We are in the new reality of FIES and we believe that this is a very solid benefit of the program for society, nonetheless what we see in the government and the perspective on the medium range is having a regrowth. Once we have this regrowth, we think that it can be good for the entire sector and FIES is almost the upside. Anyway, we are very strongly growing with the distance learning 26% and as the on-campus which has former FIES also growing 3%. And down the road to the left, we see the retention rate improving significantly year-by-year since 2017.

Now, distance learning is getting very close to on-campus, which is very interesting. So, small retention rates -- lower retention rate is the on-campus, while this is normal for sector to understand better what the deal is and everybody is putting an effort to actually getting more technology, more confidence, whether student is very winning form of democratization of the studies of teaching, which is distance learning.

Now, I'm going to give the word to our CFO.

Gustavo Artur Ciocca Zeno {BIO 19036323 <GO>}

Hi. Good morning.

Well, let's start once again at Slide 6. First quarter, we have the net revenues and compared to the previous year, which is you can see the numbers led to the great performance of reduction of 20,000 students from the FIES and it was going to impact attractively the revenues. But the improvement in a mix of costs and increase in the DL had no in part the effect on the FIES. Now, we have a positive effect of the restructuring of personnel that happened at the end of '18 reducing within almost 8%. Now, that -- added to that effect an improvement in the efficiency in the cost and expense third-party, third-party services, neutralizing the increase of cost in these some effective cost. Basically, the third-party services, we have a drop of another 5%.

Now, on the right, as we have mentioned before, there is an evolution of the gross profit and the gross margin which got to 58% without considering the -- well considering former IFRS 16.

Now, going to Slide 7, stability and efficiency of the expenses. We have an increase in the commercial and administrative expenses, in comparison to the previous year. Now, we have a pressure here of the bad debt over the net revenue. This is due to the anticipation of the marketing campaign. Now -- sorry, I was mentioning the advertising over net revenues which increased 6% to 8%, but the bad debt there is a growth of 123% based on the previous year. Now, the percentage here reached of the revenues 10% above the same period of '18. Now, general and administrative expenses, we maintain the same efficiency, and we have the benefit of 9%. I highlight the reducing -- well we reduced the third-party services, reducing the consulting fees, vacancy to 53%.

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Now, Slide 8, EBITDA and generation of gross margin. Now, in this quarter, the EBITDA margin got to 30.1%, offender that is above the 29.4% of last year. In absolute terms, EBITDA grew 1.6% in the same period. Now, this comparison with '18 excludes the effect of IFRS 16. In the quarter here on the right, we can see an improvement in your operational cash -- operational cash flow and an improvement of the conversion of the EBITDA and cash conversion. This shows that our financial products are not big offenders to our cash generation. This quarter, we got to the conversion of 66.5% comparison to the previous margin. We have here the cash flow in the same accounting standards in IFRS 16. Last but not the list, we present a net income growth in the first quarter with the growth of 3% comparison to the previous year -- for the previous year.

Now, investment. We -- CapEx, we had an investment of as you can see that what we had an increase in investments of -- that grew and 59%. Now, we have the support and the improvement and we captured the CapEx of 6.4% versus 4% in the same period of the first semester of last year. Now, an indication for 2019, we believe that the CapEx should be around BRL330 million. This is due to several initiatives, which is decreasing the disparity of our services and the expansion that is associated to revenues.

Now, I give the presentation back to the Eduardo.

Eduardo Parente Menezes {BIO 16707188 <GO>}

Now, I'm going to mention -- to refer the Page 10. But before, we do so I believe that there is an issue that is very important. Let's just take a step back and talk about the concept of distance learning, EAD in Portuguese. Now, we are mentioning about 2 million students that study distance learning and we see a potential of that number doubling in the next years. The market is very good. And the reason for our optimism I think that is shared with several other teaching institutions is that the distance learning is very different here in Brazil than when you compare to different countries, such as the United States. When you see distance learning in the United States, it's option for the students and sometimes its beginning is almost the same as the on-site, and usually is, here it's a tool of -- for inclusion, such as which have a stock of over 8 million people that can fill that studies they have at high school education and do not have a bachelor degree and the distance learning is the way of bringing a lot of these people choose study back again.

Now, you're offering access to a lot of people that did not have access that's kind of access before, because of a financial issue, because of a physical geographic issue and a time issue as well. This is the market they grow. The growth in we can see that everybody is growing their tickets and kept their stability even though there is a big margin in this market. So, what -- we are foreseeing this with a lot of optimism for the next 50 years up ahead.

Now, going back to -- here the table. We have a growth (technical difficulty) year-by-year every time that we talk about this we grew 20% versus the previous year. And we have such a visibility here as Estacio. We grew a lot in the second semester of last year. And the first year is -- in the first semester of this year, the growth in the (inaudible) and the partnerships, they see a partners at a very -- still in the first intake cycle. So, there's still 34 students, it's not -- it's something that takes a lot of time though. We in an exponential

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road once you have the second and the third intake cycle, and we are expecting for these, basically partner center to grow with us.

Now, the flex also growing very important -- this is very important to talk about. And this flex is -- it's of course this was turning where you have some activities where you can have a physical experience most of time. So, it's like a test with partner center and also on-site they schedule a time, they have a technician with an anatomy class with a skeleton or something that they need to do. They can schedule that and maybe they will be alone or along sideways a group of three or four, but always with the concept of a on-site physical experience with associated to the distance learning. This has really improved the success, our success because they have increased 70% of our undergraduate space. But we've got to 500 cities covered almost. And I think that once again, if we see the growth in the market and we perceive the possibility that we up ahead in technology. Internet is evolving, people are getting more and more used to having success and quality and the success that we e-net or e our distance learning, it's very similar -- the experience is very much like the on-site. So once we see this DL or EAD in Portuguese, we foresee it with a lot of optimism.

Now, let's go to Slide 11, talking about medicine. Now, I wanted to highlight that in the fourth quarter of last year, we talked about medicine, and also in the first quarter of last year. Now, this year, we talked about medicine and we are very happy to talk about this, and this is something that is the focus for the market as a whole. So, congratulations to the ones that foresaw this. What we're been working for many years with it. It's a set of logical project that is very solid. If you take a look at our eight units that offer medical education, they are all with the same set of logical projects with the same quality. If you take a look a great testing of the quality have the benefit or we have -- well we have a very big number of students that come from the public sector.

Anyway, in this presentation here on Page 11, we have some numbers. What are these numbers? We've been working with them for a long time. Now, these bars, the blue ones, the dark blue ones are the current unit. We have of eight unit or our let's just see, let's just call them original and four related to the Mais Medicos I expansion. We can see here in the distance learning how many slots you have. Think per year, you have and the potential for growth. And this is the natural expansion of these units. Why? Because there's many of them, five of them have not matured. So they are in the -- they're first second year of course. These are courses that you get -- the first year students, but nobody has still reached the final year, the fifth year. The 5,800 is maturing of the courses that we have already.

Within the expansion and the operation of Mais Medicos, we have an expansion of the seats per courses. And what we see here later apprehended in its spectrum, what we believe will happen in the base case for 2024 and what might happen until 2024. And if you get the full potential as all the seats are used Mais Medicos II, due the intermediary green, we have four units that we earned that we've got, one we already started is intermediary, so it's going to be dark blue soon, and coming there is a good interface that either others that there's still a judicial dispute in regards to Mais Medicos III and the expansion here, but we are sure that the potential for getting a positive result here and of course is something that will happen.

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So, we can expand them until 2024, we still have to mature them. So given this potential for growth and I highlight once again, the consolidation of a standard of margins with opportunities for growth in medicine, and this is turning on the right side of the page, we see how important this is to us. Having -- well, you can see 19% -- 9% of the revenue come from this total net revenues come from this, BRL170 million for growth year-to-year of 19%. This is reflected on how we are pricing this ever more carefully with a ticket that is very relevant within our conversion of (inaudible).

Now, before we go to Q&A, I want to invite you to take a look at Slide 12. On the left side up ahead, where we have our watch list what I should say. We introduced them in March. In the fourth quarter of last year, this is a request from you to see how we are going along with the intake season, we don't like these pie charts, let's just say that much more but we don't want to make a mistake on them. We think that they're important. If you take a look at the pie chart on the fourth quarter and you compare to what was announced in the results of the first quarter of this year, we have all of them basically in the middle, we except intake on the distance learning that we went well beyond we had excellent results. So once we take a look at these, how watches or pie charts, when we have on-campus intake, we are sure of these numbers and nowadays everything indicates that we will be more going over this opportunity, but we still need one more month.

Now, the aggregate, the on-site and the DL we went over the numbers of last year, we surpassed them and we still have one month to work to seeing more people. Now, once we have here once again, the is the (technical difficulty) is high, but also intake we've been very careful, because we're going to pay for this and there's not (technical difficulty) of course completion, we started to foresee an improvement also in the market in on environment that allows us to be more conservative with the price, you think (technical difficulty) margins and still be able to grow. Now, these on our view, is positive in the last month. We can vary, but we are sure that we are talking about this margin that we are showing to you.

Now, if you go to the left side of these, well, we see here and a 10% and we got to the bases of (technical difficulty). There was a lot of conversation here. We show that yes, this is the center that we are talking about. The new reality of center widened and when we see the bases to decide to growing 3% year-by-year, 10% if you do not count on (technical difficulty) records of retention rates also going up, all of this resulting in the group greatest base of students in the history of recession, and this allows you for the an increase in gross margins and a solid cash conversion.

So, we have a very solid base, out of which, we need to leverage to seek new stage for growth. And we saw very clearly the position and the technology that we are discussing, the maturing of medicine as an opportunity, we are talking about -- well this is good for us, this is good maybe if you look at the same institutions. And once we take a look, what is -- with the cash position and generation of cash and assets that that is basically a hero with a lot of opportunities here. We are very tempted with the opportunities they're presenting. And as I told you, we're not going to do something crazy. Once we look at some build, some heightening that has been done here, we think that's high and very expensive. And in the situation, we rather go back to what we've been doing. Why is that?

So, once again, a very solid base, and whole a lot of opportunities for growth up ahead. Thank you very much.

And here, I will give it back to Tostes.

Rogério Tostes {BIO 6148759 <GO>}

Well, thank you, Eduardo. And now we go to the Q&A. So please.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we will do a session of Q&A. (Operator Instructions).The first question will be from Roberto, Bradesco. Roberto?

Q - Roberto Waissmann {BIO 20589306 <GO>}

Good morning. Well, thanks for the call. The first question is in regards to the activities of the new poles. Can you attract the -- well, this is actually an organic growth -- the factor -- the growth is based in the growth of the market or -- so the increase in penetration, et cetera? Or are you getting share, the share from the competition?

Now, the second question is from the private sector of course. Well, we can see that in the first quarter that the second semester reduced the base of students. So how have you felt this with the second semester? We can foresee the levels to be around the 5% of the intake or this is something that we can increase -- that we can expect an increase?

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

Well, hi, thank you for your question. I'm going to try and answer them. And if there is something missing, Alexandre can then -- can talk to you. Well, in regards to the poles, we think that this is a market growth. We don't see a fight, we don't see one taking away the pie from the other. I think that everybody is growing, and we see that there is a lot of these and the growth is not so relevant, but we have the percentage. But maybe people are not in your radar and they're growing alongside with this -- with us. So we look outside and we see the growth of the market, we don't see fights.

Well, sometimes there is a fight for the student in regards to the finance -- financing. We have an expectation of this number to be decreased. We see that there are students opting what we've been working very well with transparency what the Fed mean, the financing versus the discount here and there for the student and for us, because we have situations that it's better to give a discount of 20% that you expect X months or X years to receive another 50. I mean, it's better, it's healthier. So we're getting to a balance point here. And the vision that we have here is that it will be lower. They gave me other K.

Q - Roberto Weissmann {BIO 20589306 <GO>}

Okay, so I got it right. Thank you.

Operator

Next question will be from Leandro Bastos from Citi.

Q - Leandro Bastos {BIO 21416405 <GO>}

Hi, good morning. So two questions. Well, first of all, I am commenting that -- well, how do you foresee the competition and you -- and the on-site, the DL and on-site, how do you foresee the market in the future? And also talking about CapEx, well, BRL300 million, BRL330 million of CapEx in millions, is it because of the improvement, Mais Medicos? I mean, can you share what would be the normal standard cruising altitude of investments that you still do? I mean, can you tell us more about the M&A?

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

Thank you, Leonardo. Well, let's just see intake. In intake, that competition is not uniform. So as I commented with Roberto, indeed distance learning is a market that is growing, and we have once again grown a lot better in comparison to the previous semester, to the previous year. Now in general, very little aggressiveness between the competition. Now in the on-site -- on-campus, it really varies.

Now the campuses are suffering more because of the decrease in the FIES financing. In the Northeast, in the first semester, we had a stronger fight there that is being repeated. For the rest of Brazil, I think, that there is a situation that we're improving. We've done our homework and the competition as well, so I believe that everybody is within the same new reality. Now, we've been working to have a situation of costs that compensate this loss. So, we can see the competition, certainly not as strong as last year. But about the CapEx, I'm going to ask for my partner here to talk to you.

A - Gustavo Artur Ciocca Zeno {BIO 19036323 <GO>}

Well, talking about CapEx, Leandro. Looking up ahead, now there is an issue that is very associated to the strategic decision of the company in regards to expansion. Now it's very important that we talk about this. Expansion is a CapEx that is directly connected to future revenues. Now this is very important, because depending on what we decide for the next few years, this CapEx might increase or decrease especially because of the expansion.

Now last year, we had about 6%; this year, we are talking about BRL330 million, which is our CapEx. And we try to better leverage with the market, with the change of standards, with the change of thresholds and that might generate about 10% up ahead -- well, higher, if you take a look at the future. But once again, this is a very important variable that influences CapEx expansion. The Mais Medicos 2 is a CapEx that we will do this year, and we will continue to do next year.

Q - Leandro Bastos {BIO 21416405 <GO>}

Thank you very much.

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

Very good.

Operator

Next question will be from Marcelo Santos from JPMorgan.

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

Hi Marcelo, good morning.

Q - Marcelo Santos {BIO 3999459 <GO>}

Thank you for the -- for this. I have two questions. If you can please explore a little bit the new businesses that are under the umbrella of YDUQS? And also second question, well, to -- tell us a little bit about the implications of the intake on the on-campus that you are indicating a growth of 0% and 10%? What does that mean for the base for the next year? I mean do we have a drop here -- a scenario that has foreseen two years of decreasing numbers or not? Or if there any variables that should hinder that drop and foster growth?

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

Now, let's say there is a new businesses with YDUQS. Now we have a series of opportunities here, and they were impressed or -- and we don't take a look at them because of how big our on-site undergraduate programs are. Sometimes, this was a hindrance to our focus and it caused some issues because of our own mentality of the teaching and I'm going to clarify this.

Well, for example, once you have a teacher on-site, well -- and I can say that because I'm one of the 8,000 teachers. If you get a class, do you have a book that has been written two, three, four, five years ago, it's one thing. For each of your class, there is a content online that is more up to date. This is updated in the weeks leading to the class. It's a little more didactic for the student for the use to study in a way that is more modern and more online with what they expect.

This is the transformation I experienced. Instead of asking to read chapter x, you're telling them to go to the online class, which is not a video -- it's part of a video and then with the text -- with exercises with something. And then, you have tools on the classroom and then you have a transformation in the teaching that we are working here and this new mentality of the separation of the business is very important. So what do we have as a history here?

Our medicine has grown a lot because of the entrepreneurship of some people. Now we have also a few teachers here, and we also have physician. I mean, he is a doctor, but there -- he also is an entrepreneur. And he was, over the last years, building our medical teaching curriculum here and our vision of YDUQS is to give our partners video, an opportunity to grow, but also everybody else that maybe do not have the same degree

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that you have. We have a lot of potential here. We also -- what we offer -- our potential is still not realized.

So we are solving issues here. VDL [ph] which was one of a side thing from the on-campus and that was separated and developed, and it's growing. We don't want to say oh, we're going to do this and do that. Well, maybe we still think that there are there are inks decided that are being discovered by people. And YDUQS will help us to give visibility, but always taking one step at a time. The growth for the next 50 years is going to be more accelerated and the world here we have a very strong step-by-step approach.

Again, new businesses, it's medicine, it's DL put in, placing more attention on the distance learning, the postgraduate studies also. And we will eventually get into -- were acquired brands that we admire, and we believe that there is an opportunity to be present in different segments of the market. So we want to give you all this with YDUQS, and we're going to move up ahead.

Now your second question, which is about the indications for the on-campus. Our prediction is to grow the base in over the next years. Once again, if we grow 3%, we have the prediction of growing more until the end of the year, the relative base in regards to the previous year. And what we see on the on-campus is that growth that is highlighted and not the decrease of that number. I'm sorry, I talked too much.

Q - Marcelo Santos {BIO 3999459 <GO>}

No. Just to clarify here. The base has grown, but the on-site is not -- the on-campus is not growing. So if you can imagine -- let me just try and understand the answer here. You expect growth, well, this year -- well, next year, you think that the on-campus is going to stop following the numbers?

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

No, yes. The next year, the faith of students. The numbers of students will not drop but I want you to take a look at page 5 -- slide 5 where we see the on-campus, excluding FIES that is growing in 6,000 students. Of course, there is a reduction in the FIES from the students, the on-campus -- the number is overall dropped. But we are taking a hit from here and that is it. And what is -- for the future, there is a growth foreseen for the on-campus base, student base here in the thousands.

Q - Marcelo Santos {BIO 3999459 <GO>}

Well, thank you.

Operator

Next question will be Susana Salaru from Itau Bank.

Q - Susana Salaru {BIO 16170633 <GO>}

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Hi, thank you for the opportunity. I have two questions. First question in regards to the expansion of the DL. You are looking at medium to small -- well, of the medium and small cities, what will be this definition or what would be a small city? What will be a medium city? If you think about a city with less -- with up until 30,000 inhabitants so you already have a very good offer of the distance learning. So what would be the cities that you want to, let's just say, increase your capital already? That would be the first question.

And secondly, you have a target of cities, you have about 500. How do you -- how many do you expect to cover in the future?

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

Thank you for your question. We have a goal, a vision of getting to 1,500 cities. We have a very good penetration in the big centers. We're talking about the cities that have over 2 million inhabitants. If you see the cities with 500 people, we are in every city, 300,000 to 500,000, there is only one that we are not in there. So what we have here is 300,000 to 500,000 even though we are in most of them, there is relevant growth. There are many cities that we will need another pole, another center, point of center. And we are talking about the cities of 100,000 people where we see a lot of potential for growth.

Q - Susana Salaru {BIO 16170633 <GO>}

Well these cities are completely penetrated. I mean you're going to be the second player right?

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

Second, third, well, what do we foresee. We have 4, 5 players that managed to crack the distance learning. Now, we respect each other, we copy the good things. They copy our good things and there is a lot of people that are trying. We -- there are people that think that submitting a PDF to the student is the distance learning or that corresponds to 20%, and I know this is not sustainable.

So we have -- we trust in our product, in our brand. We -- I don't think that this will -- well, at least in the short term, unlock a war of prices. There is still a lot of people that want to grow. And actually in the small cities, on the introduction of technology that is very important for the expansion of all of them. Now I don't think in no way that these cities -- well, they might have distance learning, but I don't think that any of them have reached their potential.

Operator

The next question will be from Mariana from Credit Suisse. Mariana?

Q - Mariana Hernandez {BIO 20281325 <GO>}

Good morning. Thank you for my question. I have three questions actually, very quick. First, PDD, we see that this line is very stable year-by-year, but there is a change of behavior. So the dropout non-negotiated, but the PDD of the monthly payer are dropping, so the line

is very steady -- very stable. So I wanted to understand that dynamic? How do you provision this? Do you expect more decrease? And how is this going to evolve to the future?

The second question, even doing a follow-up of the previous comment on the distance learning, you mentioned that the competition is not so complicated, but the tickets suffered a lot this quarter. What happened? It was something one-off or it was your strategy to improve the intake? What is the logic here for the drop?

And the follow-up on what was commented on in regards to providing services for third parties, some contracted parties. If you can detail a little bit more there. What is the economics of that idea? Is there anybody that is doing that? Is there any difference from what is up ahead and what is in the market? And when is this going to be done? Is it for short term? More for next year? When do you expect to launch this? These are my questions.

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

Thank you. It's a pleasure to see you in the sector. Well, before I give to (inaudible) to answer about PDD, I'm going to answer the two questions about the distance learning. Well, and now -- talking about suzano, it's very important to understand it's not because the city has a center that they have distance learning. There is a neighborhood. There is a convenience of going into the center for you to use the Internet of the center.

Even in the big cities, we see some penetration of the distance learning centers. In regards to the ticket, now it moved parallel, I should say. So this is a fluctuation of the market we are seeking to increase the penetration, increase while giving offers to bring more people inside doing the investment, but if you notice there is a relevant variation in our mix. We have the flex course, more expensive and more people opting for that. So you have a situation where we're facing that 0.7 as a natural fluctuation in the market in no way. This is in an environment where you have big margins, this is not fighting for the prices.

Now the third-party services, once again we want to avoid bells and whistles -- whistles bells and whistles. Now what we see is that the customer starts to taking a look at the products, YDUQS has the online teaching. This is a very good partnership. Now we are working to deliver to ourselves a business with a quality that is good.

Our challenge here is to do a quality education for many and there is tool. Digital tool is very important. It's fantastic. Because it allows us -- for us to have great control of what is given to the people. And it helps with the diabetics and brings more modern tools to the classroom. Now if you can let us work a little bit more and just be a little bit patient, we will give you more results.

A - Gustavo Artur Ciocca Zeno {BIO 19036323 <GO>}

Now talking about PDD or bad debt, now the bad debt -- yeah, this provision we are having a mix, it's not what is expected. We have communicated the market, DigiPare.

These are products that have provisions for when the student -- well, you have a complement for the provision. So DigiPare, there is nothing beyond what is expected.

Now looking at the monthly payer, this is very connected to the efficiency of charging the - we've improved the recovery of this class. So DigiPare, digi pay, we are improving, but even the monthly payer, this is a more outdated modality. We understand it better, but we are improving on how we charge this city. So you can see the mix. There is a difference of mix if you compare to the previous year in the bad debt, but nothing different.

Q - Mariana Hernandez {BIO 20281325 <GO>}

Thank you very much.

Operator

Next question will be from Caio Moscardini from Morgan Stanley.

Q - Caio Moscardini {BIO 20856018 <GO>}

I have two questions. First, how do you pay your centers -- the partner centers? We have a growth in costs and a growth of distance learning growing. Is this due to an increase of payment that is done to the partners or an increase of share of the partners within the revenue of distance learning? Now in regards to the campuses of Mais Medicos 2, which are on a judicial dispute, is there a timeline for us to know the final result? What is your expectation?

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

Thank you, Caio. Well, this is very -- I'm very happy. Every time we have that increase, we see that our partners are growing and the more they grow the healthier we are. And well, this is the B part of your question. The mix of partners is growing within our universe here, and this is natural that the payouts are increasing more than the revenue.

So we have about 90 of our own centers up until a year in the -- well, last year, it was 100 partners. So we have almost -- so we have 700 partners, so we have a lot of centers being opened. Mais Medicos 2.

We have some decision coming there where a started -- we started to work. We expect that the next three will be solved in the semester and then this will allow us to capture at least two next year, maybe the four. And now it all depends on the legal system and that, that has a bit of unpredictability. But not only for us but for everybody, but we are very optimistic of having this for next year. Coming there for sure. Well another two or three for 2024, 2023. Oh, very good.

Operator

Next question will be from Samuel Alves from BTG Pactual. Samuel?

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Q - Samuel Alves from BTG Pactual

All right. Good morning, everyone. Two questions actually. First question is can you comment a little bit about the percentage of the intake that is complete, this preliminary number for the next cycle that you opened?

And a second question would be if you allow me if you can talk about the student dropout? We see an improvement in those indicators in the second quarter, specifically on the on-site, on-campus. Now almost -- only 300 students dropping out in the second quarter, I think that is the lowest numbers in your company. Is there a change of criteria or is this a loyalty project? I mean if you can give us details that would really help.

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

Percentage, we are talking about 70%, 75%. There is still a month up ahead. So a month is a lot of time, but we are talking about 70%, 75%. What we have here if you compared to the same talk that we had in the first quarter, it's been a little bit up ahead than what we did.

In regards to the dropout, well, no there isn't anything. I mean, we have a very strong work that is been done, and it's very nice. Well, I have been here for a very short time and I can see the numbers making sense.

So this is a big effort from the team. And from these undertakings, we can see the results, more clarity in the numbers, more -- the capacity to transform and react. Once again, this is the maturing of the work that has been developed over the last two plus years and we are gathering the results. There is no change for criteria of dropout.

Q - Samuel Alves from BTG Pactual

Thank you.

Operator

Now, we close the Q&A session. Therefore, I give the word to Rogerio Tostes for the follow-up. Rogerio?

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

Well, it's Eduardo. We had a few more questions. I asked, I'm sorry that we couldn't answer, but to respect the competition, there is a call starting at 10 a.m. and I think that it's important to give them this space. So before the next results, we are going to talk about - we're all going to talk on the YDUQS Day. And in October, we're going to have wonderful results for you. Thank you very much and have a wonderful day.

Operator

The teleconference of Estacio Participacoes -- is closed. Thank you for your participation and have a wonderful.

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