



Estácio

**3Q18 EARNINGS
PRESENTATION**



B3: **ESTC3** | ADR: **ECPCY**

Rio de Janeiro, November 7, 2018 - **Estácio Participações S.A.**, one of the largest private organizations in the higher education industry in Brazil presents its **results for the third quarter of 2018**.

The Company's financial information is presented based on the consolidated figures, in Brazilian Reais, pursuant to Brazilian Corporate Law, the accounting practices adopted in Brazil (BRGAAP) and International Financial Reporting Standards (IFRS), unless otherwise stated. **Comparisons refer to the third quarter of 2017 (3Q17), unless otherwise stated** and were not reviewed by the audit.

This document may contain forward-looking statements, which are not based on historical facts, and reflect Management's beliefs and expectations. These forecasts express their opinion only on the date they were made and the Company does not required to update them.

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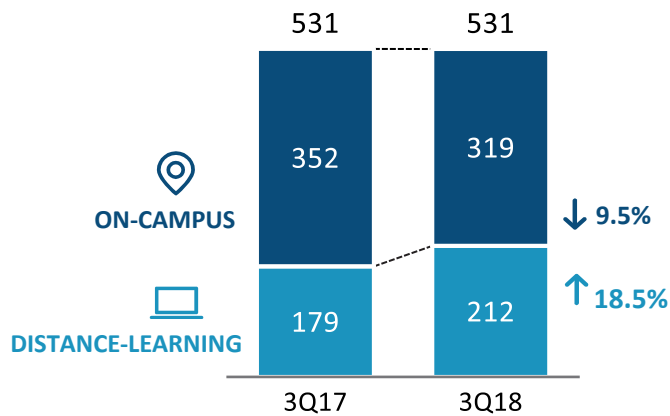
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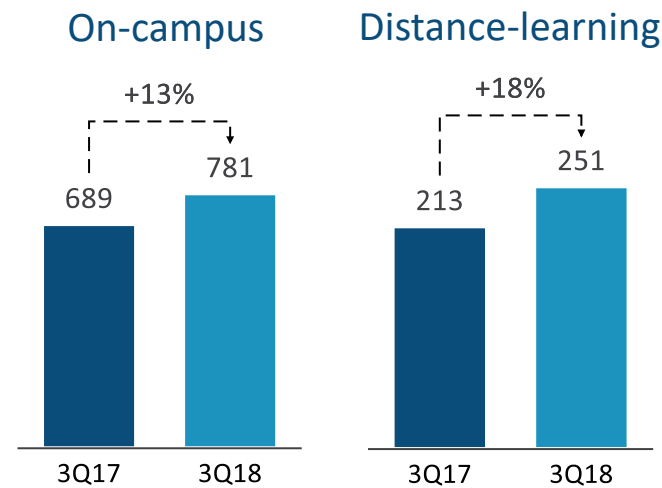
HIGHLIGHTS

Focus on sustainable growth

Student base (thousand)



Average ticket (R\$)



. **Focus on the quality of student base**, with an aim to increase revenue

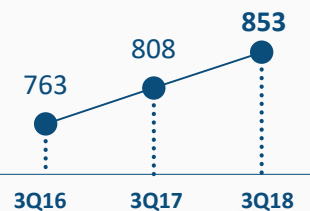
. **New offers** of on-campus courses throughout 2018

+138 in the health area and
+60 in the exact and engineering areas

. **Expansion of the distance-learning segment:**
3Q18 x 3Q17

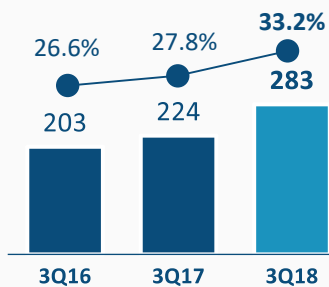
+149 cities (higher penetration),
+268 new active centers,
+15 new courses, and
+7,100 new offers (mainly in the health, management and business areas).

Net Revenue (R\$ MM)



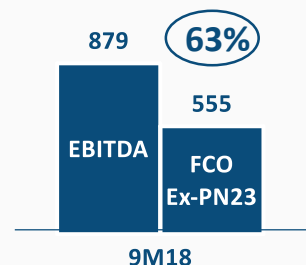
+5.5% A/A

Adjusted EBITDA ⁽¹⁾ (R\$ MM) and Margin



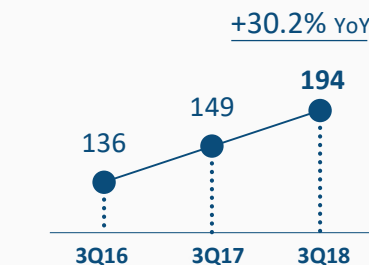
+5.4 p.p. A/A

Cash Conversion ⁽²⁾ (R\$ MM)



3Q18 Conversion: 97%

Net Income (R\$ MM)



EPS: 0.43, 0.47, 0.63

. **Expansion of the main financial result metrics**

. **Extraordinary Dividends** : Payment of R\$400 millions, R\$1,3328 per share

FOCUS ON RETENTION

ON-CAMPUS
85.0%

DISTANCE-LEARNING
80.8%

⁽¹⁾ Adjustment of R\$8,250 thousand to non-recurring advisory expenses in 3Q18, and R\$900 thousand to one-off expenses with M&A in 3Q17.

⁽²⁾ Excluding the FIES PN23 installment: R\$ ~ 167MM (3Q17) and R\$ ~ 342MM (3Q18)

3Q18 STUDENT BASE

Quality x Quantity

Macroeconomic conditions:

- Economic scenario still challenging
- High unemployment rate
- Low consumer confidence
- Reduction of the FIES program

Competitors:

- Pressure over price
- More scholarships and discounts
- Focus on volume

Estácio:

- Avoid price disruption or exemption of monthly tuition fee
- Focus on NPV per student
- Focus on the expansion of the distance-learning segment
- Higher course offering
- Four new Medicine campuses

++ Revenue growth

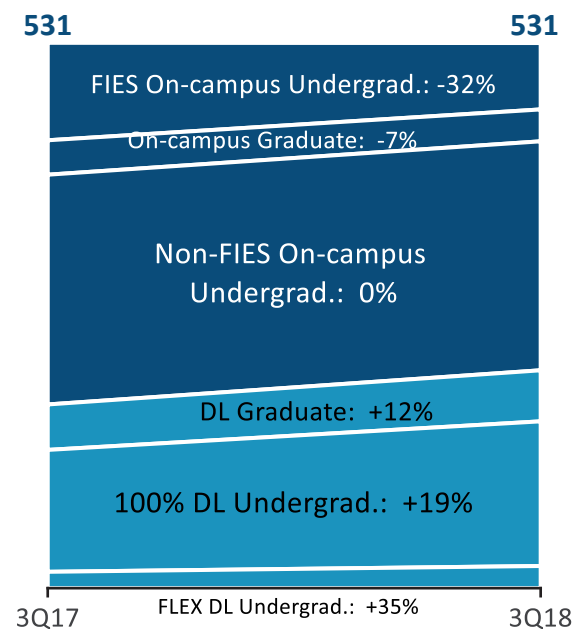
++ Expansion of EBITDA and Margin

++ High EBITDA to Cash conversion

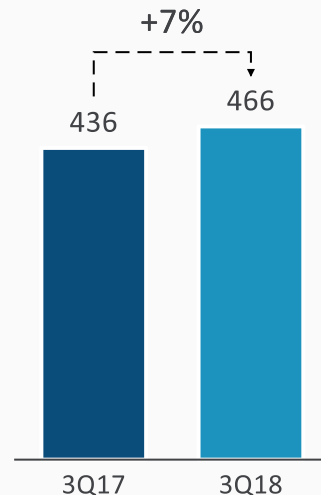
++ Solid growth of the distance-learning segment

++ Improvement of the retention rate

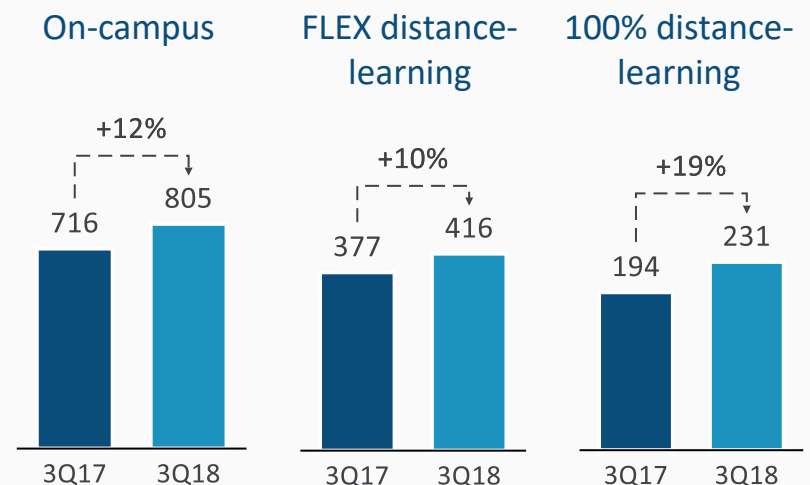
Total Student Base (thousand)



Total Non-FIES Base (thousand)

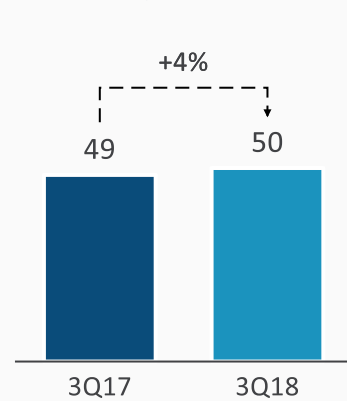


Undergraduate Average Ticket (R\$)

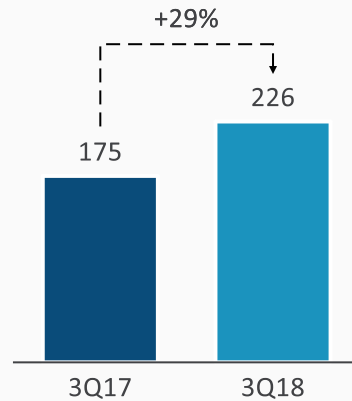


Average Occupancy

Enrollment per class
(on-campus)



Students per tutor
(distance-learning)



On-campus

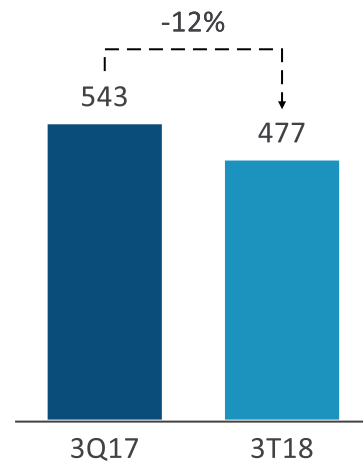
Improvement of the academic planning process

- Increased offer of equivalent disciplines
- Higher sharing of disciplines among courses
- Implementation of a new faculty career plan

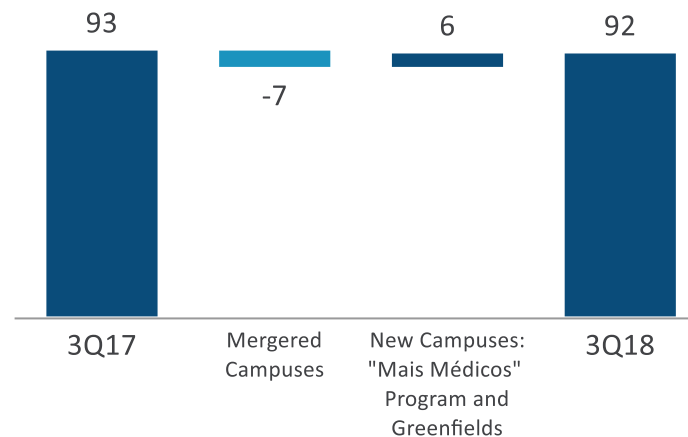
Distance-learning

- Improvement of both the methodology tool and interaction between teachers and students
- More students per tutor, without jeopardizing student satisfaction

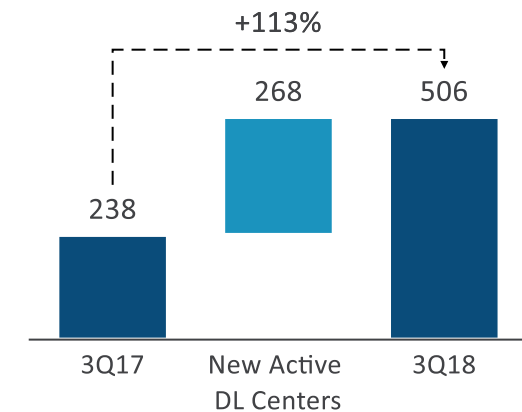
Personnel Cost / Student Base



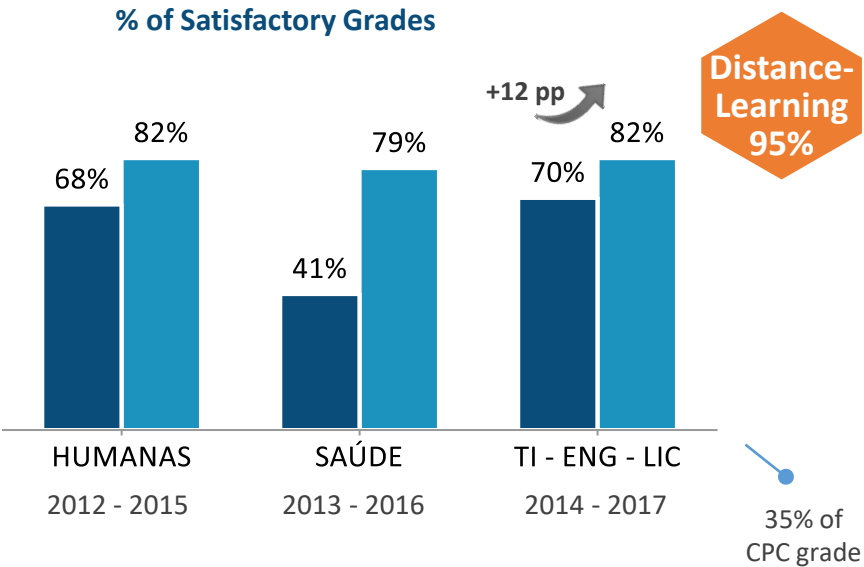
Number of Campuses



Number of Active Distance-Learning Centers



IDD: Performance Difference Indicator
(ENEM x ENADE)



. Improvement of IDD in all cycles

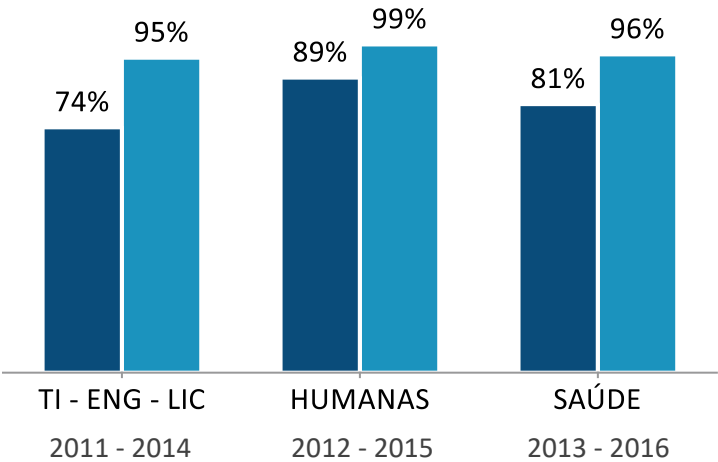
ENADE 2017 versus Market
Courses with satisfactory grade (3,4 and 5)

20% of CPC grade

Grade	1	2	3	4	5
Player 1	2%	79%	16%	3%	0%
Estacio	3%	38%	42%	16%	0%
Player 3	1%	62%	33%	5%	0%
Player 4	0%	20%	59%	20%	1%

Source: INEP 2017

CPC – Preliminary Course Concept
% of Satisfactory Grades



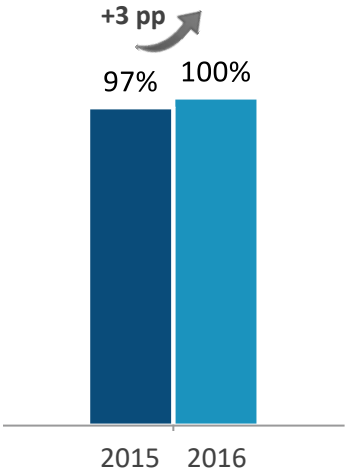
- . Satisfactory evaluations: graded 3, 4 and 5
- . Improvement of CPC in all cycles, 16 additional courses graded ≥ 4
- . No Higher Education Institution (IES) with IGC graded below 3
- . Focus on quality teaching: student satisfaction, brand strengthening and growth strategy (IES graded 3, 4 or 5 in the institutional concept have more autonomy to open new distance-learning centers).



With regards to course ranking, Estácio is among the ten best private universities in nine modalities :

Physical Education, Environmental Engineering, History, Language, Geography, Mathematica, Fashion, Pedagogy and Tourism.

IGC – General Course Index
% of Satisfactory Grades





Map of Brazil showing the distribution of Own Centers (blue pins) and Partners Centers (green pins). The map includes state names like Roraima, Amazonas, Pará, Maranhão, Ceará, Piauí, Tocantins, Bahia, Mato Grosso, Goiás, Minas Gerais, São Paulo, Rio de Janeiro, Santa Catarina, and Rio Grande do Sul. Neighboring countries like Guiana Francesa, Suriname, Guiana, Bolívia, Paraguai, Chile, and Argentina are also labeled. A legend in the bottom right corner identifies the pin types.

Partner Management Program “PEG Partners”



- Guidance
- Monitoring
- Evaluation
- Best Practices
- Awards

EFFICIENCY PROJECTS

Increased efficiency and cost savings

Pricing



- Higher granularity to define prices and revision of market variables
- Different approaches per offer depending on market features, performance, sensitivity and price
- Optimization of the discount and scholarship management model, driven by local information and flexible offers

REVENUE DRIVERS:



Implementation: beginning of 2019.1

Loyalty



- Reduce dropouts and improve student experience
- Implement an institutional program to welcome all freshmen
- Focus on students' journey (recruiting, performance and support)
- Cluster per student profile: Academic, financial and emotional vulnerability, and latecomers

REVENUE DRIVERS:



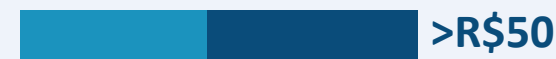
Amount already captured

Strategic Sourcing



- Optimization of 21 categories of the Company's global expenses
- Reduce both acquisition price and supplier base
- Improve quality and services delivered
- 17% of addressed expenses

COST/EXPENSE EFFICIENCY:



Amount already captured

Credit and Collection



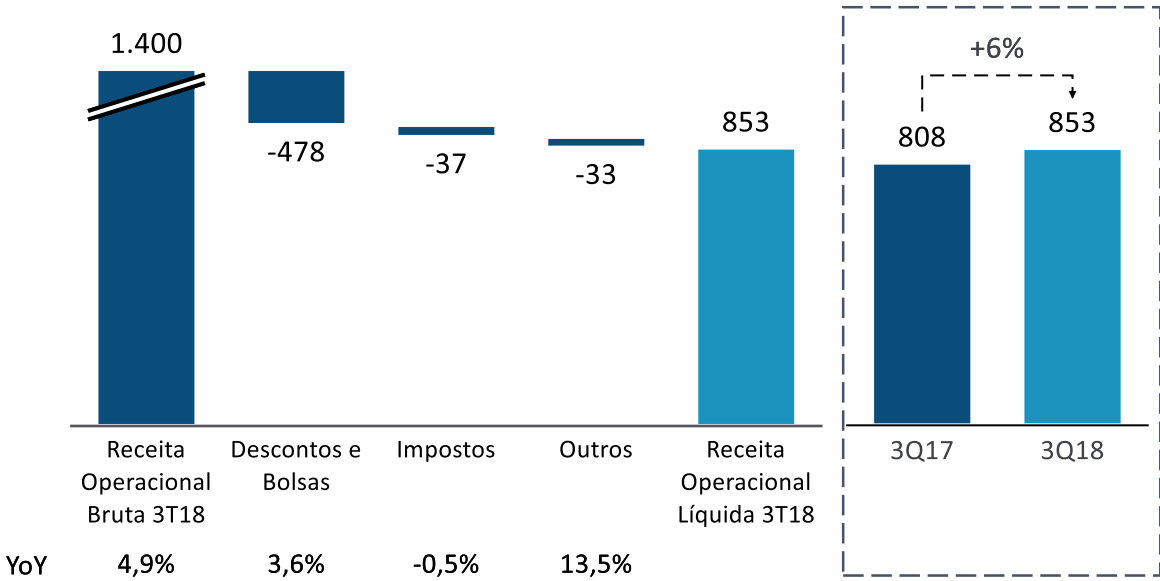
- Increase the overdue credit recovery volumes
- Improve the management of collection firms
- Customize initiatives for each overdue profile

EXPENSE EFFICIENCY:

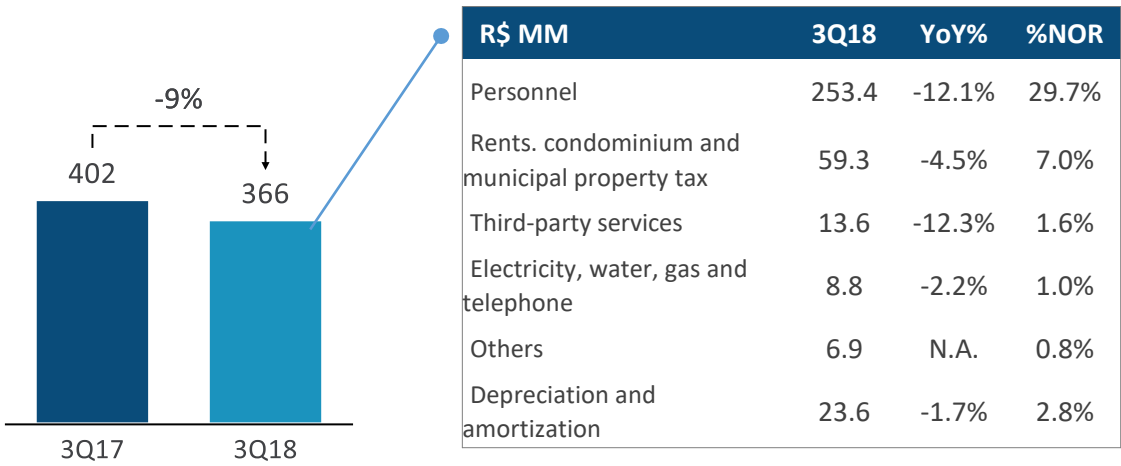


Amount already captured

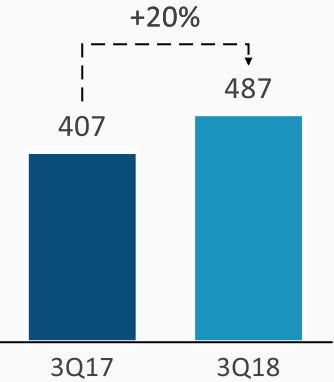
Net Revenue (R\$ MM)



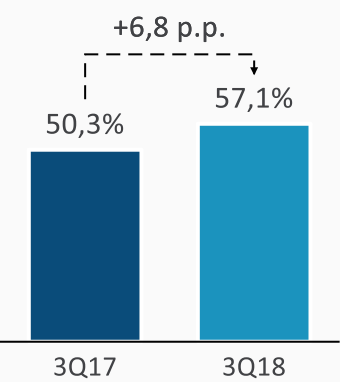
Cost of Services (R\$ MM)



Gross Profit (R\$ MM)

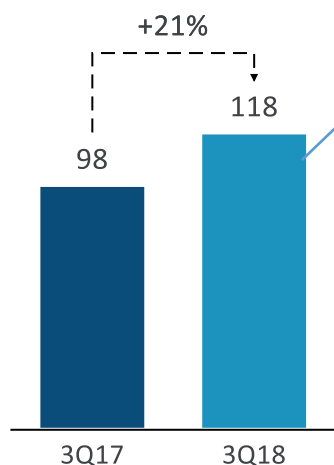


Gross Margin (%)



- Revenue growth supported by accuracy in the use of price, discount and scholarship drivers
- Emphasis on the strong control of Costs

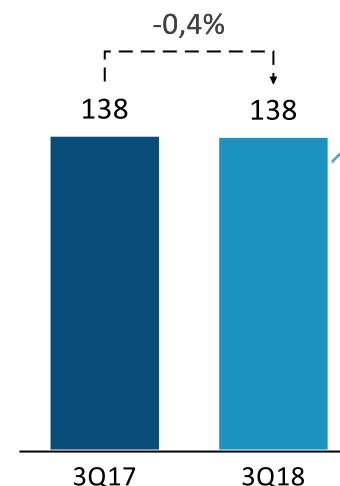
Selling Expenses (R\$ MM)



R\$ MM	3Q18	YoY%	%NOR	%ROL 9M
PDA	58.6	+56.3%	6.9%	8.0%
FIES Provisioning	0.2	-33.3%	N.A.	
Advertising	59.6	-0.2%	7.0%	

%NOR: 12.1% 12.9%

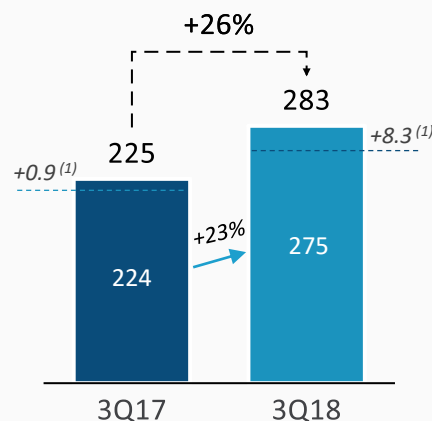
Administrative Expenses (R\$ MM)



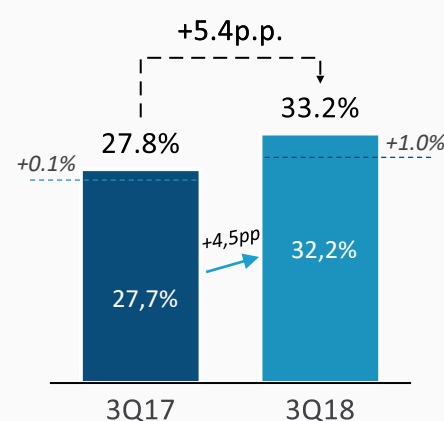
R\$ MM	3Q18	YoY%	%NOR
Personnel	42.1	+2.9%	4.9%
Third-party services	27.0	+21.1%	3.2%
Provision for contingencies	20.7	-12.7%	2.4%
Maintenance and repair	7.9	-15.1%	0.9%
Others	16.2	-7.3%	1.9%
Depreciation and amortization	23.8	-3.3%	2.8%

%NOR: 17.1% 16.2%

Adjusted EBITDA (R\$ MM)



Adjusted EBITDA Margin



- Higher expenses with PDA as a result of the increased share of the DIS in the intake process and strong growth of the distance-learning segment
- Expenses with third-party services boosted by costs with one-off consulting projects
- Solid EBITDA and Margin performance

⁽¹⁾ Adjustment of R\$8,250 thousand to non-recurring advisory expenses in 3Q18, and R\$900 thousand to one-off expenses with M&A in 3Q17.

CAPITAL ALLOCATION

Solid cash position

Cash Position and Net Debt (R\$ MM)

770.6



CASH (R\$ MM)

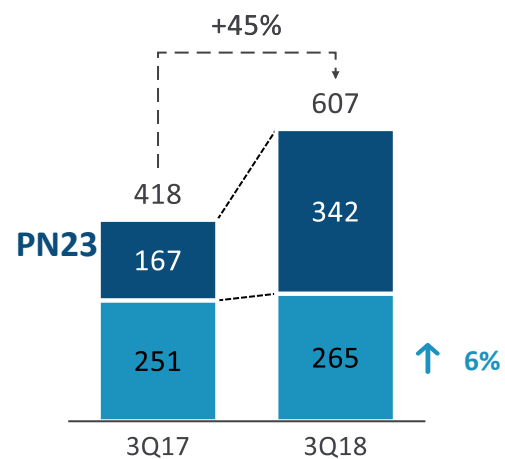
-0.3x



Net Debt / EBITDA

EBITDA to Cash Conversion⁽¹⁾ **63%** 9M18

Operating Cash Flow (R\$ MM)



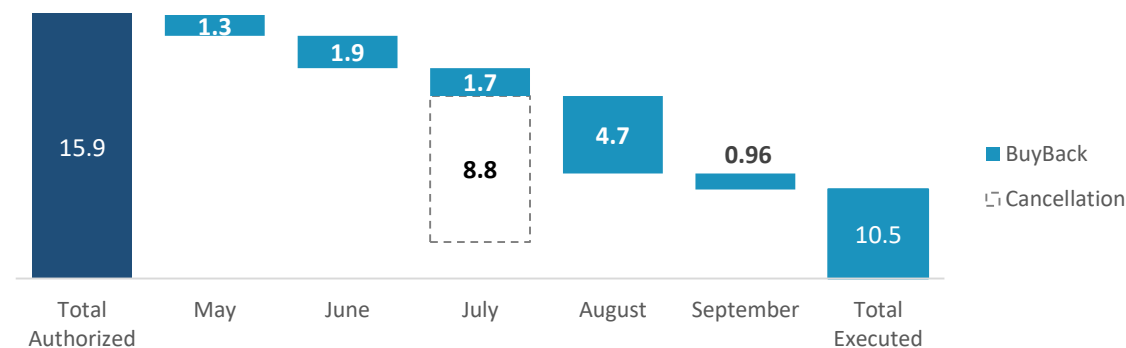
⁽¹⁾ Excluding the FIES PN23 installment: R\$ ~ 167MM (3Q17) and R\$ ~ 342MM (3Q18)

. Share buyback program

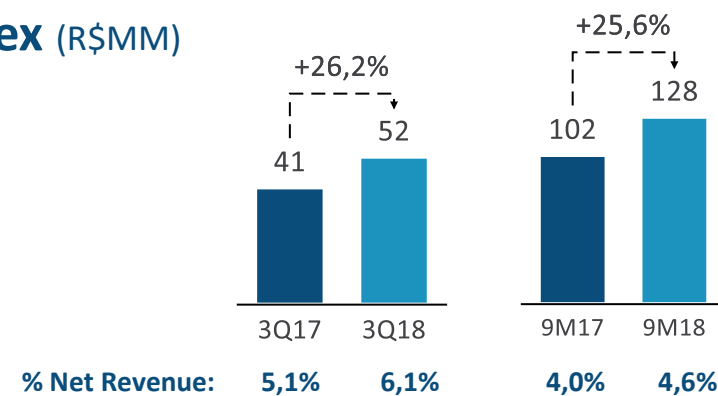
(In million shares)

2.9%

treasury shares



. Capex (R\$MM)

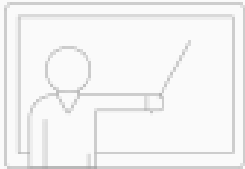


. Reinvest in the business

Financial products to new students

. Growth through M&A

The private higher education market has more than 140 for-profit and high quality institutions and approximately 2.9 million students.



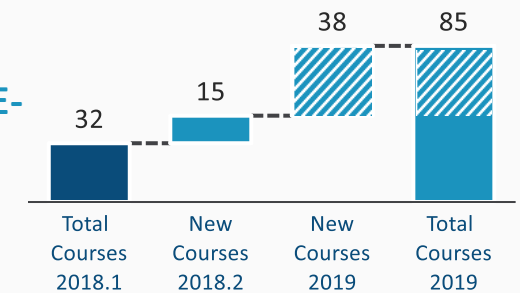
OPERATION

- ✓ **EXPANSION** of the efficiency projects
- ✓ **NPV** per student
- ✓ **NEW COURSES** and offers
- ✓ **Focus on STUDENT EXPERIENCE = RETENTION**
- ✓ **Expansion of the Medicine courses - 'MAIS MÉDICOS II'**



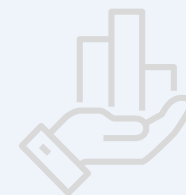
DISTANCE-LEARNING

- ✓ **More than 1,500 municipalities with potential to EXPAND IN THE DISTANCE-LEARNING SEGMENT**
- ✓ **+ 70 CENTERS** already contracted in 4Q18
- ✓ **+ 38 NEW COURSES** in 2019



FINANCES

- ✓ **Continued EFFICIENCY GAIN**
- ✓ **Solid CAPITAL STRUCTURE**
- ✓ **EXPANSION** of the business **MARGINS**
- ✓ **Improved CASH CONVERSION**



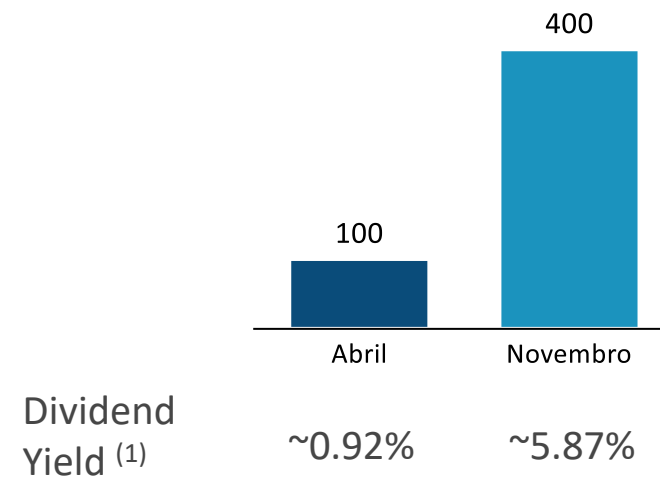
DISCIPLINE IN THE USE OF CASH

- ✓ **Maintenance of the BUYBACK PROGRAM**
- ✓ **Opportunity to EXPAND** student financing **PROGRAMS**
- ✓ **Analysis of POTENTIAL GROWTH THROUGH M&A**

Estácio announces to its shareholders and to the market in general that the meeting of the Board of Directors held on November 7th approved the payment of interim dividends, totaling R\$400 million, corresponding to R\$1.332831678 per share.

The shares will be traded ex-dividends as of November 16th, 2018 and the payment date is on December 21st.

Distribuição de Dividendos em 2018 (R\$MM)



⁽¹⁾ Calculated over the stock price on the date of the distribution approval.

THANK YOU!

CONTACT RI:

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