



2Q18 EARNINGS RELEASE

August 15, 2018



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Overview

2Q18 HIGHLIGHTS

+5.5%



Net Revenue
R\$ 963.7mn

+19.9%



Gross Profit
R\$ 536.1mn

+11.3%



EBITDA Adjusted
R\$ 283.5mn

+1.6p.p



**Adjusted EBITDA
Margin**
29.4%

	Average Ticket	Retention Rate
Distance-Learning:	+14.4%	+80.9% (+5.0p.p)
On-Campus:	+6,4%	+85.0% (+1.3p.p)

- ❑ NET OPERATING REVENUE totaled R\$963.7 million in 2Q18, 5.5% up over 2Q17.
- ❑ The CASH COST OF SERVICES accounted for 41.9% of net operating revenue in 2Q18, a 5.9 p.p. margin gain over 2Q17 as a result of ongoing projects and efforts to improve efficiency.
- ❑ The EBITDA totaled 274.1 million in 2Q18. The Adjusted EBITDA totaled R\$283.5 million, an increase of 11.3% over last year, with an Adjusted EBITDA Margin of 29.4%, +1.6 p.p. over 2Q17.
- ❑ NET INCOME reached R\$236.9 million, up 42.4% when compared to 2Q17.

Operating Performance

Growth strongly influenced by Distance-Learning expansion



Distance-Learning

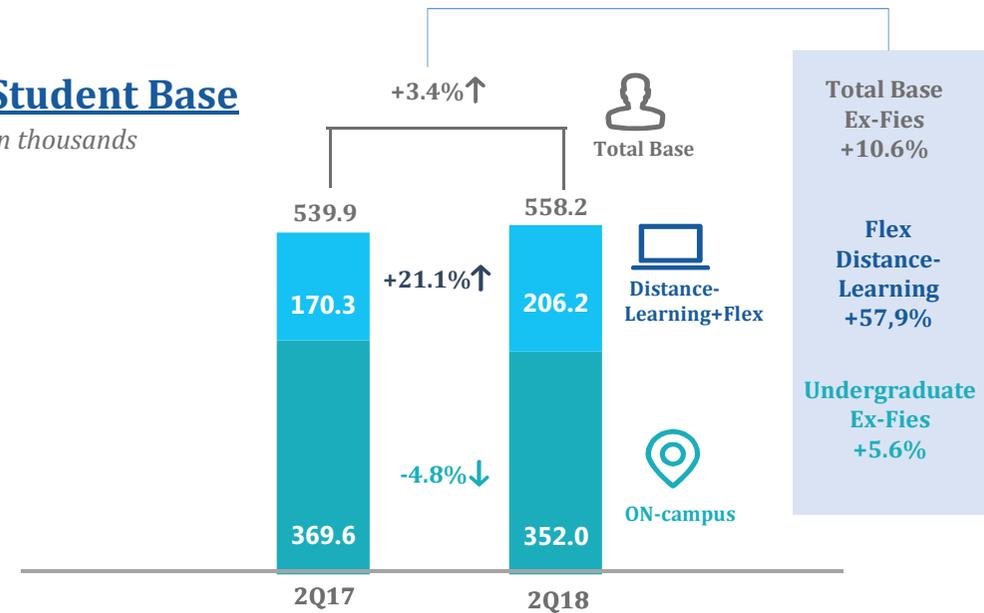
- 213 **New Centers** vs. 2Q17
- Increase in the **Flex Student Base** +57.9%
- Increase in **Retention Rate** +5.0 p.p.

On-campus

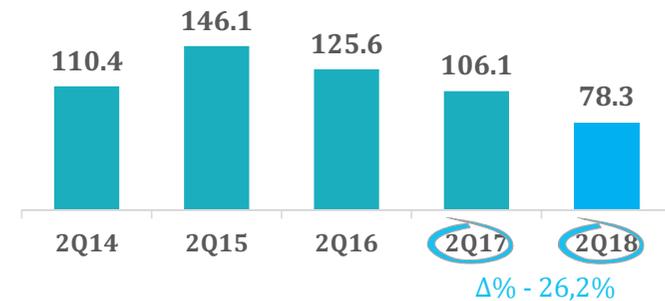
- Increase **Undergraduate Ex-FIES Base** +5.6%
- Increase in the **Retention Rate** +1.3 p.p.
- Portfolio growth: 250 courses on 1S18, and 2S18 will be offered more 81 new courses.

Student Base

In thousands



FIES Student Base



Note: total student base including undergraduate and graduate students.

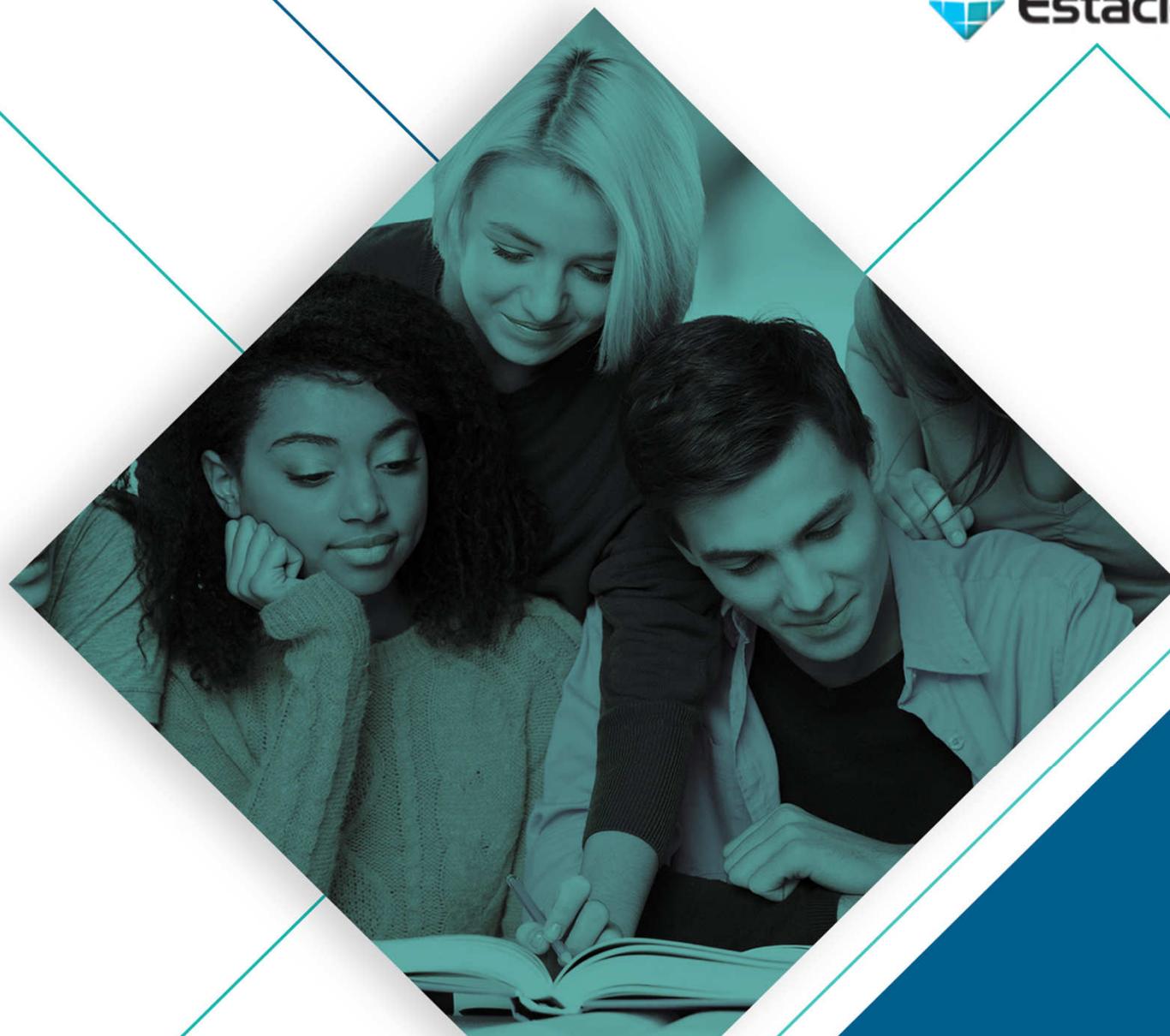
Average Ticket per Segment

Sustainable top line growth



R\$ MM	2Q17	2Q18	%
On-campus	751.6	799.8	+6.4%
Undergraduate	784.6	832.1	+6.1%
PAR Undergraduate	1,123.8	1,198.5	+6.6%
Graduate	255.7	245.3	-4.1%
Distance-Learning + Flex	239.2	273.7	+14.4%
Undergraduate	247.9	282.5	+14.0%
Flex Undergraduate	480.6	451.9	-6.0%
100% EAD Undergraduate	221.3	257.4	+16.3%
Graduate	175.4	200.9	+14.5%

- ❑ *Price adjustment of senior students in line of with the inflation costs and the DIS Campaign*
- ❑ *Flex pricing repositioning*



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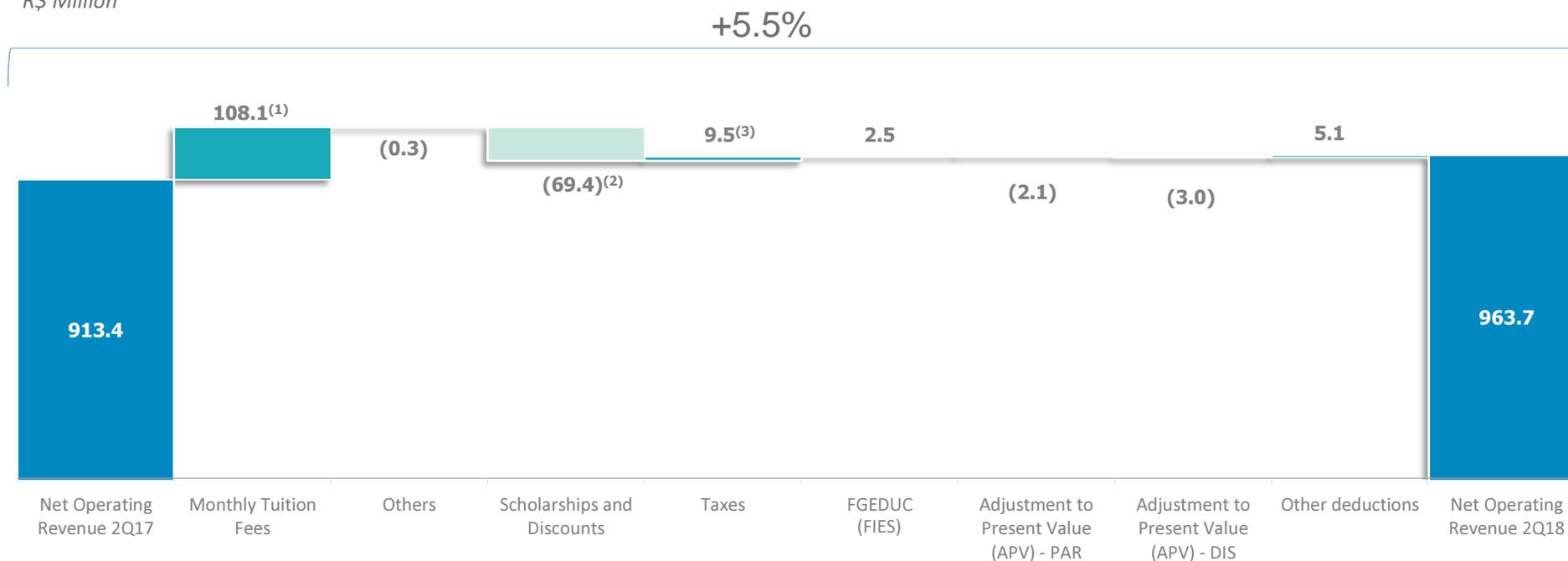
Financial Performance

Net Revenue



Growth due to Increase in Average Ticket and Retention Rates Improvement

R\$ Million



(1) Increase in average ticket and improvement in dropout levels.

(2) Maturation of students under the new pricing strategy

(3) Reversal of PIS and COFINS recorded in 1Q18, resulting from the temporary effect of the loss of the ProUni benefit, as detailed in the 1Q18 earnings release.

Operating Costs



Significant decrease in faculty costs

R\$ Million

% of Net Operating Revenue							Vertical Analysis (% of Net Operating Revenue)		
	2Q17	2Q18	%	6M17	6M18	%	6M17	6M18	Change
Cash Cost of Services	(436.8)	(404.0)	-7.5%	(832.6)	(763.9)	-8.3%	-48.1%	-40.2%	7.8 p.p.
Personnel	(340.3)	(302.9)	-11.0%	(644.7)	(575.1)	-10.8%	-37.2%	-30.3%	6.9 p.p.
Electricity, Water, gas and telephone	(12.0)	(13.1)	9.2%	(21.3)	(20.9)	-1.9%	-1.2%	-1.1%	0.1 p.p.
Rentals / Real Estate Taxes Expenses	(64.2)	(63.3)	-1.4%	(127.4)	(121.7)	-4.5%	-7.4%	-6.4%	0.9 p.p.
Post and Pouch	(1.1)	(0.5)	-54.5%	(1.7)	(0.9)	-47.1%	-0.1%	0.0%	0.1 p.p.
Textbooks Materials	(3.9)	(1.9)	-51.3%	(6.8)	(3.8)	-44.1%	-0.4%	-0.2%	0.2 p.p.
Third-Party Services - security and cleaning	(15.4)	(15.5)	0.6%	(30.8)	(30.1)	-2.3%	-1.8%	-1.6%	0.2 p.p.
Others	-	(6.9)	N.A.	-	(11.3)	N.A.	0.0%	-0.6%	-0.6 p.p.

- ❑ **Decrease in Faculty Costs:** new faculty career plan and higher sharing of disciplines in the curriculum matrices.
- ❑ **Operation Model:** R\$3.0 million non-recurring impact due to layoff payments in our branches
- ❑ **Rent Costs:** decrease due to the merger of campuses over the last twelve months

Selling, General and Administrative Expenses



New PDA Rules and new products

R\$ Million

(% of Net Operating Revenue)	2Q17			2Q18			%			Vertical Analysis (% of Net Operating Revenue)		
	2Q17	2Q18	%	6M17	6M18	%	6M17	6M18	%	6M17	6M18	%
Selling Expenses	(115.6)	(155.5)	34.5%	(227.2)	(277.3)	22.1%	-13.1%	-14.6%	-1.5 p.p.			
PDA	(65.3)	(120.1)	83.9%	(112.8)	(161.0)	42.7%	-6.5%	-8.5%	-2.0 p.p.			
Monthly Students	(61.5)	(85.3)	38.7%	(105.0)	(103.6)	-1.3%	-5.8%	-5.2%	0.6 p.p.			
PAR	(3.8)	(14.8)	289.5%	(7.9)	(22.6)	186.1%	-0.5%	-1.2%	-0.7 p.p.			
PAR dropout not renegotiated	-	(10.8)	N.A.	-	(10.8)	N.A.	-	-0.8%	N.A.			
DIS	-	(1.0)	N.A.	-	(15.6)	N.A.	-	-0.8%	N.A.			
DIS dropout not renegotiated	-	(7.3)	N.A.	-	(7.3)	N.A.	-	-0.4%	N.A.			
Others	-	(0.9)	N.A.	-	(1.1)	N.A.	-0.2%	-0.1%	N.A.			
FIES Provisioning	(0.3)	(0.3)	0.0%	(0.9)	(0.6)	-33.3%	-0.1%	0.0%	0.0 p.p.			
Marketing	(50.0)	(35.1)	-29.8%	(113.5)	(115.7)	1.9%	-6.6%	-6.1%	0.5 p.p.			
Selling, General and Administrative Cash Expenses	(105.3)	(126.9)	20.5%	(209.0)	(250.6)	19.9%	-12.1%	-13.2%	-1.1 p.p.			
Other	(1.8)	(3.3)	83.3%	5.1	(3.4)	N.A.	0.3%	-0.1%	-0.4 p.p.			

- ❑ **Marketing:** Higher concentration of online marketing investments on 1Q18 focused on enrollment and taking advantage of the world cup calendar
- ❑ **G&A:** Non-recurring consultancy Expenses (+R\$6.4 million on 2Q18 and +R\$11.5 million on 6M18)
- ❑ **PDA:** (i) Accounts Receivable Seasonality 1Q and 2Q (ii) Increase of 125,3% in PAR student base (iii) Provision for PAR dropout that did not renegotiate with the company (iv) DIS Provision (the program started in 2017) (v) Provision for DIS dropouts that did not renegotiate with the company

Net Income

Increase in EBITDA and Prouni Effect



R\$ MM	2Q17	2Q18	%	6M17	6M18	%
Gross Profit	447.3	536.1	19.9%	847.5	1,088.4	28.4%
EBITDA	254.0	274.1	7.9%	468.8	604.2	28.9%
Financial Result	(22.7)	(30.1)	32.6%	(60.3)	(56.2)	-6.8%
Depreciation and amortization	(53.9)	(48.0)	-10.9%	(100.2)	(96.5)	-3.7%
Social Contribution	(3.2)	10.5	-428.1%	(5.7)	(5.1)	-10.5%
Income Tax	(7.9)	30.3	-483.5%	(14.5)	(12.1)	-16.6%
Net Income	166.3	236.9	42.5%	288.1	434.3	50.7%
<i>Net Income Margin (%)</i>	<i>18.2%</i>	<i>24.6%</i>	<i>6.4 p.p.</i>	<i>16.6%</i>	<i>22.9%</i>	<i>6.2 p.p.</i>

- **Net Income:** (i) Gross profit improvements due to our efficiency initiatives (ii) Reestablishment of the Prouni tax benefit back to historical levels

Average Receivable Days

Maintenance of Average Receivable Days (Ex-FIES)



Receivable Days 2Q18: 126 (vs. 147 on 2Q17)

R\$ MM	2Q17	2Q18
Net Account Receivable	1,349.3	1,245.5
Net Account Receivable Ex-FIES	421.7	517.3
Net Revenue Ex-FIES*	2,016.3	2,484.6
Average non-FIES Receivables Days*	75	75

R\$ MM	2Q17	2Q18
Net Account Receivable FIES	927.5	728.2
Revenue FIES (last twelve months)	1,434.2	1,200.5
FGEDUC Deductions (last twelve months)*	(100.1)	(90.0)
Taxes (last twelve months)*	(58.1)	(49.1)
Net Revenue FIES (last twelve months)*	1,276.1	1,061.4
Receivables Days FIES	262	247

* Management figures changed due to the review in the allocation criterion by source of revenue (FIES and non-FIES). There were no changes to total accounts receivable and revenue disclosed.

□ **Receivable Days Ex-FIES:** Improvement in our receivable days despite new enrollment products (DIS & PAR).

□ **Receivable Days FIES:** 15 days reduction to the second installment of the FIES PN23 in August/17 (R\$167,4 million).

Net Debt & CAPEX

Solid Financial Position



R\$ MM	2Q17	2Q18
Shareholders' Equity	2,735.4	3,099.6
Cash & Cash Equivalents	542.3	401.0
Total Gross Debt	(1,157.8)	(500.8)
Loans and Financing	(1,033.7)	(426.4)
Short Term	(593.1)	(344.4)
Long Term	(440.6)	(81.9)
Commitments Payable (Acquisitions)	(109.5)	(62.8)
Taxes Paid in Installments	(14.6)	(11.7)
Net Debt	(615.5)	(99.9)
Net Debt/ EBTDA	0.7 x	0.11 x

- On August 2nd, Estácio received the transfer of FIES' last installment of PN23, totaling R\$342 million

- Higher investments in buildings and improvements in 2Q18, in line with the Company's expansion*

R\$ MM	2Q17	2Q18	%	6M17	6M18	%
Total CAPEX	33.9	38.5	13.6%	60.6	75.9	25.2%
Building and Improvements	10.6	14.7	38.5%	19.0	25.5	34.7%
Mobile. Machines. Equipment and Utensils	8.7	9.0	3.6%	15.4	19.5	26.5%
Software	9.0	8.2	-8.6%	16.4	18.6	13.2%
Projects	4.6	4.6	-0.3%	8.2	9.1	11.1%
Others	0.9	1.9	108.8%	1.6	3.1	95.2%
Total CAPEX/ Net Operating Revenue	3,7%	4,0%	-	60.6	75.9	25.2%

Fluxo de Caixa

EBITDA to Cash Flow before CAPEX conversion of 45.7%



R\$ MM	2Q17	2Q18	6M17	6M18
Profit before taxes and after results from discontinued operations	177.3	196.1	308.3	451.5
Adjustments to reconcile the result to the cash generated	168.2	205.4	320.7	335.8
Results after reconciliation to net cash generated	345.5	401.4	629.0	787.3
Change in assets and liabilities	(133.0)	(276.2)	(312.4)	(497.5)
Operating cash flow before Capex	212.6	125.2	316.6	289.8
Acquisition of property and equipment items	(20.2)	(25.6)	(36.0)	(48.2)
Acquisition of intangible assets	(13.6)	(12.8)	(24.6)	(27.7)
Cash flow from other investment activities	(6.7)	(9.8)	(21.7)	(26.0)
Operating cash flow after Capex	172.0	76.9	234.4	187.9
Cash flow from financing activities	(87.8)	(303.1)	(96.1)	(311.2)
Free cash flow	84.2	(226.2)	138.3	(123.5)
Cash at the beginning of the period	458.1	627.1	404.0	524.4
Increase (decrease) in cash	84.2	(226.2)	138.3	(123.5)
Cash at the end of the period	542.3	401.0	542.3	401.0
EBITDA	254.0	274.1	484.7	604.2
Operating cash flow before Capex / EBITDA*	83.7%	45.7%	65.3%	48.0%

* If we adjust the figure with ProUni effect, the cash conversion would be 64% in 2Q18. The conversion of 83.7% in 2Q17 is due to the seasonality of the FIES cash payments..

Final Takeaways

New Projects seeking to further improve our operational efficiency

- ❑ **Strategic sourcing** project;
- ❑ **Pricing** restructuring;
- ❑ **Loyalty** program;
- ❑ Improvement of the **Collection** model.



- ❑ **Growth:** new distance learning center partnerships, new courses and new on-campus units
- ❑ In July 2018, the rating agency S&P reaffirmed Estácio's rating at brAAA with a stable outlook
- ❑ Since April, Estácio repurchased R\$122.2 million in company's shares





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