

Ser Educacional S.A. 2Q21 Results Conference Call

Operator:

Good afternoon, and thank you for waiting. Welcome to our conference call to tell about the results of 2Q21 reports.

If you need simultaneous interpretation, we have this tool in the platform. In order to do so, click on the button 'interpretation' through the globe in the bottom part of the screen and choose the language you prefer, Portuguese or English. To the ones listening to the conference call in English, you can mute the original audio clicking in 'mute original audio'.

We inform that this conference call is being recorded and it will be available within the website of the Company, with the complete material available there.

During the presentation, all participants will be with in listening-only mode. After presentation, we will start the Q&A session for analysts and shareholders. You should click in 'Q&A' in the bottom part of our screen, putting our name and your company's name. If requested, a request to open your microphone will be on your screen, click there.

We highlight the information in this presentation and statements that could be done during this conference call related to business perspectives, projections and targets in Ser Educacional, they are assumptions for the Company, and also information available. Future estimations involve risks, uncertainties and assumptions because they are related to future events and therefore depend on circumstances that may or may not occur. Investors should understand that economic conditions, conditions in the industry and other operations factors may also affect the future performance of our Ser Educacional and may be different of the ones said to here.

I will now hand over to Jânnyo Diniz, CEO for Ser Educacional.

Jânnyo Diniz:

Hi, everyone. Thank you so much for being present in our quarterly highlights. Now we have a different format, with video and simultaneous interpretation. We hope you like it.

Let me show our results that were very important. We have a combined result of our base. We believe this is the inflection point base, because in this semester we are back with our results, and in the next quarter we will have more students enrollment in the hybrid, on campus and digital teaching. This way, we are going to speed up the net income growth.

Another important aspect is that the results reflect our objective of being a company with a higher education portfolio, more balance between digital teaching, hybrid and medicine.

The hybrid teaching represented 74% of our EBITDA in the last year, and then, after the mergers and the acquisitions, we consolidated in the last 12 months in Unijuazeiro, UNIFACIMED,

UNIFASB, Unesc and Beduka, and organic growth of our digital teaching represents 50% of majesty, corresponding to 35%, and digital, 50%. This diversification owns to our strategy to build an ecosystem of continued education, which is complete and maximizes the revenue on our assets.

This quarter, we announced two new acquisitions: FAEL, because it has strength in the offer of digital teaching, and CDMV/DOK, which increases our specialization in veterinary medicine market.

We are strengthening our continued education ecosystem with a course complete portfolio, with a multichannel supported by Ubiqua. Our course curricula and state of the art generation assures flexibility, scale, teaching quality, state of the art technology for our student base.

On slide five, we detail the evolution of our results as medicine school. We have a growth of results. We have a 65% occupation on our spots, and we have ongoing growth of result, and we also have a strong presence in Rondônia and the countryside of Bahia, two regions that grow a lot because of agrobusiness.

On slide six, we present the organic growth of our digital education, which presented the growth of the student base in 121%, and almost doubled the revenue and grew the EBITDA adjusted in 56%.

We executed our new strategic plan, and we could replace our teaching concept, our teaching grade of online digital teaching, having our course offer in this area, with lots of news and speeding up our distribution online. We have a customization of our modern course portfolio. In our pioneering in our market, we have been having very interesting results with lots of potential of growth and scalability.

On slide seven, we detail the acquisition strategic rationale of FAEL, and we have value generation potential, which is also strategic. Ser Educacional has specialized in offering digital teaching in our own unities through e-commerce. We have a multichannel offer and we need it to evolve in our learning units offer.

FAEL is a perfect fit for Ser Educacional. We have a presence which is very relevant in South and Southeast regions, and we also have a national-reach company with regional brands, which are strong.

Another important aspect is to have synergies in courses, especially because of the offer of courses in the health area and engineering in FAEL learning units. Now, they offer only humanities courses, but also because of optimization and utilization of brands in our learning units, and having the capacity to leverage operationally.

On slide eight, we show our acquisition, the most recent one, which is CDMV/DOK. We have on campus higher superior, which makes sense for the future, and with a growth trend in health and engineering segment because of the practical classes.

So we have a change of paradigm shift in our segment. The differential of CDMV/DOK is the focus on veterinary practice, in specialization and doctorates and master's degree, aiming specialization courses, which are complementary to the Ser Educacional graduation.

We have a differential in the current veterinary medicine undergraduate course, and also postgraduate courses and continued specialization courses based in practical classes. This way, we have sources of auxiliary revenue generation, broadening our social services into operations cities.

The theoretical contents will be digitized and will be part of Ser's ecosystem to be offered in all its platforms, in which we have sound regional brands, and we are going to have online courses with GoKursos and commercial partnerships.

Talking about it to GoKursos, on slide nine, we see that our online courses portal is evolving very fast. There are 5,000 courses in the market, and we launched at the end of June our newest version of the portal.

We have a platform to distribute courses with a powerful commercial model. We also have a modeling of sales by subscription. It is a very interesting way of doing it, and we are going to expand each time more our courses portfolio, so that we have a content base, which is very broad, so that we can explore many different ways, opening space for innovation and new growth avenues of revenue.

On slide 11, we have the results of students intake in the 1H. And as we have shown before in the presentation of last quarter, hybrid teaching ended up recovering well in the 2Q, and digital teaching followed growing because of all the investment. As a result of our overall intake, we had a 52% increase, what I understand that is important, especially in this period of pandemic with hybrid teaching, dropping only 10% in digital, with the growth of almost 200%.

We could grow around 22%, surpassing the 220 thousand students mark, and you will be able to see it on slide 12. And FAEL will permit us to have a better capillarity, and will benefit our proposal and different value for our students.

On slide 13, we have good news. Our average hybrid teaching ticket increased almost 9% in the quarter, supported by higher volume of medicine seats, and the growth of our student base in the health segment overall.

Our ticket presented a drop of 9%, especially because of the mix change. Other than that, as we showed in the higher education funding program in Brazil, it is a topic from the past, representing only 7% of our student base, showing that our Company could be profitable more than average.

These were my initial comments, and now João Aguiar will detail the results of the quarter with more details.

João Aguiar:

Thank you, Jânio. Thank you all, and thank you for sharing our results statement. Let us see the results of the quarter. We have very positive news in growing our net revenue, which was impacted by the growth of our student base and the recent acquisitions.

This is very important, especially because this semester was impacted by the pandemics and hybrid teaching did recover. So we have a very important vector of originated results from the 3Q on.

Let us detail the behavior of courses and expenditures. In the 2Q20 we had an atypical behavior. This happened because in that period there was the impact of isolation measures, what led Ser Educacional to reduce its expenditures in all fronts.

For this quarter, it is the opposite situation. We are investing again in organic growth, especially in the digital teaching in our recent acquisition, and they are still on its first synergy generation. This course is only beginning its optimization trajectory, because Ubiqua, our hybrid teaching methodology is still on its first cycle, and it will help us improve our performance.

In this, our adjusted EBITDA is 6% below the year. This happened because of the improvement of our revenue, combined with some margin contraction that tends to be temporary. The net income was impacted because of the financial result, because of our indebtedness, because of the acquisitions we have just announced.

Another factor that impacted income was the higher volume of granted discounts, that despite of our negotiation redirection, we will reduce the known income in the future, and then we will offer discounts, especially in the beginning of the pandemics.

On slide 15, we show our results by segment. As Jânio said, both digital teaching and our recent acquisition are having very good performances this year, and this is important in the superior and higher education, and now we expect to see hybrid teaching in the next quarter reducing the operational costs we had from the 3Q.

On slide 16, we present the net profit excluding IFRS 16 effects, that we have an impact in the semester of about R\$14 million in our results. This is because of the accounting impact of the application in our lease contracts.

On this slide 17, we show our receiving accounts. As you can see, it is on an inflection point, and it is a receivable longer cycle, but especially when we analyze the pro forma that we put on the graphics on the right side of this slide, including the revenue of the recent acquisition, considering the last 12 months to make the comparison more adequate.

We see a good flow of payments of students that were funded by FIES before, and the flow of payments of FIES is irregular and less representative in our results. We have a good coverage for delinquency, and we know that the level of provisioning has been higher, and it must have a better trajectory from 2022 onwards.

On slide 18, we present our operational cash pre and post CAPEX, and illustrate my previous comment. We are having a good recovery of payment flow in the semester. It is a trend we believe that is getting stronger from now on with the reduction of effects of the pandemics in our student base.

On slide 19, we have our CAPEX, where we do not have much news unless on the return of some activities. And our digital transformation plan and experience of students is being dealt as debt because they are this way.

Our financial debt passed of a net cash of R\$68 million to a net debt of R\$305 million, 1x our EBITDA adjusted in the 12 months. We had important investments for our future, including three medical school, and we clearly have a very comfortable financial position to consolidate acquiring, FAEL and CDMV, and other requires that are in our pipeline.

And I would talk to Dr. Jânnyo, who will have his final comments.

Jânnyo Diniz:

Thank you, Aguiar. Let us go to slide 22, following the presentation today, when we to talk about the ecosystem in our partners and acquisitions.

We have here a number of courses, technical courses as a brand recognized in the education market. This strategy, we have to deepen our content, making a close relationship with the student, bringing them to participate in a more active way in their curriculum.

This way, we want to combine acquisition and organic growth as a step to be a leader in our segment, and to have a very broad portfolio. In this sense, we were investing in the expense of our students, which are going to develop better in this new technological environment, with focus of growing our continuous education ecosystem, close to the reality of the market and bring a differentiated value for our students, customizing the way we educate, the way we teach, in an education that is different and more consistent, and to deliver for the society.

Thank you for being here. We are here to start the Q&A session.

Marcelo Santos, JPMorgan:

Good afternoon, everybody. I hope you guys are listening well. I have two questions. First, if you guys could tell a little bit more about the winter captures, and how this is impacting in the hybrid teaching and digital. And the environment of tickets, what you guys see, and in the hybrid and digital?

Jânnyo Diniz:

Good afternoon, Marcelo. As we said before, I would like to say that the students intake has been better than what we thought in the presential education, and it has been much better than we expected. And we are expecting better results for the for the end of the year.

At the end September, October, we are going to have the end of our studies intake, and that has been much better than what we thought. With the vaccination, here in Pernambuco we are having already people with 18 years old vaccinating, the protocols for on campus education are not very clear, but we are looking in a positive way for what we have foreseen.

And when we compare the 2H, the development we have there, this year have been much better. The vaccination is going to have a really good impact in the way we are going to continue doing business in education.

About the ticket, we have here the way we expect it, not much different. The discount we were giving here, we are not giving as much as we did before, until the end of the students intake, I think it will be better.

Marcelo Santos:

Thank you, Jânnyo.

Victor Tomita, Goldman Sachs:

Thank you very much. Good afternoon, everybody. Two questions we have here. First, could you guys comment on how the on campus and the hybrid system is going to work? How is this arriving in between the students? How is this the relationship between the hybrid system and the on campus system? How do you guys could like see the growth of income? And with demand and ticket, how much are you guys getting in the health courses and the general courses, in the way the intake and the tickets have an impact on this system?

Jânnyo Diniz:

Good afternoon. I am going to answer this question about the communication and intake of students, and we will connect with the second answer. There was a change in the behavior among the students and what they expect.

We are doing some research in our units, what they expect and if they are going to come back; More than 50% of the students do not want to come back to the campus. So when we talk about the intake of students in this new system, that is the answer for students who do not want to be on campus, and the hybrid system is going to be the solution, because some class you have to do on campus, but some classes you are able to do on the digital environment.

So like that, we can implement for the students more than 40% of the possibility of the course happening on online education. The communication is going to be done in a hybrid way. We are going to, step by step, do it in parallel, these systems.

Rodrigo Alves:

And about the second question, what we have to think here is that veterinary has a very high ticket among the courses in education, so those courses, they give the perception and a very

good income for the unit, and there is another interesting side that the veterinary hospitals themselves generate, in our perception, something between R\$3 and R\$4 million in sales each, with an EBITDA margin close to 20% to 25%. We want to expand this network of hospitals, and with this network of hospitals, we are going to have like 20 courses accredited. And in three years, these 20 veterinary hospitals, we are going to mature, and they are going to ripe. So we can have the best hospitals in our perception.

An interesting pricing ticket, with a less evasion tax average of students here, we are going to have on the extension courses, in postgraduation courses. With high education, we have to remember that veterinary is one of the doors for that. There are different segments in health education where you can expect this idea of ecosystem and hybrid system, maximizing the use of assets, making a better use of those assets and generating a better income and a differentiation of market where the units are, and making a better reputation of our units where they are inserted. Our competitors do not have the same force.

Leandro Bastos

Hello, everybody. I would like to ask a little bit about the costs in the 2Q. We see pressure in the numbers, as we thought, in relation to last year, and things going back to normal. My question would be, I would like to understand where we are on this process of normalization for the 2H, going to on campus education, and the way you guys see the costs on the 2H. I would like to know a little bit more about that.

João Aguiar:

Thank you, Leandro. What we can say, looking about the costs, the recurring costs, let us separate in two different ways. We have to talk about the costs that are going to have now with the economic return. So we have the effects here that happened in between the pandemic time, those operational costs, and the units went down.

But what is happening now in the costs environment is here, two or three. We have to talk about marketing. And when we want to talk about marketing, we have to talk about this process of implementing a bigger number of students, more income of students to have a better revenue.

Because of the pandemic, the accounts receivable, we have here some students that are working on paying their debts with us and go back. We see a growth of these elements, so capturing in PDA is going to take a little bit longer.

On this way, we have here the personal end service we deliver, that we have to invest in the structure to work on these situations and the relations we are going to talk about, like the relation in digital, and a better culture in the units and in the system.

Going forward with the system, we are going to have a better income and revenue, and this costs, we are going to have a better understanding and better impact. In the environment there, we have less interference on the macroeconomics because of the pandemic. We are going to have a better idea about that.

Leandro Bastos:

Thank you, Aguiar. Only to make it clearer, talking about 2H, is this already on or is this a gradual process?

João Aguiar:

It is a more gradual process, but the return we are having with their student intake process, the recovery, we understand we will have some dilution in these costs and expenditure. But it will need to be more gradual, and this dilution, we understand it will happen when the economy is back. Our expectation is that it happens in 2022.

Rodrigo Alves:

To help you understand, 2Q20 had an expenditure and cost atypical without on campus a student. So with less revenue, we could have more results. Now it is something reversed going on. Student base is growing again, the acquisitions helped us grow in one side, digital teaching helped does grow in the other side, and on campus suffered only a bit.

Now it is reversed. On campus will grow organically speaking from now, it has already happened. We will have a ramp up in the digital one, and medical schools are going on. So we need to dilute our cost structure.

Now, some items are back in this quarter. Which ones? Other expenditures, because of some provisions we had in labor processes, civil processes. Marketing is a little bit higher because of digital ramp up, but the revenue will dilute this. PDA is something that we are going to have back again.

So we are calm regarding our results. We are very well aligned with the budget made, and more interestingly, on campus teaching is back, and the hybrid model is being well accepted by the market as well.

Leandro Bastos:

Perfect, Rodrigo. Thank you so much.

Mauricio Cepeda, Credit Suisse:

Hi, everyone. Thank you so much for having my question. Let me have a step back about students intake, something more qualitative. What have you realized on this new intake on the 3Q, which is the profile of this student? Are they coming from high school, or are they students that dropped in the past and are coming back. What is the profile of this student?

And this seasonal thing, I was talking to other people in the segment, in the industry, we had a problem of getting hold back. Did this happen? Was it a change in the curve, or this year we are going to have a lower student team take regarding the 1H? I would like to understand the qualitative part in the student intake.

Regarding the other courses, the veterinary course, thank you for the idea. The society is turned to the animals. Would you do it in separate? How would you explore this markets better with the veterinary hospitals? Thank you so much.

Jânyo Diniz:

Thank you for the question. Regarding student intake, some things may be happening. This student intake moment was a bit lower compared with the other years, but 2020 was an atypical year.

We had a reduction because it was isolation first moments, people did not know what would happen and they were delaying decision making. And this kept going on until the end of the year. And the students are a little bit different to what happened to distance learning, they are older.

Hybrid teaching has been recovering better than what we expected. One part of it is due to the decision making process being delayed, and this does not justify this growth. The other one is that things will return to normality, on campus classes will return and the economy will go back to the track, and this has been happening in a meaningful way.

The intake a student process is going back to the time previous to lockdown, to pandemics. It has curve that is similar to the years before the pandemic.

Rodrigo Alves:

According to the second question, DOK team, we have an executive that will be on a technical role in operating the veterinary hospitals, and we would like to be on this business. The acquisition of CDMV/DOK is an specific legal entity that is going to manage the clinics, and our DOK model will be expanded into other 19 veterinary accreditations, and I believe we are building an acquisition pipeline of other hospitals, of course, if we have a good price level, a fair price level.

We believe on this, and it illustrates the ecosystem concept that puts together hybrid models and on campus models. All the CDMV content is being digitalized, and it will be offered in every Ser Educacional channels, the other brands, the other courses. So this is a project that works in this segment and it can be transported to other ones as well.

Jânyo Diniz:

Only complementing, these acquisitions have been recurrent. We will operate especially in the edtechs, and now with veterinary medical school. The founders look at the inside of the business and help us escape this new model.

In this specific case of CDMV/DOK, it is a win-win situation. They put together learning and training in the hospitals, alongside with hospital operations, and also the pet shop part that follows it. But with the specific focus in how nice this business is, they ended up training in the hospital with the practical classes in a differentiated way. We have a public profile that comes from graduation, and they end up offering professionalization courses that can be scaled and transferred for all our other units, as it happened to our veterinary hospital in Guarulhos, São Paulo, and they end up transferring this for our undergraduate course, a prestige that ends up being moved for the hospitals as well. So both end up winning.

We increase the ticket numbers and the volume of students as well, and this goes for our third digital channel, these ecosystems of continued education that offer as well these health area courses.

Mauricio Cepeda:

It is crystal clear. Thank you so much for your answers.

Vinicius Ribeiro, UBS:

Good afternoon, everyone, I hope you are all well. There are two questions here. First, about M&A. After the student intake process, do you consider M&A activities? Are you going to have a window to have a consolidation moment as you had before?

Second question, about hybrid teaching, hybrid education. As 40% online learning and the downsize of operations, does it make sense to imagine a higher margin for hybrid education, to convince these students to go to the hybrid teaching? It should be a lower price.

Rodrigo Alves:

Regarding M&A, we used to say May is the bride's month, and in the rest of the year we have all the transactions in the market. The market is so warmed up that we do not have a bride's month anymore. Every month we have all kinds of transactions, and we have been focusing in the edtechs and in assets that can generate a networking effect. Combined the two, they can support building the ecosystem that we have been working on.

Beduka, for example, they do not have an edtech, and we bought some medical schools, and FAEL, which was the online learning that we have now. So we have been still focusing M&A transactions on these streams.

The 2H more dedicated to edtechs, more than on campus transactions. Even medical school, we have a good volume of seats, we may have more seats added, but the main focus is the digital one.

The other question was about hybrid's education. How was hybrid implanted in Ser Educacional? We have a new curriculum matrix, which is Ubiqua, and we could acquire flexibility in the academic model that we found the best one to offer to our students.

Having said that, Ubiqua's implementation happened in parts. The first part was the 1H, and the second completely hybrid intake will be in the 2H. Thinking costs and expenditure, we will have a massive improvement of our teaching professionals when we have Ubiqua penetrating on our student base. And on another side, we have been adjusting since 2017 our real estate park.

It has not been different now. The only difference is that, from now on, we have a tendency of having less devolution of real estate.

Now, we do not see the need to return a real estate, to drop a real estate, and now we see a response on our overall student intake with the hybrid having better responses. And so, having more students, we do not need to drop having some real estate.

Now, it is not very well leveraged operation-wise because we had that drop of on campus students. So we intend to have operational releverage because great part of work was done.

Jânyo Diniz:

Regarding the expectation of students as the Ubiqua pedagogical model, students end up accepting it, because there are some disciplines that end up being online. So we mix on campus classes and distance classes done remotely. This way we can have more students from other states and other countries because we have a partnership with other schools in other countries.

So the students have some disciplines, some subjects that are 100% online, having the content online. So they do not feel the difference of going 100% or 60% on campus to online.

In this mix, we have partnership with great companies like Google, for example, to have courses in some subjects to our students. These subjects are online, and the online classes are synchronous for all of them. So it is a complete change, a complete shift to our pedagogical model that had to be implemented before the pandemics, and has been growing a change of behavior of the students.

Vinicius Ribeiro:

Perfect. Thank you so much for your answers.

Lucas Marquesini, Itaú BBA:

Good afternoon, everybody. Thank you for being here. I would like to know how environment when you talk about this M&A specific field.

Rodrigo Alves:

Edtech environment is very different for us. Historically, our acquisitions have been presential acquisitions. May be some things on EAD, remote education. In this process, we will bring Beduka for our house, and we have new platforms when we adapt the way we look at this business, and the way they make commerce.

So with our team, we could adapt in a very fast way. So we have a pipeline of edtechs. We have two groups, one is what we call the one that generates revenue, they have a focus in bringing revenue for us. And the other one is also part from Beduka as well that they had before, and what we want to do is to better the attention we give to the students, the way we make the students feel. It is a different focus. And a third focus we have here is the edtechs that can better our robotization, the service we deliver.

We have three different aspects, but related to the same business model. And we have a big focus on this field, and our team is working very hard with entrepreneurs to understand the way we can get value from that. In the 2H, we are going to harvest some fruits from this field.

Lucas Marquesini:

Thank you very much.

Christian:

Hello. I hope you guys are hearing me. I would like to know a little bit about the discount policy, the effect this had on the pandemic time now, if you guys have any gap to close, and what you guys want to keep working on this subject for the next years?

Jânyo Diniz:

When we talk about price, I have to talk a little bit about all history. Higher education performs better when the economic situation is better, or when there is some kind of educational financing. We do not have much public education financing for higher education in Brazil. So our economics are not performing well and this has a very hard impact in higher education. And this makes bigger the demand for discounts.

What we expect now for the economic growth is not looking well. So what we have to see and think about here is that we have a smaller volume of discounts, and we had to research and see the price per course, per unit, to see how this unit and this course could be competitive in its field, in its region. So we have to think about pricing in the environment it sits.

From last year to this year, we had to think very much about some projects of law that want to have impact on the education, and we could like fight that from last year, and we have to see here in the way the courses are situated, and we have a big pressure on the price here, because people want to study less, people have less money to study, and then have to adapt our price to that.

We are seeing the possibilities of growth now, so we can also think about a better pricing system for us. With the better stability of economy, we can think about better prices, and then we believe soon we are going to have a better impact on the pricing.

Christian:

Thank you very much.

Operator:

Our Q&A session is closed. We would like to give now the floor for the Company.

Jânyo Diniz:

I would like to thank everybody who was here on this conference, where we could talk about the results, and we could show our strategic change and what we have been implementing, and what is the circle of life of the students that decided to study with us, and then when they change into a professional.

This system of education we have here in digital field, we are doing some acquisitions that are going to have a big impact in what we are delivering. First, the students finish the middle school, they have to decide on what they are going to study and where to study, and if they can pay for it.

And with this model we are building now, we help the students make these decisions. What they are going, where they are going to study, which institutions they are going to choose, what kind of courses, and remembering how much the student has to pay for the course.

After the student does this course, they are going to look for a job, and this finishes the circle about choosing the profession, having the training. And then, after the circle, they come back when they want to change the field or where they want to do some postgraduation, and we are delivering. This whole package for the students, so we can bring technological products that make this continuous education system possible for the students to be training, to be a better professional, and deliver a better service for the student. And that is going to happen on the next months and years.

So we finish here showing a little bit what is our new concept in this way of education, and our harvesting and capturing of students that we have here on this hybrid system, on campus and online.

I would like to say thank you for our team. If you guys have any questions, please contact us. Good afternoon. Thank you very much for being here with us.

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