Operator:

Good morning, ladies and gentlemen. Thank you for standing by and welcome to Estácio's conference call to discuss the results for the 4Q17. This event is also being broadcast simultaneously on the Internet, via webcast, which can be accessed on the Company's IR website: www.estacioparticipacoes.com.br/ir.

We would like to inform you that all participants will only be able to listen to the call during the presentation. We will then begin the Q&A session, when further instructions will be given. Should you need any assistance during the conference please request the operator's help by pressing *0. Please also note that this event is being recorded.

This conference call may contain forward-looking statements that are subject to risks and uncertainties that could cause the Company's actual results to differ materially from those in the forward-looking statements. Such statements speak only as of the date they are made, and the Company is under no obligation to update them in light of new information.

I will now turn the conference over to Mr. Pedro Thompson, the Company's CEO. Please, Mr. Thompson, you may proceed.

Pedro Thompson:

Thank you. Good morning, everyone. Welcome to our conference call to discuss the results for the 4Q17 and year 2017. Leonardo Moretzsohn, our CFO and; Flávia, our Head of IR are here with me. Just to remind you all, there will be a Q&A session as soon as the presentation is over.

Beginning on slide two of our presentation available on our IR website, I would like to make a short review of what 2017 was for Estácio. Since 2016, when significant changes took place in the Company's management, Estácio has undergone a restructuring process, the result of which has already been observed during this last exercise.

Until CADE's judgment on the merger with Kroton, we focused our efforts on redesigning the funding strategy through fewer initiatives, but with short- and medium-term results. Such actions can be organized into four major work fronts. The first of these was the new intake structure, which we started operating in the first semester of the 2017 capture.

With it, we now have a healthier student base, with average ticket increase and improved retention rates. This strategy was also instrumental in overcoming the effects of the reduction of the FIES student base, which fell by 20.4% in 2017. It is important to note that the non-FIES student base, however, increased by 3.9% due to factors such as the changes implemented in the commercial strategy, the launch of PAR, among others.

The second work front was the optimization of processes in the management of faculty costs. With the goal of improving the efficiency of our operations without affecting the quality of service provided to students, we implemented throughout 2017 several measures to improve the faculty sector productivity.

These initiatives will soon be detailed by our CFO, who has allowed us to increase by 4.5% the average number of students per class in the on-campus segment and by 124% in the distance-learning segment. Another major transformation that I consider very important was the distance learning restructuring. With the new regulation implemented in 2017, we are now authorized to launch 350 new units annually.

As a result of the restructuring, the organic expansion of the business units ended 2017 at 394 active units – almost double the amount we were operating at the end of 2016, which contributed to the resumption of growth in our student base after good intake and improved cycles in the renewal and evasion indicators.

The last work front I would like to highlight was the rationalization of marketing expenses. We migrated from an institutional marketing model to a model that contemplates regionalized campaigns, always focusing on a higher return of allocations of capital.

Continuing with our short review of 2017, as of July, after CADE's unfavorable decision on the transaction with Kroton, we developed a plan with more disruptive actions, planning an even better evolution in the Company's profitability. This plan began to be implemented at the end of the year and has three main work fronts.

The first front is the Organization's restructuring based on the implementation of a new FCP – Faculty Career Plan –, which in addition to providing productivity gains, should improve motivational and technical factors and also work on the climate of our faculty.

The second front is the footprint review. As we said on the last Estácio Day in November last year, we conducted an internal benchmark process in which we evaluated several values to assess the performance of each unit. Accordingly, we were able to prepare individual action plans for the unprofitable units, involving actions such as the merging of units, the review of the portfolio of courses offered, pricing, among others.

Therefore, we decided for the merging of activities of eight of our units during 2018, five now at the beginning of the year, and the other three at the 2H18. It is important to remember that the students of these units will be transferred to nearby units. We remind you that in 2017 we had already closed activities on five campuses and we did not have any disruption due to this movement.

Another good opportunity for efficiency gains will be the reassessment of the academic model. Although nationally integrated, and with unique features, such as the nationalization of the curriculum and the standardization of our own teaching resources, our educational model needed to be updated to increase productivity. Therefore, we reviewed the curriculum matrix that is now being implemented in 2018.

Our goal is to increase the sharing of disciplines between courses and also to offer more hybrid disciplines. The result of this review also foresees a more efficient class formation process such as a continuous improvement in our academic quality indicators.

Moving on to slide three, we can see the chart of the results of our organizational climate survey, which we carry out every year with the help of a renowned external consultancy company. At this point, it is important to notice that even through a very complex period in our history, our indicators did not fall. We remain with 74% favorability, which reinforces how much Estácio’s employees are engaged with the project being developed.

This was only possible because we seek to act with great transparency toward all our stakeholders and mainly toward our employees. Without them we would not be able to achieve the results we will show you here today. I now give the floor to our head of IR, Flávia Oliveira, who will comment on our operating results.

Flávia Oliveira:

Thank you, Pedro. Good morning, everyone. I am going to begin by talking about our student base on slide number four. As we can see in the graph, our student base grew by 1.5% year-on-year, totaling 516,000 students, mostly pulled by the 17% increase in the distance-learning student base, thanks to the initiatives, including the performance base clusterization of partner centers in order to better align incentives and results.

In addition, we closed 2017 with 394 distance-learning centers – an increase of 185 centers in relation to 2016. The distance-learning growth offset the 4.8% decline in the on-campus student base, which was under the effects of the 20% decrease in the FIES student base at the end of 2017 and the changes implemented in the intake strategy, aiming at a more sustainable student base.

Excluding the effect from the decrease in the FIES student base, the non-FIES student base would increase by 3.9%. It is worth noting that the objective of fostering a more sustainable student base, reducing discount and scholarship and ensuring student’s financial commitment in order to conclude the enrollment process has led to an improvement of 1.6 p.p. in the retention rate of our students.

Moving on to slide number five, I am now going to talk about our average ticket. We continue requesting the current pricing strategy. The on-campus average ticket moved up by 10% to R$742, while the on-campus undergraduate average ticket climbed 10% to R$770, thanks to the new pricing strategy adopted by Estácio in the 1H17 inside the cycle, as well as the discontinuance of exemptions and the restructuring of scholarships and discounts, fully enhanced by the present value per student.

The on-campus graduate average ticket increased by 8% over the same period last year, amounting to R$300. At the end of 2017, the distance-learning average ticket moved up by 5.9% over 2016 to R$224. In the distance learning undergraduate segment, average ticket increased by 2.4% to R$230 and over 47.8% to R$189 in the undergraduate segment compared to the same period last year.

I will now turn the floor over to our CFO, Leonardo Moretzsohn, who will talk about our financial performance.

Leonardo Moretzsohn:

Thank you very much, Flávia. Good morning, everyone. I will talk about some highlights in our financial results in 2017 on slide six. Our net revenues reached R$3.4 billion in 2017 – an increase of 6.1% and R$191.4 million compared to the same period of 2016. The results of adjusted EBITDA in 2017 reached R$943.9 million with a margin of 27.9%, growing at 39.5% and 6.7 p.p. in relation to the previous year.

In order to preserve results on an adjusted basis, we have excluded the effects of the organizational restructuring, in the total amount of R$117.1 million, and the footprint division in the amount of R$18.4 million, chiefly due to the provision of non-recurring costs and expenses arising from the closure of eight units that will be merged into other units.

In addition, we decided to make one-off entries in the 4Q17 results, of which I am going to highlight the following: first, R$26.8 million from the write-off of the discharge policy in the provision for the contingency line.

Second, R$14 million with the intended launch of *Nova Academia do Concurso,* a company acquired in 2011 that focuses on preparatory courses for civil service examinations, but whose results recorded over the last few years, along with the future prospects of this investment, did not sustain the amount of goodwill recorded at the time of acquisition.

Third: R$7.1 million due to the review of the provision of receivables from the rental of business areas and some acquired companies. Fourth: R$3.3 million due to the write-of of tax credit that has not been realized and are not guaranteed to be. Fifth: R$6.4 million in provisions for doubtful accounts, of which R$ 3.4 million relate to the provision of the receivable sales from previous years and R$3 million due to the provisions related to a private financing program previously applied in acquired companies.

Finally, R$1.7 million due to M&A costs that were in progress on 2017. Moving to slide seven, we can see the net revenue in 2017. As we can see, net revenue in 2017 came to R$3.4 billion – 6.1% up compared to 2016 – especially due to the R$631.1 million increase in revenues from monthly tuition, an increase of 13.3% over 2016, due to a more sustainable student base.

An increase of 10.6% and 5.9% in on-campus and distance learning average tickets, respectively. An R$11.6 million reduction from PRONATEC revenues, due to the graduation of the last students in this segment. A R$12.9 million reduction in other revenues, mainly due to the end of the Rio 2016 project in relation to the whole-year training for the Olympic Games.

The R$374 million increase in discounts and scholarships corresponds to an increase of 3.7 p.p. in gross operating revenue from 2017 when compared to the previous year, as the result of our new pricing strategy for new students. With these strategies, the increase in discounts is offset by the R$600 million increase in gross revenues.

The R$18.9 million upturn in taxes along with revenue growth remaining unchanged at 2.8% in gross revenues. R$7.4 million increase in FGEDUC, mainly due to the FIES rate, which increased by R$11.4 million this year since it began to be applied only as from 3Q16.

It is also worth noting that in 2017 we launched Estácio's private financing program, PAR, with approximately R$11.1 million registered in gross revenue reduction, due to the adjusted student value from the program. Skipping to slide eight, I will talk a little bit about operation projects.

Our adjusted cash profit represented 46.2% of the net operating revenue at the end of 2017 vs. 53.3% in the same period last year, representing 7.2 p.p. in margin gains. This gain was mainly due to the increase in the personnel line. Also the tax gross material line contributed to this gain, resulting from the increase in the use of (phone booths, migrating to digital formats and better inventory levels.

In relation to the personnel line, it is important to mention that, as Pedro mentioned before, we are implementing a restructuring project to provide productivity gains and structural improvements. This project involves the dismissal of employees, leading to a one-off impact of R$115.3 million in the personnel costs in the 4Q17.

It is very important to remember that it had the effect one-off items, of R$10.1 million, due to the revision of contingency due to the adjustment of benefits in 2Q16. Excluding these effects, on an adjusted base, the personnel line would show an improvement of 6 p.p., accounting for 35.3% in net operating revenues.

This result is related to the universalization of 10% of online courses and on-campus curriculum, alternative tests, the expansion of equivalent subjects, the offer of probation classes and also earlier start time of night classes.

This restructuring has led to an increase of 12.5% in the average number of students per class in the on-campus segment. Additionally, in the distance-learning segment we implemented initiatives to improve faculty efficiency and response time in interaction with students, resulting in an increase of 124% in the average of students per class in December, without affecting the quality of the service provided.

The third initiative refers also to the distance-learning disciplines and also benefitted the online disciplines available on the on-campus segment. Moving to slide nine, we see operating expenses. In 2017 adjusted selling expenses represented 4% of the net operating revenues, with a margin gain of 1.6 p.p. over the year of 2016.

To analyze the adjusted performance we need to exclude the following non-recurring effects. First, receivable sales in 2016 in the amount of R$47.1 million; second the PVA – Estácio's installment payment program (PAR), which was released in 1H17, totaling R$30.8 million – and also the receivables on portfolio sales in prior years and Kroton's installments payment that existed in an acquired company in the amount of R $ 6.4 million.

In 2017, general and administrative expenses accounted for 13.5% of the net operating revenues, up by 1.1 p.p. compared to 2016 due to the impact of provisions for the contingency line. Conversely, it should be noted that the expenses in 2017 decreased by approximately R$10 million, mainly due to the reduction in expenses, with consulting in data communication.

In addition, expenses with institutional events were reduced by R$40 million due to the end of the Rio 2016 project. One more slide. On slide ten we can see that net income for year 2017 totaled R$424.6 million – an increase of 16.3% when compared to year 2016, mainly due to the increase of R$35.4 million in EBITDA in this period. It is important to mention that the financial results that were reported in 2017 recorded an increase of 29.2% in relation to 2016, mainly due to the following:

- FIES receivable adjusted revenues, which decreased R$21.3 million due to the retraction in the balance of the FIES accounts receivables after the payment of the second installment of PN23, which we received by mid-2017;

- Revenues from financial investment returns, which dropped by R$14.4 million, mainly due to the fall in interest rates, since the remuneration of our financial assets is linked to the CDI variation.
- Due to the financial discounts, which increased by approximately R$13.3 billion due to the campaign we conducted to recover credits from defaulting students, especially those students who stopped studying because they were discontinued from the FIES program; and

- Finally, adjustment of contingencies, which increased by R$10.1 million, referring to the fines and interest paid on convictions.

On slide eleven we present our average receivables days. The average FIES receivables days at the end of 2017 showed a reduction of 23 days in relation to the same period of 2016, totaling 127 days. The average of non-FIES receivable days, on the other hand, increased by three days in relation to the previous year, mainly due to the only installment we began to offer in the 1H17.

In 2017, Estácio's average receivable days totaled 190 days – a reduction of 23 days compared to 2016. We remain focused on the process of improving our policies or campaigns to collect and renegotiate student debt.

On slide 12 we show, in the first table, the information about our capitalization in cash. At the end of 2017, our cash and cash equivalent totaled R$524.1 million. Conservatively, we invested in fixed-income instruments pegged to the CDI rate and Federal Government bonds and certificates of deposit of first-tier national banks.

Our bank indebtedness of R $ 567.3 million basically corresponded to our debenture issues, financing lines with IFC, issuance of promissory notes, subsidized financing with regional development agencies and banks, and capitalization of leasing with equipment in compliance with Law 11,638.
The reduction of R$465.2 million compared to the previous year was mainly due to the settlement of the third issuance of debentures in the total amount of R$197 million in September last year and the payment of the first tranche of the promissory notes issuance, in the amount of R$187 million in November 2017.

In addition, bank loan commitments and payments related to the acquisition, in the total amount of R$ 87.1 million, combined with the tax payable installment of R$14.6 million, and gross debt, which totaled R$669 million at the end of 2017.

As a result, the Company's net debt reached R$144.6 million at the end of last year, 0.6x the adjusted EBITDA for the period. It is important to highlight that our debt level and operating cash flow allowed the Company to conduct operational activities, honor its financial commitments and implement new expansion and growth strategies through the use of its own funds and the contracting of loans and funding for such purposes.

On this slide, we can also show the CAPEX during this period. Last year – 2017 – we invested approximately R$153.8 million, a reduction of 17.7% over the same period of 2016.

Now moving to slide 13, I would like to talk about what I consider to be the great highlight of our results this year. In 2017, our adjusted operating cash flow was positive by R$913.8 million – a significant increase of 213%, which corresponds to an increase of R$621.8 million when compared to the same period of 2016.

In addition to the increase in operating income, the increase of R$328.3 million in revenues – non-FIES – also contributed to this improvement, due to a new pricing strategy and to a more sustainable student base.

EBITDA and cash conversion reached 96.8% at the end of 2017, proving, once again, the effectiveness of our cash generation strategy. Now I will turn to our CEO, Pedro Thompson, for his closing remarks.

Pedro Thompson:

Thank you, Moretzsohn. Turning now to slide 14, I want to conclude in line with the slide that our CFO, Leonardo, has just presented, by reminding you that Estácio is in a very opportune moment. Our solid financial position and the prospect of keeping the pace of performance improvement over the coming cycles with greater process control transparency motivates our entire team to continue delivering results and preparing Estácio for a new phase of growth and expansion.

2018 will continue to be a year of hard work for all of us here at Estácio, especially in relation to efficiency gains, but we are confident in our execution capacities. We can now move on to the Q&A session. Thank you all.

Operator:

And so with no questions, I would like to turn the floor over to Pedro Thompson for his closing remarks. Mr. Thompson, the floor is yours for closing remarks, Sir.

Pedro Thompson:

I would like to thank you all for having participated in our results conference call. Our Investor Relations department is always at your disposal to help you with any questions you may have. Our contact information is available on our website. We hope to see you again at our conference call next quarter. Once again, thank you very much and have a great day.

Operator:

Thank you. Estácio's Participações conference is now over. Thank you all for joining us and have a nice day.