OPERATOR:

Good morning, ladies and gentlemen, thank you for standing by and welcome to Estácio's conference call to discuss the results for the **first quarter of 2018.**

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/ri.

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 star 0.

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 first quarter of 2018.

Gustavo Zeno, our CFO, and Flávia Oliveira, head of our IR team, are here with me.

Just to remind you all, there will be a question-and-answer session as soon as the presentation is over.

Beginning with slide 2 of our presentation, I would like to present the results of our **2018.1 intake cycle**.

By the end of the first quarter of 2018, we enrolled approximately 143,500 on-campus and distance-learning new students, versus 148,300 in the first quarter of 2017. However, as was the case last year, the enrollment period extended until mid-April, with a larger share of students enrolling at the end of the period this year. At the end of the intake cycle, we enrolled 165,800 on-campus and distance-learning undergraduate students, versus 160,200 in 2017.1, 3.5% more over the previous period.

It is worth noting that this "extension" in the 2018.1 intake cycle was strongly influenced by the period to register in the FIES program, which, this semester, was postponed to March. Moreover, the classification list was also published late.

Additionally, the list of students classified for the P-FIES, which represents approximately 2/3 of the program's annual places, was released by the Government on March 26, further delaying the enrollment process this quarter. Accordingly, by the end of March, only 1.5% of the new on-campus undergraduate students entered via FIES, versus 5.2% in the same period in 2017. It is noteworthy that most of the students captured in this cycle via FIES were external transfer, not freshmen applicants.

The quarter intake was also impacted by the ProUni places. Excluding ProUni and FIES students, the increase in the enrolled student base totaled 12,500 students, an increase of 8.4% compared with the same period in 2017.

The distance-learning segment was the main growth driver in this intake cycle, with a 20% year-on-year increase, mainly fueled by enrollments in the new centers (an additional 181 new centers enrolled students this semester, compared with the same period in 2017), as well as the great demand for the Flex product, whose average ticket is higher than the online average ticket only.

Moving on to slide 3, I will talk about our new Solidarity Dilution Campaign (DIS), launched during this intake cycle.

Aiming to continue expanding the sustainable student base and raising our average ticket, we provided our students, by means of this new Campaign, the opportunity to pay R$49 in the enrollment months and dilute the difference in relation to the full monthly tuition over the duration of the course (i.e. offering no discounts, scholarships or exemptions). Most of the new on-campus and distance-learning undergraduate students (online and flex programs) were eligible for the campaign. The installments, which may comprise from one to three monthly tuitions, will be paid throughout the duration of the course.

On the slide, we show the example of a hypothetical student enrolled mid-February in a four-year course with a gross ticket of R$ 800. The student joined the Dilution Campaign and paid, at the moment of enrollment, R$49 corresponding to January and R$49 corresponding to February, and the difference to the gross ticket of both months was diluted until the end of his course. The diluted amount plus the net ticket are issued in a single bill to be monthly paid by the student.

Moving on to slide 4, I would like to show some highlights of the first-quarter results.

Net operating revenue totaled R$935.7 million, 14.2% up on the first quarter of 2017.

The **DIS campaign** had a significant positive impact on net revenue compared with 2017. The assumption of the DIS campaign is that during the enrollment months, the full amount of the monthly tuition is billed, without discounts, scholarships and exemptions. The discounted present value is applied to revenue, with accrual of 15% of the total receivable. It is worth noting that, as of 2018.1, after the launch of the DIS, seasonality in revenue tends to significantly reverse between even and odd quarters.

It is also worth noting that the **non-recurring effect of ProUni** affected our Net Operating Revenue and Net income this quarter. In accordance with MEC rules, in order to enroll students by means of ProUni in the following semester, controlling institutions are required to present a Tax Debt Clearance Certificate, valid until the last day of the previous fiscal year. Due to bureaucratic issues with the Internal Revenue Service, the Company did not renew, by one day, the tax debt clearance certificate of one of our 22 controlling institutions. Given that this was a non-recurring situation experienced by the Company in March, we believe that the effective rate will return to historical levels as of April. It is worth noting that this was an accounting impact that did not affect the Company's cash, liquidity or projections.

EBITDA came to R$330.1 million, a 53.8% increase over 2017, with an EBITDA margin of 35.3% (+9.1 p.p. over 1Q17). Regarding this performance, it is worth noting the year-over-year operational efficiency gains, as in the faculty costs line for instance, as well as the impact caused by the DIS campaign. A substantial part of this gain is due to the implementation of the corporate restructuring plans and the review of the educational model designed throughout the second semester of 2017, after the Brazilian antitrust agency did not approve the merger with Kroton.

Our quarterly performance allowed us to record **Net Income** of R$197.4 million, 62.0% up on 2017.

I now give the floor to our head of IR, Flavia Oliveira, who will comment on our operating results.

FLAVIA OLIVEIRA:

Thank you, Pedro.

Good morning, everyone. On slide 5, I would like to highlight the chart on our **student base**.

We closed the first quarter of 2018 with 546,000 students, a 0.7% growth over 2017.

As previously mentioned by Pedro, this growth was strongly influenced by the increase in **distance-learning student base**, mainly by the Flex product, which grew by 54.1% over the same period in 2017.

In addition, we closed the first quarter with 409 operational distance-learning centers, an increase of 181 centers in relation to 2017.

The distance-learning growth offset the 6.7% decline in the **on-campus student base**, which was under the effects of the 24.8% decrease in the FIES student base and the 4.0% decline in the ProUni student base. Excluding these effects from the base presented at the close of the first quarter of 2018, non-FIES student base would increase by 2.3.

It is worth noting that the objective of fostering a more sustainable student base, ensuring students' financial commitment in order to conclude the enrollment process, improved our student retention rate by 1.2 percentage point.

Moving on to slide 6, I will now talk about our **average ticket**, which reflects the new pricing strategy.

In the first quarter of 2018, the **on-campus** average ticket totaled R$789.8, an increase of 17.6% compared with the same period in 2017, due to the 17% upturn in the average ticket of the **on-campus undergraduate** segment, to R$818, and the 13.5% increase in the average ticket of the **on-campus graduate** segment, to R$299 this quarter.

In the first quarter of 2018, the **distance-learning** average ticket increased by 28.5% over the first quarter of 2017, to R$267.4. In the **distance-learning undergraduate** segment, the average ticket increased by 30.1%, to R$276.2, while in the **distance-learning graduate** segment, the average ticket totaled R$188.7, an increase of 8.2% over 2017.

It is worth noting that, in 2018, the average ticket was positively impacted by the new DIS campaign, given that discounts and scholarships were not granted on the price charged from students during the enrollment months. Prices were only affected by the adjustment to present value, in the amount of R$11.5 million. Moreover, March has historically recorded the highest number of students enrolled in a first semester. Accordingly, it is worth noting that in the second quarter of 2018, the average ticket should correspond to the amount of the monthly tuition only, net of the usual discounts and scholarships.

In the distance-learning segment, it is worth noting that, in addition to the effect of the DIS campaign, our Flex student base grew by 54%, whose average ticket is higher than the online distance-learning average ticket.

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

GUSTAVO ZENO:

Thank you very much, Flávia.

Good morning, everyone.

I will begin by talking about our **Net Revenue**, on **slide 7.**

The first-quarter Net Operating Revenue totaled R$935.7 million, 14.2% up on the same period in 2017, mainly explained by:

1. The R$86.9 million upturn in revenue from monthly tuitions, an increase of 6.4% over the first quarter of 2017.
2. The R$0.3 million reduction in Pronatec revenue, due to the graduation of the last students in this segment.
3. The R$1.1 million reduction in other revenue, essentially due to the decline in entrance exam fees. As of 2017, we stopped charging this fee from most students, maintaining it only for students enrolled in premium courses.
4. The R$56.0 million reduction in discounts and scholarships, essentially due to the effect of the new Solidarity Dilution campaign during the intake cycle. This result indicates the strategy adopted, as of the first quarter of 2017, to reduce the number of discounts, scholarships and tuition exemptions granted, pursuing a sustainable student base, with continuous evolution of the average ticket.
5. The R$14.5 million upturn in taxes, which was impacted by one-off effect of the loss of the ProUni's tax benefit, totaling R$8.8 million, as previously explained by Pedro.
6. The R$2.4 million reduction in FGEDUC, due to the reduced FIES student base.
7. The R$5.4 million increase in the Adjustment to Present Value of PAR, due to the increase of 9,100 students in the program. It is also worth noting that we changed the calculation of APV in the first quarter and started using a long-term discount rate.
8. The R$11.5 million increase in the Adjustment to Present Value of the DIS campaign, which was effective during the 2018.1 intake cycle;

9. And finally, the effect in "Other deductions", composed of the transfer to distance-learning partner centers, was reclassified in the first quarter to "Others" under Cost of Services. Consequently, the R$4.3 million variation corresponds to the 2017 transfer from partner centers.

Moving on to slide 8, I will talk a little bit about our operating costs.

Our **cash cost of services** accounted for 38.4% of net operating revenue in the first quarter, versus 48.3% in the same quarter last year, representing a 9.9 percentage point margin gain, mainly in the personnel line, which recorded a 8.1 percentage point gain.

This result reflects the corporate restructuring and the review of the educational model, which began to be implemented at the end of 2017, not to mention the dilution of costs with the increase in revenue as explained before. We implemented a new faculty career plan and began improving the efficiency of the academic planning, increasing the sharing of disciplines between the new curriculum matrices and compatibility with former curriculum matrices.

We also higlight that the partial replacement of teachers who were dismissed in 2017, was carried out throughout February. And such reduction of the faculty will not be replicated in the molds in this quarter

On slide 9, we present our **operating expenses**.

Selling expenses accounted for 13.3% of net operating revenue in the first quarter, a 0.4 percentage point gain over the same period in 2017, essentially due to the 1.5 percentage point margin gain in Allowance for Doubtful Accounts - Non-PAR. In this context, it is worth noting the following:

- In the first quarter, we adjusted **PDA** based on the new standard of the International Accounting Standards Board (IASB) on financial instruments - IFRS 9 – CPC 48, using the concept of expected loss and aging of accounts receivable for regular students and debt renegotiation agreements. We accrued 15% of the balance for the DIS and 50% for the PAR.

It is worth noting that first-quarter PDA maintained the concept used until December 31, 2017, i.e., it corresponds to the balance of 100% of monthly tuitions overdue by more than 180 days.

- In addition to this effect, it is worth noting the **review of the collection policy**. In the first quarter of 2017, the presented PDA corresponded to the default recorded in the third quarter of 2016, i.e. period in which there were no advisors assisting in the collection of active students. Since then, Estácio implemented a stricter collection process, partnering up with specialized collection firms. The charging process became more rigorous and the minimum debt amount required for students to be able to renew their enrollments significantly reduced.

As result of the margin gain, selling expenses were also affected by the following lines:

Advertising: In the first quarter, we intensified the online media investments to strengthen the enrollment campaigns. As a result, advertising expenses accounted for 8.6% of net revenue, a 0.8 percentage point margin loss over the first quarter of 2017.

The **Provisioning of PAR**, program implemented in the first quarter of 2017, reduced this quarter's margin by 0.3 percentage point, chiefly due to the increase in the number of students who joined the program. It is also worth noting that we changed the calculation of APV in the first quarter and started using the rate provided for by NTN-B 2024.

On this slide, we also present the **general and administrative expenses**, which accounted for 13.2% of net operating revenue, a 0.6 percentage point margin loss compared with the same period in 2017, essentially due to third-party service expenses, which decreased by 0.7 percentage point with the increase in consulting expenses. It is also worth noting that the loss was partially offset by the 0.3 percentage point margin gain in the personnel expenses line.

Moving on to slide 10, we can see that first-quarter **Net Income** totaled R$197.4 million, an increase of 62% when compared with 2017, due to the R$115.3 million increase in EBITDA and the R$11.5 million decrease in financial result, as a result of the settlements of debentures and Promissory Notes carried out in the second semester of 2017, and the decrease in interest rates, reducing the debt service.

Slide 11 shows Estácio's **average receivables period**.

The average FIES receivables days was 36 days lower than in the first quarter of 2017, totaling 230 days, due to the lower number of FIES students.

The average non-FIES receivables days was in line with the same period in 2017, at 70 days.

It is worth noting that we remain focused on improving our collection and student debt renegotiation campaigns.

Moving on to slide 12, in the first table, we can see the information on our **Capitalization and Cash**.

At the end of the first quarter of 2017, our cash and cash equivalents totaled R$627.1 million, conservatively invested in fixed income instruments, pegged to the CDI rate, in federal government bonds and certificates of deposit of top-tier national banks.

Our bank debt of R$572.1 million mainly corresponded to our debenture issues, the loans from the IFC, the issue of Promissory Notes, subsidized financing from regional development agencies and banks, and the capitalization of equipment leasing expenses in compliance with Law 11,638. The R$468.9 million year-over-year reduction was mainly due to the settlements of the Third Debenture Issue, in the amount of R$197 million, in the second semester of 2017, and the payment of the first tranche of the Promissory Note, in the amount of R$187 million, in November 2017.

In addition, bank loans, commitments for payments related to acquisitions (in the amount of R$71.8 million), combined with the taxes payable in installments (R$13.9 million), determine Estácio's gross debt, which totaled R$657.8 million at the end of March 2018. As a result, the Company's net debt reached R$30.7 million at the end of this period, 0.04x our EBITDA for the period.

It is worth noting that our debt and operating cash generation levels allow the Company to carry out its operating activities, meet its financial commitments and implement new expansion and growth strategies using its own funds, as well as contract loans and financing.

Also on this slide, we show our first-quarter **CAPEX**. We invested R$37.4 million, approximately R$10.7 million more than in 1Q17, essentially due to higher maintenance investments.

Moving on to slide 13,

I would like to comment on the first-quarter Operating Cash Flow after Capex, which was positive by R$111.0 million, an upturn of 78% and R$48.7 million more than in the same period last year. In addition to the increase in operating result, the R$106.5 million upturn in collection (non-FIES), mainly due to a more sustainable student base, also contributed to improve this indicator.

The increase in the changes in assets and liabilities mainly refers to the upturn in accounts receivable in the first quarter, which was impacted by the Solidarity Dilution campaign implemented during the intake cycle. First-quarter pre-CAPEX EBITDA to cash conversion rate came to 33.6%, a 4.6 percentage point margin gain over the first quarter of 2017.

I will now turn the floor back over to our CEO, Pedro Thompson, for his closing remarks.

PEDRO THOMPSON:

Thank you, Zeno.

Moving on to slide 14, I would like to emphasize that in the first three months of 2018, we continued to implement drivers of efficiency gains in a disciplined manner. It is important to highlight:

- **Corporate restructuring** and **review of the educational model**: These two drivers jointly contributed to the 8.1 percentage point year-over-year improvement in the personnel cost/net operating revenue ratio. We would also like to highlight the expansion in revenue, given the new strategy of capturing and pricing freshmen applicants via the DIS program.

- It is also worth noting the **footprint review**: In the first quarter, the activities of five campuses were transferred to other close units. The enrollment process of these campuses was transferred to the units that absorbed the activities, without any type of significant interruption in operations. Savings from the phase out of these campuses can already be noticed in the first-quarter results.

- Finally, I would like to share with you another important accomplishment of Estácio, the **opening of the new *Mais Médicos* campuses**. In the first quarter, three new Medicine units within the scope of the *Mais Médicos* Program were accredited, in Juazeiro (Bahia), Alagoinhas (Bahia) and Jaraguá do Sul (Santa Cataria), in addition to the authorization of the respective medicine courses, corresponding to the opening of three greenfield units, with an average of 55 authorized annual places. All in all, Estácio offers Medicine courses in eight campuses throughout Brazil, consolidating its position as the Educational Institution that offers the most places in medicine in Brazil.

  Moreover, Request for Proposal 01/2018, corresponding to the public call of university controlling education institutions, designed to authorize medicine courses in new municipalities was published at the end of March, and we will submit proposals to participate in this process, which may further strengthen our leadership in medicine courses.

To conclude, I would like to say that we began 2018 with a healthy student base, more structured processes and a team fully focused on execution. The industry dynamics has changed, and it has brought us many new challenges, but our goal remains the same: gain operational efficiency. We believe that efficient operations and a solid balance sheet are essential for the organic and inorganic growth plans that we are designing.

2018 will continue being a year of hard work and excellent results at Estácio!

We can now move on to the question and answer session.

Thank you.

Vinicius Ribeiro, Bradesco BBI:

Good morning. Thanks for taking my question. I just would like to clarify two points on these programs that you have already launched. For the first one, I would like to understand what percentage of intake was relative to these programs?

And, the second thing is that, if I am not mistaken, on the statement on slide three, you guys gave us some color on the recognition of this program. I just would like to get some clarity: when will the students be able to pay their school full debts. When they graduate or before that? Thanks.

Company:

Thank you, Vinicius. Regarding your first question, the majority of the intake students was applied to this program, roughly above 90% of the total intakes. So, this is the first question. Regarding the second question, the students pay this dilution in the same base of the students reverse. We do not have any open debts after the graduation of the students. And, the students only pay one bill, one bill with the full price of the tuition, plus the value of these programs.

Vinicius Ribeiro:

OK. Let me clarify one thing, on the release, you guys said that these programs represents 128 million of revenues in this quarter. How do I consider that with your 1.4 billion revenue? Could you just give us a better sense on the impact of this metric going forward?

Pedro Thompson:

So, we only have the impact of this in the quarter that we had intake; basically, the first and the third quarters of the year. And, we will always have the impact of the DIS in the case that we charge the full price of one, two or at the maximum of three related to the first tuition on a monthly basis. And, then, we will have the whole working capital plus the provision of this value.

Just to summarize, we do not have the impact of DIS in the second and fourth quarters. But we will have the impact of the average tickets for sure, because the value that we bill the students now is the full tickets plus the parts of the DIS dilution.

Vinicius Ribeiro:

Thank you for the answer, Pedro.

Marcelo Santos, JPMorgan:

Good morning, Pedro and Gustavo. Thanks for taking my question, I actually have two questions. The first one is about the faculty cost in the first quarter. In the Portuguese call, we understood that you fired the teachers in December and you hired them in February. So, you had this kind of one-off month without too much payroll.

Could you give us a little bit more detail on this and explain how much this helps your margins? What would be a normalized basis, so that we can forecast the future periods?

And, the second question is about DIS. This semester you had 90% of the intake coming from DIS. Could you give us an idea about how last year was related to this and how many students got it R$49 or R$59? And, how many students were paying full price in the 1Q17? How much of the intake? In another words, what was the penetration of the R$49 and R$59 in the intake of the 1Q17, so that we can understand how things changed. These are the questions.

Company:

Thank you, Marcelo. So, the first question, the impact of the delay of the phase-in of the professors is approximately R$44.5 million in of our tuition cost of the 4Q. In your second question regarding the R$59, last year our intake cycle was driven, basically, by 100% of the new students with this price of R$59.

And this intake cycle was R$49 plus DIS. So, the difference between the two cycles, last year and this year, was only the DIS. Last year, the majority of the students, basically entered only with R$59. And this year, they will enter with the R$49 of cash out plus the dilution of the DIS program. Is that clear?

Marcelo Santos:

Perfect. It is very clear. Thank you.

Maria Teresa Azevedo, Banco UBS:

Hi. Thanks for the question and congratulations on the results. Can you please comment on the competitive environment, especially in distance learning? How do you see pricing pressures going forward? Thank you very much.

Company:

Thank you, Maria. We are seen now regarding the competitive environment is that we consider to ramp up our distance-learning operations. We do not see any challenges until now, for sure with the new regulatory issue of MEC of June last year we will have much more competition. I do believe in that competition.

But in the mid-term, not now, we consider to ramp up our student base of the distance learning; any issue about price or about offer and demand in this intake cycle. What was more difficult in this intake cycle for us was basically on campuses and, on campuses regarding areas that we historically have a huge payment of FIES, basically North and Northeast.

Maria Azevedo:

Perfect. Thank you very much.

Suzana Salaro, Itau:

Hi, thank you for the question. Pedro, if you could elaborate a bit more on the efficiency level going forward. Which one should we expect to mature in the first half of the year? Should we expect more volume on the second half of the year? And, if you could elaborate specifically on the new curriculum framework, how will you develop that during this year and the next year? Thank you.

Pedro Thompson:

Thank you, Suzana. For sure, regarding guidance, we are not allowed to provide any guidance, but in light of the frame, the big picture of the last quarter, we will surely continue to present efficiency gains about the tuition cost. This was very tangible in this 1Q.

But, in this 1Q, we will have the delay of the phase-in of the new professors from January to February which will suffer adjustments of R$40.5 million; but we will surely continue to dilute this gain effect for the next quarters.

Regarding your second question, we will continue to explore even more our curriculum matrix. We will initiate our new curriculum matrix in 2H17, focused on the new students of the first year that are studying with us in the courses of business, administration, accounting and economy. And, then, we will continue to expand for more courses along this year and the next.

Suzana Salaro:

Thank you, Pedro. Just a follow-up question very quickly: how much of your students the business, accounting and economy courses approximately represent?

Pedro Thompson:

Suzana, in rough numbers, our on-campus courses are about 35% to 40%, that we call the “management courses”, which cover business administration, economy, accounting, advertising, marketing and etc.

Suzana Salaro:

Great. So, it is still in the beginning of the new curriculum benefits, there is still a way to go?

Pedro Thompson:

Exactly. Our primary focus is on these courses, and for the entrants to these new courses. And, then, we will expand to the veterans and, then, we will expand the new curriculum matrix into other courses.

Suzana Salaro:

Thank you very much, it is very clear.

Operator:

As seems to be no further question, I will now turn the floor back to Mr. Pedro Thompson for his closing remarks.

Pedro Thompson:

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