Operator:

Good morning. Welcome to Ânima Educação's 1Q19 earnings conference call. We have here with us André Tavares, Chief Financial Officer and Isabella Matturro da Cunha, Investor Relations Analyst.

It is important to note that yesterday the Company posted on its IR website a video on the results for the period, and therefore this conference call will be dedicated to the question and answer session only. Participants may ask questions in Portuguese or in English. The Company will later disclose a transcript of the event in both languages on the IR website.

All participants will be on a listen-only mode during the Company's brief introduction. We will then begin the question and answer session for investors and analysts, when further instructions will be given. Should you need any assistance, please request the help of an operator by pressing* 0.

The audio is being played simultaneously online, at www.animaeducacao.com.br/ri, and on the MZIQ platform.

Before proceeding, we would like to clarify that any statements that may be made during this conference call related to Ânima's business prospects, operational and financial projections and goals are based on the beliefs and assumptions of the Company's Executive Board, as well as on information currently available. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions as they relate to future events and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors may affect Ânima's future performance and may lead to results that differ materially from those expressed in such forward-looking statements.

Now I would like to give the floor to Mr. André Tavares, who will begin the conference call. Mr. Tavares, you may proceed.

André Tavares:

Good morning, everyone. I would like to thank you all for your interest in our conference call.

After the market close yesterday, we posted our earnings release on our website and a video on these results, as we have done for three quarters, as part of an effort to increase efficiency and optimize your time.

I would like to add that this quarter, due to the new IFRS 16 accounting standard, we created another appendix to the earnings release, appendix five. We also posted a video explaining the effects of the new accounting standard on our investor relations website. We hope that this video and this appendix will help our investors and the market in general understand this new standard.

Thus, I believe we can go straight to the question and answer session.

Victor Tomita, Itaú:

Good morning. Congratulations for the result. We have two questions. Could you please give us some color on the progress of J2A measures? Have they have already caused a significant improvement in the retention rate this quarter?

The second question is: could you give us more details about the dynamics of competition in your main markets in this intake cycle. Thank you.

André Tavares:

Victor, thank you for your questions. J2A is in fact one of the pillars of our strategy, and much of Ânima's digital transformation efforts, ranging from the squads to the multidisciplinary teams described in the earnings release, are focused specifically on J2A.

We realized that, although our academic quality is recognized to be much superior, the services we provide to our students were not yet fully on a par with our academic quality.

We created these squads. This quarter, specifically, we had two important achievements: 100% online re-enrollment for all students, which not only greatly expedited re-enrollment, but also reduced the rate of students who were able to enroll in fewer disciplines than the ones planned in their curriculum. This, in itself, had a positive impact on dropout rates.

As of 2019-2, we will have a solution that will expedite the enrollment of new students through an app on which they can use their Enem grade to enroll in one of our institutions.

Basically, most squads are focused on improving the service, so that students perceive the quality of our services to be on a par with our superior academic quality.

We also emphasize that students are able to receive their diploma much faster, as the process is much more automated process than it used to be.

So we are celebrating a series of small achievements, a series of quick wins, including an improvement in the students' perception of the quality of the services we provide, as well as the quality of our academic services.

Regarding your second question, about competition in the main cities. We usually see, in all the cities where we operate, fierce competition, which is perhaps more intense in the Belo Horizonte metropolitan region and in the São Paulo metropolitan region. And this has had a stronger impact on our Base block, which is composed of more mature operations.

We have been closely watching this trend. Much of our growth comes from the other two blocks, the Acquisitions block and, especially the Organic Expansion block. In the Base block, you can see that, although we did not grow, we were able to increase our operating margin.

Our intention is to resume growth, including in the Base block, but, if this is not possible, the Company will continue to grow through Q2A, through the other blocks, following this trend of recovery and margin gains in the three blocks.

Victor Tomita:

Perfect. It is clear now. Thank you, André.

Leandro Bastos, Citi:

Good morning. I have two questions. The first has to do with this block of mature units. What caught our attention this quarter was the decline of around 6% in revenue, which is still being pressurized by the ticket.

Referring back to the comment in the call, when you talked about some efficiency initiatives, including portfolio optimization for this segment, could you please talk a bit more about these initiatives and the opportunities you see for these segments? This is my first question.

The second question has to do with the ticket, which is still under a lot of pressure, and you have made it very clear that the Company's strategy is focused you on this issue as you recognize its importance. Referring back to the comment you made in the call, when you were talking about the MPC pilot, which already has two units and should grow a little now, could you share with us what you have learned with this project? How can this pricing driver help the Company's average ticket? These are my questions. Thank you.

André Tavares:

Thank you for your questions, Leandro. With regard to the decline in the mature operations that make up the Base block, it is exactly what you said: these markets have been more competitive and we have observed greater difficulty to grow.

But we have been working on optimizing faculty with E2A; we have been reviewing administrative structures so that this growth in the Base operation does not pressurize our margins more than what is already happening, since we have really been feeling a very strong pressure on the ticket, especially in those markets that make up our more mature base.

With regard to portfolio optimization, we are concluding some analyses regarding the merger of some courses and the merger of some units, some campuses that are located geographically close to each other, and we carried out an analysis of convergence of these campuses, adherence between campuses, and we are trying to optimize these units and their administrative structure, with an increase in shared expenses and, possibly, with the merger of some units, where it is logistically and geographically possible. I believe that we should see some action in this regard for 2019-2, for 2S.

As for the ticket, as we have been talking for some time, this issue is a number one management priority for the Company. We are very focused on more granular analyses, on having a more intelligent pricing process.

We tested MPC in two São Judas campuses, one of which in 2019. We believe we still need to improve a little more in the tests. In 2019, we will do other tests with a slightly different dynamic.

The first semester has a slightly different dynamic in terms of intake, in terms of the profile of new students compared to the second semester. So in 2S, we want to do another test of MPC in two or three units, so that we can observe the behavior and the impact of MPC, either in a 1S dynamics or in a 2S dynamics, so that in 2020 -1, we can decide whether or not to scale MPC.

We are very committed to this. We have planned some actions, which we believe will enable us to improve this downward trend in the second semester. We remain strongly focused on those strategies of having more targeted discounts in the first and second months, and also discounts strongly related to the students' merit.

We know that if, on the one hand, we end up losing a little bit on the ticket, we gain both in academic performance and in lower dropout rates as we are receiving students who have a better academic performance and a higher Enem grade. So these are the points I would like to highlight. We continue to be very committed to reversing this trend.

Leandro Bastos:

That is great, André. Very clear. Thank you for the answers. I would like to take this opportunity to congratulate you on the disclosure on IFRS 16. The material was very good. It was certainly helpful for our analysis. Good morning and thank you.

Guilherme Palhares, BTG Pactual:

Good morning. Thank you for taking my question. I would like to understand a little more about financial discounts, which, albeit small, have doubled. Is this directly related to your dropout rate, as a major effort on the part of the Company?

I would also like to understand another two points. The first is related to marketing expenses, in which the Company was a little more incisive in the first quarter. I would like to understand what we should expect on this front in 2019.

Finally, you talked about the change in the classification of Cesuc, Jangada and Faced. I would like to understand how this affects revenue, given that revenue from the Organic Expansion block is growing, virtually doubling on a year on year basis. Thank you.

André Tavares:

Guilherme, thank you for your questions. With regard to financial discounts, they did increase slightly this quarter compared to the same quarter last year because we encouraged students to re-enroll before the turn of the year.

In order to encourage students to anticipate their re-enrollment, we granted a little more discount, always focused on interest and fines. We do not offer, under any circumstances, any kind of discount on the principal amount of the monthly tuition.

It is much more important for us to enable students to re-enroll and stay with us for a much longer period, completing the course and fulfilling the dream of graduation, rather than making it difficult for students to renegotiate.

So all the effort we made was geared towards giving a little more discount on the interest of those students who, for some reason, fell behind with their monthly payments, as long as they managed to anticipate the negotiation of their tuition fees and, therefore, to anticipate enrollment, enrolling even before the end of the previous school term. We also saw that the improvement in dropout rates was due to this, and we see this improvement as quite sustainable.

It is true that we had a relatively significant increase in marketing expenses in 1Q.

Undoubtedly, in 2019, we will have a higher expense, especially in 1Q19, which was marked by the inauguration of new units.

We inaugurated eight new units - this has been the year we inaugurated the largest number of units - and opening units requires substantial advertising efforts, especially because we have to let people know that we are arriving in that neighborhood, in that place, in that municipality.

Our brands have a good recall in the cities where we operate, but we have to spend a more substantial amount to announce our arrival and prepare the inauguration of the units that are opening their doors now, in 2019.

We believe that, because of this, we should certainly see an increase in advertising expenses compared to 2018, but they will not increase at the same level reported in 1Q19 versus 1Q18.

So we should see an increase in marketing and advertising expenses, but at a lower level than the one seen in 1Q, which was very concentrated in this Organic Expansion block, in addition to the efforts we have made in the Base block, which we talked about in the previous question.

Regarding the acquisitions, you asked about Cesuc, Jangada and Faced. We put them in the Organic Expansion block because we understand that they followed much more the logic of organic expansion, as they add students and muscle to the campuses and the units we already had in that municipality: Catalão, in the case of Cesuc; Jaraguá do Sul, in the case of Jangada; and Divinópolis, in the case of Faced. These operations, for the most part, are already integrated into our units.

So we believe these units accelerate organic expansion more than an M&A, an actual acquisition. And, in terms of revenue, they totaled R$7.1 million in this block.

Of course, in this block, we have both this and strong growth in greenfield units, in the units that were inaugurated now, in 2019, as well as the ramp-up of the units inaugurated in 2018 - even because Cesuc, Jangada and Faced were not included in 1Q18. This is the impact of these units on revenue from the Organic Expansion block.

Guilherme Palhares:

Perfect. Your answers were very clear. I have a follow-up question about these eight new campuses; I would like to understand if these eight new campuses have already started operations and, therefore, if they enrolled any students in the first cycle.

Also, since there were additional marketing expenses related to these campuses, could you please give us a ballpark figure for this non-recurring expense related to the startup of these new operations? Thank you.

André Tavares:

These eight new campuses are already operating and enrollment has been good in 2019. They are basically new São Judas campuses, located in São Paulo city and in the São Paulo metropolitan region, plus another campus in Florianópolis and two other Una campuses, located in Itumbiara and in Conselheiro Lafaiete.

They have all started operations, and they have all recorded a good result in this intake cycle. We published a notice to market about intake, where we provided a breakdown of this intake cycle and announced that these eight units opened in 2019 enrolled 2,400 students.

All of them are quite in line with the business plans previously drawn up for them.

With regard to marketing expenses, what we can say here is that these expenses are also in line with what we had planned for the inauguration of these units, and I believe that we will have a clearer picture of these volumes as we report the previous quarters, because these units will already be operating at a more normal pace in terms of marketing expenses.

Guilherme Palhares:

Excellent. Thank you.

Luiz Garcia, Bradesco:

Good morning. First, I would like to ask a follow-up question about the ticket. Can you talk a bit more about whether you think this pressure comes mostly from close competitors with an aggressive pricing policy for on-campus programs or from distance learning or hybrid courses?

Just to understand where you feel most of this pressure comes from, which I think has affected you a little more than your competitors.

And the second point, we see that the market, in general, has tried to compensate this with an expansion of the distance learning segment, which still has high margins. Since you are not focused on distance learning programs, I would like you to talk a little about 4.0 in hybrid courses, to know where this stands. You expected this to accelerate again, but you chose not to include a breakdown in the release.

So I'd like to understand what is happening in this regard and when we can expect you to be able to accelerate this a bit more. I think this can also be a factor that offsets this decline in the price of on-campus programs.

André Tavares:

Luiz, thank you for your questions. Concerning the ticket, we have felt stronger pressure, especially in the Belo Horizonte and São Paulo metropolitan regions, and I believe that this pressure has come much more from nearby on-campus competitors than from distance education.

Obviously, distance learning also ends up being a substitute product, but the pressure, in our view, has come much more from on-campus competitors. We are now seeing initiatives, even from players who sometimes did not use to be aggressive in terms of discounts or scholarships, but who have been much more aggressive lately. I would say it is a lot more focused on the on-campus business.

This quarter, there was an impact on the ticket of these eight new units that I have just mentioned, which we opened in 2019.

One of the initiatives that we undertake when we open new the units is to offer students who enroll in the first semester of operations some discount and slightly higher scholarships, as was the case in 1Q18. The tickets of the units opened in 2018 are already more in line with our normal ticket.

As of the second semester, these units opened in 2019 are expected to record a more normalized ticket than in the first semester, which is one of our usual practices when opening new units.

Regarding hybrid programs and 4.0, which is our hybrid product, we did an experiment and its intake was not yet as relevant compared with our consolidated intake, but it was in line with what we expected. We are currently making an assessment of the intake, of the margins that are being realized, so that we can discuss internally whether or not we should put a little more focus on 4.0.

I think it is too early to talk about it, but we are paying close attention to this experiment, which has pretty much followed the logic, as we have said in other opportunities, of launching 4.0 in courses and cities where the on-campus undergraduate program for that course specifically is not performing well.

So we've carried out a course-by-course analysis of the city to try to determine in which cities 4.0 may be a better fit than on-campus programs, but always keeping in mind that the future is hybrid and that students should choose different percentages of on-campus and distance learning classes.

I would like to highlight that we have been doing very well in long-distance graduate programs, with EBRADI. The Other Businesses block is performing increasingly better, both on the hsm side and, especially, on the EBRADI side, a 100% online course, which I believe is more in line with our proposal to offer students graduate courses with more autonomy, supported by excellent quality material, approved by renowned jurists from all over the country.

This is a 100% online product, which has been greatly successful, exceeding our initial expectations. I believe we have to learn from it and see how we can benefit from it. This quarter, we launched hsmU, which brings EBRADI's proposal to management courses.

I would say that, in the graduate business, we are very optimistic about the online proposal and we are evaluating the performance of 4.0 for the undergraduate business.

Luiz Garcia:

Just a follow-up on 4.9 for the undergraduate segment. You mentioned that this is not yet conclusive, that you still need to evaluate it, but is your decision whether or not to focus on this a single decision for the whole operation, or, if you are not satisfied with the performance, is it something you will break down and focus on certain units and regions but not on all of them?

André Tavares:

As I said, we have not made a decision yet, but I think it is possible to focus on 4.0 in certain regions, depending on performance. I think it is perfectly possible.

Luiz Garcia:

OK. Thank you.

Caio Moscardini, Morgan Stanley:

Good morning. I have two questions. Could you give us some color on the Q2A project? On the video, it seemed to me that the focus will be on maturing open units, rather than opening new units from now on. Am I reading this right or is it a little different?

The second question refers to layoffs, should we see more severance expenses in the coming quarters or is the downsizing finished? Thank you.

André Tavares:

Thank you for your questions, Caio. I think you have a very good understanding of what we said about Q2A on the video. Q2A is currently our most important project in terms of growth, but we know that it consumes margin in the first years of operation.

Looking at the excellent result of the three acquisitions made last year, Cesuc, Jangada and Faced, in Divinópolis, how these operations had great results when we added these acquisitions to our operations in those municipalities, we can see that these acquisitions are already bringing results, already bringing EBITDA, and that we have managed to gain margin and scale in the city. These operations are good for everyone.

In all these operations we mentioned, Cesuc, Jangada and Faced, when visit the cities where they are located, we can see the students and professors who belonged to these institutions feel that they have gained a lot after these institutions started operating under one of our brands, in the case of Cesuc and Faced, the Una brand, and, in the case of Jangada, the Sociesc brand.

So I think it is a win-win situation, as we can accelerate our growth while improving the margin of this block and these units.

These institutions' students, professors and staff feel that they have gained a lot by now being part of Ânima's brands.

For the units that will open under Q2A in 2020, we made a small change to Q2A, focusing more now on those acquisitions that already bring a positive operating margin to our campuses, rather than on opening greenfield units, which are very important, as they bring growth to the Company, but consume margin at first. This is a tactical and temporary change for 2019 and for any new units in 2020.

We remain very optimistic about Q2A, and we expect to see the maturity of the units and take advantage of this successful formula for acquisitions that catalyze growth and margins of Q2A units.

With regard to layoffs, we have remained strict about the classification of what is recurring and what is not recurring. We reported much lower levels of non-recurring items compared to 1Q18.

We are still very committed to seeking efficiency gains and seeking to have a leaner and more agile Company, as a result of the transformation that J2A is bringing, with more automated processes that allows us to have structures that respond in a faster and leaner way.

So we continue to be very committed to looking for new opportunities for efficiency gains, both in general expenses and payroll that make up our consolidated G&A expenses.

Caio Moscardini:

I get it. Can I ask a follow-up question? Regarding M&A, we have seen a very competitive market, with prices under pressure. Is it fair to say that smaller players are suffering a lot more than big players and that this maybe could facilitate a consolidation scenario? How do you see the M&A market?

André Tavares:

We are always closely watching the M&A market and we look at it in two ways: we have these very successful smaller acquisitions, which I have just mentioned in your previous question and which work as a catalysts for Q2A, and we have more transformational M&As as part of our strategy of acquiring strong brands that have potential for growth in their region.

M&A is always a very binary thing, there is no middle ground. What we have observed in the market is that your analysis seems to be correct. We have achieved greater traction and greater adherence in conversations with smaller institutions located in municipalities where we are already present and which are interesting for us, rather than larger institutions and companies.

We are always looking at this market, always looking for opportunities for transformational M&As, and I believe we have achieved faster negotiations and greater convergence of interests in those smaller operations that function as catalysts for our organic growth.

Caio Moscardini:

Great. Thank you.

Operator:

As there are no further questions, I give the floor to Mr. André Tavares for his final remarks.

André Tavares:

I would like to thank you all for participating in this call and for your interest in our results. We reinforce that we have a very strong agenda committed to increasing our margins based on drivers that we tried to present very clearly in our earnings release.

We hope that 2019 will be a promising year, significantly better than 2018, are we are strongly committed to delivering better and sustainable results, especially in the medium and long term, to our shareholders.

Thank you very much for attending this call. Have a nice week!

Operator:

Thank you. Ânima's conference call has ended. We thank you all for your participation. Have a nice day.