

Operator:

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everyone to Abril Educação Earnings Conference Call. The presentation of the results for the third quarter of 2014 was recorded by the CEO, Mario Ghio, and CFO and IRO, Guilherme Melega. The session of questions-and-answers will be presented by the CEO, Mario Ghio; CFO and IRO, Guilherme Melega.

We would like to inform you that this call and the slides are being broadcast simultaneously through the Internet at the Company's website www.abrileducacao.com.br/investidor, and the presentation is available to download at the Investor Information section.

Also, this event is being recorded and all participants will be in listen-only mode during the company's presentation. After the company's remarks are completed, there will be a question-and-answer section. At that time, further instructions will be given. Should any participant need assistance during this call, please press *0 to reach an operator.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Abril Educacao's management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events, and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Abril Educacao and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Mario Ghio, CEO. Mr. Ghio, you may begin your conference.

Mario Ghio:

Thank you for participating the earnings conference call for Abril Educacao for the third quarter. I will start with the summary of the highlights for the period, and next our CFO, Mr. Melega will present the financial performance.

We shortened our presentation for this call in order to have more time for the Q&A session, but all the detailed explanations can be accessed in our earnings release filed yesterday. As you may know, the 3Q is not an eventful quarter. However, we had some good surprises in each of our businesses lines. I will start with those of strategic importance and then, I will point out those with the operating impact.

Moving to slide number two, it starts with the events of strategic importance that start with the chronological order. The highlight was the conclusion of the process of migration to the Novo Mercado segment of BM&FBOVESPA, the listing segment with the highest standards of corporate governance and transparency.

Since September 26th we trade only common shares, which was the only requirement needed to become a Novo Mercado company. Abril Educacao, since the IPO followed the rules of Novo Mercado segment.

The new ownership is structured after the conversion and the migration to the Novo Mercado, which you can see on the bottom of the page. Currently, we have 34% of free float and four relevant shareholders with more than 5% stake. It is worth mentioning that in August, GIC became a relevant shareholder with the acquisition of almost 19% of net shares from BR Investimentos and Flavio Augusto, the seller of Ometz Group.

Another highlight was the hiring of two new executives for the Ometz Group – the CEO, Marcelo Bruzzi, whose experience will help the company to position itself to drive the sales of our Ometz Group brand, expand the margins and improve its results, and Durval Antunes, whose experience will strengthen the academic quality of Ometz Group schools and relations with the franchisee. We understand the new officers we deposit at the Ometz Group will be fundamental for extracting the base value of such assets.

Now let us move to the next slide. Turning now to the factors with the operating impact, on slide number three, I will start with Learning Systems. In Learning Systems we have a part of the 14% growth in the number of students from the traditional brands, such as Anglo, pH, SER, Farias Brito and Maxi, which was fully accomplished in the 1H14.

We have the strong expression of student service by our Technical Learning System brand, ETB, which moved from 7,000 in the 3Q13 to more than 180,000 in this quarter. This significant growth includes the students originated from the Pronatec 2H cycle of 2014.

Another important highlight was Leader in Me, with an addition of 42,000 students in this quarter, jumping from 6,000 last year to more than 47,000 this year. It is a result of the inclusion of 18,000 students originated from two new contracts signed with public schools in the Sao Paulo State area. So, we ended the quarter with 865,000 students enrolled in our more than 2,000 associated schools of Learning System, a growth of 52% over last year's figure.

In publishers, the highlight was the significant results posted by our two brands: Atica and Scipione in the 2015 PNLD program. We sold 32 million books, representing R\$245 million in revenues accounted for the physical volume.

According to the preliminary data from our releases, our market share at this 2015 PNLD high school product purchase was 25%. We are still waiting to negotiate with the digital and textbook. We expect that the revenue originated from the 2015 PNLD program to be consolidated in the 4Q.

Still in Publishers, it is worth mentioning that this quarter we posted the decline in the number of books sold in the private segment as last year, differently from this year, we had a special program that boosted by 1.7 million books the total volume of the period.

Now, moving to the slide number four. In the Schools segment, we maintained about 3% growth in number of students at comparable basis. Including the acquisition of Motivo and Sigma. On top of that, we are able to recognize the price increase of 9% in the segment in this period. On the other hand, in the Prep Courses segment, we faced a weak number of enrollments for the semi-intensive course at Anglo, thus posting a decline of 6% in the number of students offset by the price increase of 6% in line with inflation.

Also in the Prep Courses segment, we began to divide the values related to the teaching material of the monthly fees. Thus, postponing part of the revenue and the EBITDA to the 1Q, with zero impact to the growth expected for the full year.

In Language, our brand Red Balloon continue its growth there in number of students, which was up 9%, added to the significant growth in number of units, which grew by 45%. Only this year, we opened 15 new Red Balloon units, so we ended the period with almost 15,000 students enrolled in 48 units.

At the Ometz Group, the highlight was the growth in number of students per unit, which grew by 12%, coupled with the growth reported in the number of students, which was up 3% and kits sold, which was up 2%. We ended the period with 70,000 students at 343 units. The number of franchise units declined 8% from last year's figure, as part of the clean-up of its base.

The results we delivered so far are positive from our standpoint, which makes us comfortable to reach this year's result and start well next year with even more aggressive goals. We are optimistic that our management with the focused strategy and the quality of our products, we will guarantee the loyalty of our schools, partners and the expansion of our student's base.

Now, I will pass the floor to Mr. Melega.

Guilherme Alves Melega:

Thank you, Ghio. Now on slide six, we demonstrate the breakdown of our consolidated revenue and the improvement in the mix of our business. Our total revenue in the 3Q14 grew by 18%, from R\$178 million in the 3Q13 to R\$211 million in the 3Q14 of this year. What is important to note is, that in the third quarter, our revenue was benefited by the acquisition of Sigma school of almost R\$20 million, thus contributing to the share of Schools and Prep Course of our total revenues, jumping from 33% in 3Q13 to 36% in 3Q14. By excluding this effect, our revenue grew by 7%, organically.

It is also worth noting, that our Publishers' posted a decline in revenue for this quarter, as a result of the occurrence of a special problem in private segment last year that did not occur this quarter, reducing the total number of books sold for the private segment, as previously mentioned by Ghio. Therefore, its share in the quarter was reduced from 9% to 6%.

In the 9M period, our total revenue grew by 33%, totaling R\$764 million. However, on a comparable basis, excluding debt issues, this grew by 10% organically. The acquisitions effect in the accumulated view is seen on the School and Prep Course segment, with the addition of Motivo and Sigma and in the Language segment with Ometz Group that were not in 2013, thus contributing to the increase of its share in this quarter. The schools and Prep Courses went from 25% to 29% and Language from 13% to 18%.

Now, let us turn to the next slide. Slide seven shows the breakdown of business of our consolidated costs. Compared to the 3Q and on our accounting basis, COGS increased by 58% in 3Q14 and by 32% in the year to date.

These increases are due to recognition of the newly acquired assets, which did not exist last year, which are Ometz Grupo and Sigma and Motivo schools. This effect accounted for an increase of R\$13 million in COGS in the quarter and up R\$42 million in the year to date.

After excluding this effect, in other words, on a comparable basis, COGS increases by 30% in the 3Q14 and by 6% in the 9M14. This 30% growth in the quarter is due to the full recognition of COGS related to the PNL marketing expense.

Now moving to slide number eight. Turning to the company's SG&A expense, in the 3Q our expenses were up 10% over the previous year, totaling R\$140 million. This growth can be explained by the acquisitions of Sigma school that was not present in 2013, adding R\$5 million in expenses for the quarter. By excluding such assets, SG&A growth was 6% in the 3Q14.

As previously announced, in the 2Q14, we have recognized R\$20 million in expenses with non-recurring provision, resulting from the Company's restructuring plans, which impacted expenses in the period and consequently EBITDA. Thus, the 9M SG&A grew by 40%, from R\$329 million to R\$460 million, year over year.

The R\$131 million variations from the 9M13 to the 9M14 is demonstrated in the slide. It is important to note that in the R\$460 million posted in the 9M14, it is included R\$28 million of non-recurring expenses, R\$64 million of the acquisitions made in the term, and R\$5 million of expenses related to the new headquarter. If we exclude these expenses that occurred only in 2014, SG&A grew by 8% year on year. This 8% growth in 2014 is basically explained by the organic expansion of the existing business.

Now let us turn to the next slide. Slide nine presents the evolution in our adjusted EBITDA, which grew by 1% in the quarter and by 40% in the year to date, which excludes the non-recurring expenses with the restructuring plan and includes the contribution from newly acquired assets, which did not exist in 2013. In other words, Grupo Ometz, Sigma and Motivo. These effects combined contributed to R\$4 million to the EBITDA in the quarter, and R\$32 million year to date.

On a comparable basis, but excluding this effect, EBITDA declined by 16% in the quarter and grew by 16% in the year-to-date. The decline posted in the 3Q is driven by the lower contribution from our Publishers, as a result of the drop in the number of books sold in the private segment, coupled with the recognition of the COGS related to the 2015 marketing expense.

But with revenues postponed to the 4Q, the highest contribution of R\$6 million in the quarter and R\$21 million in the 9M are gained from Learning System. The lower contribution from Schools and Prep. Courses, as Ghio mentioned in the beginning of the presentation, the result of division between values related to the teaching materials and the monthly fee, thus postponing part of the revenues and EBITDA to the 4Q, with zero impact to the growth expected for the full year.

Now moving to the last slide. Slide ten presents the Company's capital structure and evolution in net debt. Net debt increases from R\$780 million in the 3Q13 to R\$861 million this quarter, due to the acquisition of Sigma school in October 2013 and MSTECH in December 2013. Compared to the last quarter of this year, net debt increased by R\$56 million, due to the

working capital investment required for PNLD. Our leverage ratio in the 3Q reached 2.5x EBITDA.

With this, I end my part. Let us move to the Q&A session.

Rodrigo Gastim, BTG Pactual:

Thanks. Good morning, everyone. So, my first question is related to PNLD. I would like to understand your view regarding the future perspectives of the program. I mean we've been seeing a deceleration in volume growth in your recent programs in Brazil. Brazilian evolution indicates a reduction in the number of students in Abril Educacao for next years. So how do you see this issue going forward? I mean, do you expect lower volumes to keep being offset by better pricing? And on this matter, what was the main reason for your stronger price readjustment for physical text books?

And my second question would be regarding Learning Systems. I would like to understand your plans to expand Sigma and Motivo operations. If I'm not mistaken, Motivo's operations already being developed, but I would like to further understand what are the growth prospects of this two operations going forward? These are my two questions. Thank you.

Mario Ghio:

Thanks for the question. Regarding to the PNLD view, we do not see any threats in the future, we do not see the perspective you mentioned about the lower volumes in the program. Because, despite we have of course a democracy effect, but the government is buying, it is purchasing more subjects, more discipline. So, if they have less students, they will buy more disciplines in the same program.

And also, because the digital segment in the PNLD, we have a good trend for increased sales to the government. So, we believe that PNLD is going to be in the future an excellent program like it is today.

Regarding to the Sigma and Motivo Learning Systems, actually we just launched the -- in September, we launched the Motivo learning systems in the Pernambuco State. And we think that we are doing a good job in marketing this new learning system, especially introducing this new learning system in our school, because our Motivo school is going to be the showcase to spread the Learning System in the State of Pernambuco, Alagoas and Sergipe, our targets for this specific learning system. But the growth in number of students, in partners, schools we see in the next year.

We believe that this year, we are building the showcase, we are introducing the Learning System in our school and the next year, we will see more partners schools of Motivo learning system. In Sigma, we were entering another track, we decided that Sigma, because of the UnB Vestibular, we decided that Sigma is much more important to be a showcase for our regular text books, Atica and Scipione and also, to be a showcase in our digital books and e-books. So we decided that Sigma, we will keep using the regular text books.

Rodrigo Gastim:

Excellent. Thanks, Ghio. Thanks for the answers.

Marcelo Santos, JP Morgan:

Good morning, thanks for taking my question. Actually I have two. I would like -- if it would be possible for you to comment a little bit more of how did you do the sale of Leader in Me to public schools? What was the process, I believe it is not a comparative bid. So, if you just could help us understand better, how it works and what potential is there? That is the first question.

The second question, could you provide a little bit more color on the decline in school margins? You mentioned the release of the costs increased more than revenues, but is there any particular item pressuring costs? Those are my two questions.

Mario Ghio:

Thanks for the question, Marcelo. Starting with the first part of your question, regarding to the marketing of OLEM, The Leader in Me program in the public sector. Actually, we are marketing this program, just like any other Learning System. I mean we are marketing the products, we are offering the services, we have to educate the mayors, the Secretaries of Education, the municipalities, on how the Leader in Me program is useful to develop good values and habits in the kids.

And then, they decided to launch a public bid based on the quality and price, and we participate in these public bids, exactly the same approach we are using with the other Learning Systems. And it is a competitive bid, because we have at least one similar program here in Brazil related to that important order Augusto Cury. Augusto Cury has launched the Escola da Inteligencia program, which is not the same program we are offering with Leader in Me but it could be substitute. So it is a competitive program.

And also because we are talking about the new kind of program, a new kind of process and sometimes municipalities believe other programs that are in the same competition, so it is a competitive bid. And again, we are participating only in public bids.

Now, I will refer to Melega. Melega will comment on the margins.

Guilherme Alves Melega:

Hi, Marcelo. Thanks for your question. Actually it is a good chance to give more color about our schools margins. I will start with 3Q13, where we have a 32% margin on school. But on this margin, we had 100% of Motivo revenues. The reason for that is that by that the time when we just start consolidating Motivo, we had the consolidation by cash basis. And we do not serve the students in July.

So, this year actually we have only two months of Motivo. This impacts our margins when we compare with last year. Also last year we did not have Sigma in our 3Q, which has a lower margin from the average school margin that we have on Abril Educação. And the last, for the teaching materials of Anglo, this quarter we split the billing between the tuitions in the teaching materials, and the teaching materials will be charged only in 4Q.

So, the full year, actually would be the same, but by splitting tuitions and teaching materials, actually we have a tax benefit in the teaching materials, because tuitions have taxes and teaching materials do not. That is why we did the change.

But if you look at a year-to-date base, if you compare full-year margin of school last year 2013, we had 21%. If you look year-to-date the margin of school in 2014 it is 24%. So, in a comparable base, we are actually 3 p.p. higher than last year. 3Q is an outlier, but when you see a broader period, you see that actually we are growing margins in school.

And just to finalize my comment on school margin, this business is one of the businesses that we do expect margin increase for 2015 by higher prices, by bundling other services within our own student base. So, we do expect to increase margin on this. But thanks for your question.

Marcelo Santos:

Thank you for the answers.

I just wanted to get a picture from you about what do you expect for Wise Up next year in terms of growth and margins, I mean, on a broad range? Just where in the turnaround process do you believe you are and what can you deliver next year? That's the question.

Guilherme Alves Melega:

Okay. Thanks, Marcelo. I will first talk about Wise Up this year, what you can expect for the remaining of the year is that, we are going to have a stable revenue, because we are keeping the same number of students there in pretty much the same number of teaching materials at similar prices.

Although in terms of costs we do have a higher cost this year, we increased the rebates for the franchisees, we invested in our sales force and this year, we have a higher FIFA expense than we had last year, this year it is about R\$8 million, last year, it was R\$2 million. So, what you can expect for the remaining of the year is stable revenue but with higher costs. This will reduce the absolute value of our EBITDA in Wise Up.

For the next year, we are working to grow our business of course, and we are right now in a strategic retreat with our Board, setting the strategy for 2015 for all our businesses, which includes and I would say that, Wise Up is taking a significant amount of all our work here. We are developing plans for 2015 and will share these plans with market at our APIMEC event on December 11th, when we will make the brief of this strategic retreat.

Do not expect major changes in talking broadly about our business, but we do have more color to give you about Wise Up initiatives, that we are definitely focusing on growing the business, and for all of the remaining business that we have on our portfolio. But December is where we can give you more color about that.

Marcelo Santos:

OK. Thank you very much.

Operator:

And this concludes our question and answer session. At this time, I would like to turn the floor back to Mr. Mario Ghio for any closing remarks.

Mario Ghio:

We are comfortable to believe that our results so far are in line with our expectations. Now, our focus is in the campaign for 2015, I mean, the campaign for Learning Systems, both in the private and public segments. For the expansion of our students base and maintaining the loyalty of our current partners. We are right now in an offsite with our board, discussing and analyzing the strategy for the long-term growth of our company, which we will hope to share with you during our meeting with the investors to be held on December 11th, as Melega mentioned. Thanks again for taking your time with us and see you all on December 11th.

Operator:

Ladies and gentlemen, this concludes the conference for today. You may disconnect your lines at this time and we wish you a good day.

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