

Operator:

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everyone to SOMOS Educação 3Q15 earnings conference call. Today with us we have Mr. Daniel Amaral, CFO and IRO.

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 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 the operator.

Before proceeding, let me mention that Forward-looking statements are based on the beliefs and assumptions of Abril Educação 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 Educação and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Daniel Amaral, CFO and IRO. Mr. Amaral, you may begin your conference.

Daniel Amaral:

Hi, everyone. Thank you all for participating in another Somos Educação conference call. Today we will discuss the 3Q15 and the 9M15 results. I will start with the summary of the highlights for the period, and then I will briefly present the operational and financial performance. However, you can find all the detailed explanation in the earnings release which was filed last Friday.

Moving to slide number two we have the main highlights for the quarter. First we have the results of P&L in 2015, where our publishers Ática and Scipioni received the total order of 25 million books, including the repurchase for middle and high segments and also the purchase for elementary segment.

The revenue expected from the sales of these physical books under PNLD amounted to R\$250 million this year. Based on Abrelivros data, our total market share for this elementary cycle was 28.3%, ranking as number one in the program, with one of the best performances we had this past year. I will talk more about these results on the next slide.

Second highlight, we had the approval with no restrictions on October 22nd by the Brazilian antitrust agency, Cade, for the acquisition of Saraiva Educação. It is worth reminding that in addition to this CADE approval, there are other CPs condition precedents established in the SPA. And naturally, all the others CPs must be fulfilled prior to the conclusion of the transactions.

Now we will move to operating performance, starting with learning system, on slide number four. On the learning segment we ended September with a total of 944,000

students, an increase of 9% on the same period last year. This growth was mainly driven by the organic growth of 117,000 students, or 18% in the traditional learning system, which represents K12 schools, and we also have the addition of 39,000 students in (3:56) program. A solid growth of 82% in comparison to 2014.

This performance was important to offset the reduction we suffered in ETB, our technical learning system, due to the shrinking of Pronatec this year. As you observed, the consolidated average ticket is increasing 1% over 2014. This is basically a mix or a blending effect, with a higher growth on public segment and a higher contribution from the brands with lower average ticket on private, especially Ser and SESI. The average price increase implemented on individual brands this last cycle of 2014 and 2015 was around 7%.

Moving to slide number five, we have the publishers. As you know, the 3Q is not an eventful period for publishers in the private segment, but we registered a growth in book sales volume from 0.2 million in the 3Q14 to 0.3 million in the 3Q15. The public segment was for sure the main highlight, registering an increase of 7.8 million books, and the main factor was in anticipation of P&L repurchase cycle for middle and high school segment, which in 2014 were entirely made in the 4Q.

As we mentioned, in this quarter we had also the results for PNLD purchase cycle in the elementary segment. Our sales team did a quite good job on the field, delivering a combined share of 28.3% for Ática and Scipioni, ranking as number one in the program, with one of the best results in the past year, as you can see in the charts.

Considering both purchase and repurchase cycle, this year we had a total sales of 25 million books under PNLD, representing R\$206 million in revenues.

On slide number six we have number of students per school in the 3Q. We ended the 3Q15 with 30,000 students enrolled in our 25 units in K12 schools and prep courses, which represents an increase of 21% over the 3Q14, including the new acquisitions of Maxi Cuiabá, Sigma Águas Claras and Colégio 12 de outubro em São Paulo, which added 4,000 new students to our base.

When you look at a comparable basis for K12 preparatory schools, we had an increase of 10%, listing 14,500 in the 3Q15. In prep courses, the students base contracted by 1%, reflecting the more aggressive competition in this segment as reported last quarter.

Now, let us move to slide number seven, where we have the operating data for our english school business. I will start with the number of students for Red Balloon, which ended the 3Q15 with 18,400 students representing an increase of 24% over the past year. Regarding the total number of franchises, Red Balloon increased from 24 in the 3Q14 to 83 in the 3Q15, including the new 25 in-school program units.

Moving to Wise Up, at the end of the 3Q15 there were 66,000 students enrolled, down 8% from the 3Q14. In the 3Q15, the enrollments at Wise Up amounted to 13,100 students, a decrease of 21% over the past year. The reformulation of teaching material this year has minimized the effects of this contraction over the number of kits sold, as we can observe in the chart.

As part of the ongoing process we are running in restructuring the franchising system, there was also reduction of 20% in the number of franchisees, from 353 in the 3Q14 to 272 now in the 3Q15. As one of the first results of this process, we can observe a significant increase of 19% in the number of students per franchises now.

Now, moving to the financial performance, on slide number nine we have the revenue growth breakdown for 3Q15, an accumulated 9M period from January to September, comparing with the same period of 2Q14.

In the 3Q the major contribution came from publishers, adding almost R\$75 million in revenues. This is mainly explained by the anticipation of PNLD repurchase in the public segment, remembering that in 2014 these revenues were entirely concentrated in the 4Q.

Consolidated net revenues in the 3Q15 reached R\$307 million, advancing 46% in comparison to the 3Q14. This number includes almost R\$12 million in revenues from the acquired schools Sigma Águas Claras, Maxi Cuiabá and Anglo 21 Colégio 12 de Outubro in São Paulo.

On a comparable basis, net revenues advanced 40%. In the accumulated 9M period from January to September 2015, net revenues reached R\$911 million, growing 21% over 2014. The major contribution came again from publishers, with R\$67 million as explained before, followed by schools and prep courses with R\$57 million. On a comparable basis, net revenues grew 17% excluding R\$27 million from the newly acquired schools.

Going to slide number ten, here we have the total SG&A for Somos Educação. In the 3Q15 expenses amounted to almost R\$175 million, an increase of 25% from the 3Q14. To make a fair comparison, we must exclude the following lines from the 3Q15.

First, the recognition of expenses related to the new stock-based compensation plan of R\$1.8 million. Second, the increase in expenses related to the new schools acquired in 2015, totaling R\$4.1 million. Third, the expenses associated with the anticipation of PNLD, totaling R\$8.4 million. And last, the non-recurring expenses announced in 3Q15 of R\$12.4 million. Doing this adjustment, total expenses in the quarter would have increased by 6%.

On the next slide, we have the adjusted EBITDA growth breakdown. In 3Q15, EBITDA adjusted by the stock-based compensation plan and non-recurring expenses amounted to R\$49.5 million, advancing 96% over 3Q14. EBITA margin expanded 4 p.p., from 12% in 3Q14 to 16% in 3Q15.

Excluding the effect from the acquired schools of R\$0.8 million in 3Q15, the adjusted EBITDA would have advanced by 93% in the quarter. In 9M15, adjusted EBITDA increased 27% over 2014, already excluding the R\$5.4 million from the acquired schools.

On slide twelve, we have the composition for investments for the period. In 9M15, the total capital expenditure amounted to R\$107 million, and the number was 42% higher than the R\$76 million, reported in 9M14.

The increase is basically explained by, first, software licensing acquisition in the segregation of our Shared Service Center, we chose to be operated by Grupo Abril, our former controlling shareholder. This process is not only reducing expenses going forward, but also giving us more speed and flexibility to run our back office operations.

Second, we had the acquisition of copyrights for unrestricted use by ETB, our technical learning system. Last, still booked as intangible assets, we had the acquisition of copyrights of work class educational videos to enrich our product portfolio and the offering (?) representing to our school network.

Now, moving to the last slide, number fourteen. Here we have the Company's capital structure and the evolution of net debt. We ended 3Q15 with a total debt of R\$1.3 billion, a total cash of R\$320 million, which resulted in a net debt of R\$974 million. There is an increase of R\$124 million in our net debt, in comparison to 3Q14. Part of this increase is related to the business' seasonality and part is related to the anticipation of PNLD purchase cycle that happened this year.

Our leverage ratio in 3Q15 reached 2.5x net debt to EBITDA, below our debenture covenant for 2015 and 2016, of 3.5x of net debt to EBITDA.

Before opening to Q&A, I have just a quick remark about the tender offer. As we have already mentioned before, this process is being handled by our new controlling shareholder, Thunnus Participações, which is a company controlled by an investment fund and managed by Tarpos.

Regarding the tender offer process, on October 3rd, we had disclosed the notes to the market, restating that CVM is still conducting its analysis. Thunnus' expectation is that this process with CVM will settle shortly, and after a final decision, the tender offer notice will be published by Thunnus. Following this publication, our shareholders will have a 30-day period to decide whether to sell or not their shares to Thunnus.

That concludes my presentation and we can now move on to the Q&A session.

Thiago Bertolucci, Morgan Stanley:

Good morning, everyone. Thank you for taking my question. It's on PNLD. The government published a norm some weeks ago freezing part of the budget for textbooks. And today there was a news on Folha suggesting there were some delays on the payment schedule for this year. I would like to know from you how you are seeing the dynamics. Are you already buffering from this potential delay or if so far the government seems to be on schedule? Thanks.

Daniel Amaral:

Hi, Thiago. Thanks for your question. Actually, we are very concerned about this government delay. Last year was the first time in more than 20 years of this program that the government had this kind of delay. And actually, this Friday, after the release of these results, we received the note from the banking, regarding the second installment payment from the government for this deal purchase cycle.

We have disclosed that, for the first installment, the government has already paid almost R\$11 million, out of R\$43 million. And tomorrow we are expecting to receive another R\$50 million, but considering the total numbers the government is still in default of almost 40% from the first installment.

We are of course concerned about this. This is a big problem for us, but considering we have other sources of revenue, like learning systems, like schools, this is a problem. But for the industry as a whole, this is a bigger problem than for us. We are prepared for the worst case, considering to receive less than 50% of the total amount we expect to receive from the government by December.

But we have a minimum operating cash and we have reserve to survive into 1H16 if we see some delay as it has happened last year. Thank you for your question.

Thiago Bertolucci:

Thanks, Daniel. Thank you very much.

Thales Freire, Bradesco:

Good afternoon. You have mentioned in the release that the Company has been investing in new schools. I would like to know how many schools you intend to open next year. That is my first question.

Daniel Amaral:

Hi, Thales. Thank you for your question. Actually, we do not disclose this kind of guidance. I can see this year, we are opening eight new schools. And for the next year, we should pursue a goal of at least the same number we have this year. Thank you.

Thales Freire:

And, second question. You commented the Company acquired editorial content in the quarter. I would like to know what the impact will be in terms of costs savings going forward. And if the Company intends to keep this strategy.

Daniel Amaral:

Actually, we have some acquisitions in 2Q15, and now on 3Q15, we have more acquisitions of copyrights. This basically reduces the expenses we have as a percentage of sales, in this specific segment. One is the ETB, the technical learning system, and the second is educational videos that we are offering to the school's network, using our learning system.

ETB is basically a reduction of a reduction in the expenses we have, and the acquisition of videos is basically to enrich and offer a broader portfolio of products to the learning system. It is more related to the quality of the products, in the second. In the first, we do not disclose specifically for each business what is the percentage of the economies that we have in this copyright, but the payback of this is very good. It is less than three years.

So, basically we are doing a very accretive acquisition for this content. Thank you.

Thales Freire:

Ok. Thanks.

Operator:

This concludes the question and answers section. At this time, I would like to turn the floor back to Mr. Daniel Amaral for any closing remarks.

Daniel Amaral:

Hi, I just want to remind that 3Q was not an eventful quarter. The main highlight we had this quarter was, for sure, the safe performance that we had in PNLD. And it is worth reminding that this PNLD has a positive impact for repurchase both in 2016 and 2017. Second, I want to remember that 2015 is a year of restructuring for *Somos*, not a year of growth. We are investing a lot in people, in process, in technology. And this is crucial to pursue the long term growth we are expecting and ambition for this Company. Last, I want to thank you all for the attention.

And I want to invite you all to the Investors' Day we are scheduling for the beginning of December. You can find more information in our IR website until the end of this week. Thank you all and have a good day.

Operator:

Thank you, this thus concludes today's presentation, you may disconnect your line at this time and have a nice day.