

Conference Call Script - 3Q20

Operator:

Good morning, ladies and gentlemen, and welcome to Afya's Third Quarter 2020 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later we will conduct the question-and-answer session and instructions will follow at that time. As a reminder, this call will be recorded.

I would now like to introduce your host for today's conference Renata Couto, Afya's Head of IR. You may begin.

Renata Couto

Good Morning everyone. Thank you for joining us for Afya's third quarter 2020 conference call. With me on the call today is Afya's CEO, Virgilio Gibbon and Luis André Blanco, our CFO.

During today's presentation, our executives will make forward-looking statements. Forward-looking statements generally relate to future events or future financial or operating performance and involve known and unknown risk, uncertainties and other factors that may cause our actual results to defer materially from those contemplated by these forward-looking statements.

Forward looking statements in this presentation include, but are not limited to, statements related to our business and financial performance, expectations and guidance for future periods or expectations regarding our strategic product initiatives, and the related benefits and our expectations regarding the market as well as the potential impact from COVID-19. These risks include those more fully described in our filings with the Securities and Exchange Commission. The forward-looking statements in this presentation are based on the information available to us as of the date hereof. You should not rely on them as predictions of future events and we disclaim any obligation to update any forward-looking statements except as required by law.

In addition, management may reference non-IFRS financial measures on this call. The non-IFRS financial measures are not intended to be considered in the isolation or as a substitute for results prepared in accordance with IFRS. We have provided a reconciliation of these non-IFRS financial measures to the most directly comparable IFRS financial measures in this presentation. Let me now turn the call over to Virgilio Gibbon, Afya's CEO and starting with Slide 4.

Virgilio Gibbon, CEO – Slide 4

Thank you, Renata, and thanks everyone for joining us today. I hope that you and your families are all doing well. Since our last earnings call, the overall business environment did not materially change. Our key priority remains the health and safety of our students, faculty and employees.

Although there have been some disruptions from COVID-19, our teams pivoted to leverage our online and virtual technology capabilities and adjust offerings for our students that allowed us to generate strong results this quarter. We once again saw organic revenue growth, contributions from acquisitions, underlying margin expansion and cash flow generation.

Before we start with our financial and operational highlights, I am proud to share with you that we have just refreshed our brand. We are the only complete medical education platform serving every stage of the doctor's career providing solutions and methodologies for a personalized experience. And when company awareness grows, its brand also does. So this is our new logo that reflects our DNA and will support gradually every service and local brand. Please take a few minutes to watch our brand manifesto.

Moving to page 5, we discuss our main highlights

Starting with our topline, third quarter adjusted net revenue increased 52% YoY, mostly due to maturation of our medical school seats and consolidation of acquired companies. It is also important to highlight that the discounts granted by state decrees and legal proceedings due to COVID 19 on site classes restriction did not impact us materially and represented around 1% of our Net Revenue in the 3Q20.

In 2020, profitability continues to run ahead of last year, as we not only grow the business but are capturing synergies from acquisitions to leverage that growth. Adjusted EBITDA margin increased 340 basis points year-over-year, and net income was up 47% to 101 million reais.

At the end of the third quarter, we had approximately \$1.1 billion in cash and cash equivalents on our balance sheet and the Cash Conversion for the 9 month 2020 was 86%. Despite any short-term challenges posed by COVID-19, we remain confident in our strong cash flow and healthy balance sheet to manage through the current crisis and beyond.

With respect to M&A, our team continues to successfully execute both on generating and closing new business as well as capturing synergies. We are particularly pleased with our acquisitions into Digital Health Services with PEBMED, which we quickly followed up with Iclinic and Medphone.

At the same time, we continue to grow our medical seats, acquiring two companies during the quarter and another one subsequent to quarter end. With these acquisitions we are now at 85% of our IPO three-year target of adding 1,000 medical seats.

On a separate topic, I am very pleased to share that we were the winners in the Education sector in the Época Negócios 360 survey. This award, which has been held annually for 7 years, is one of the most significant in the Communications industry and recognizes companies that are market leaders across six different categories including Financials, Corporate Governance & Sustainability, Vision and Human Resources. Besides that, we also have won the Golden Tombstone in the Equity category. This award is valued by IBEF SP and recognizes Equity Operations in aspects such as complexity of the transaction, innovation, pricing and others, and Afya's award was due to our successful IPO in 2019.

Moving Next to a Discussion of our Recent Digital Acquisitions on page 6

Even during these challenging times, we remain committed to delivery innovation to our students, faculty and other health care professionals. COVID did not slow down implementation of our strategic initiatives. In fact, we have accelerated our digital investments.

We are expanding our digital offerings and we began this digital journey with the acquisition of PEBMED, which we discussed on the last quarter call. As a reminder, PEBMED provides tools and content for health care professionals through the Whitebook and Nursebook apps and through the PEBMED news portal. It is also the market leader in clinical decision software and has an extremely popular app – ranking in the Top 10 Brazilian apps by consumer spend and a NPS of 85. The business model consists of both paid subscriptions and free content, providing additional sources of revenue for us.

We followed this with the acquisition of iClinic, a leading practice management software for physicians in Brazil, which includes electronic medical records, clinical management system, telemedicine and a complete marketplace that connects doctors and patients to schedule consultations. We currently have close to 12,000 monthly subscribers with monthly average revenue per user of R\$107. With this acquisition we have strengthened our position into the digital health services segment complementing our end-to-end offering to the health care professionals and providing another revenue source.

And subsequent to quarter end, we announced the acquisition of MedPhone, the number two medical App in Brazil behind WhiteBook – a PEBMED company. MedPhone has 175,000 registered users and close to 60,000 monthly active users and a 4.9 score in AppStore with more than 9,100 reviews. The integration of MedPhone’s clinical decision software with PEBMED will generate synergies and allow us to offer both products through the same platform.

Importantly, the founders of these acquired companies will join Afya and will be an integral part of the digital team driving our growth in the health tech services.

These have been key acquisitions for us as they accelerate our digital health efforts to improve the user experience and efficiency of both health care students and other health care professionals. There are approximately 500,000 doctors in Brazil and close to half of them are currently using our Digital products and services. Our goal is to improve even more our penetration to support the largest majority of physicians in Brazil with our digital health services platform.

Moving next to page 7, as we discuss our overall strategic positioning

As we look to the future, we see the opportunity to maintain a long term relationship with physicians from the time they enter into our schools as undergraduates through residency prep, specialization studies and then through their entire careers.

We believe the investments in our medical programs and new Digital Health products will provide growth in revenue and profits for many years as well as strengthening our relationships with medical students and other health care professionals. Importantly, our Digital investments are already paying off by opening new business and revenue opportunities for us.

We will also continue to consider acquisition targets. And, as shown on the bar chart on the right, we have been adding medical seats – 851 in just 15 months while also increasing our geographic footprint. This increase in medical seats drives a predictable revenue stream and maximizes cash flow predictability as well. We are also looking to further grow our digital assets through the disciplined acquisition of businesses complementary to, as well as further broadening this business.

Importantly, our balance sheet remains healthy with positive cash flow generation that provides us with the resources to continue to grow the business both organically and through M&A.

Summing up – before turning the call over to Luis.

Our accomplishments throughout 2020, as we continue to navigate through an unprecedented environment, are a proof of the strength and resilience of our business model and the exceptional work of our passionate team.

We are focused on creating shareholder value by delivering against our financial targets, investing in growth, driving top line momentum and implementing our strategic priorities.

I will now turn the all over to Luis for a further discussion of our financial results and second half 2020 guidance.

Luis André Blanco, CFO

Thank you, Virgilio, and good morning everyone.

Moving to page 9

Similar to past calls, my discussion this morning will focus on the main and most significant P&L items. There is additional info in the earnings press release that you can refer to for more information. I am pleased that we delivered another good quarter across all key metrics. Let me highlight a few:

- Both medical seats and students saw significant increases during the quarter. With respect to the number of medical schools' seats, we added 294 seats year over year for a total of 1,516.

Reflecting the seat maturation process and acquisitions, the total number of students in 3Q20 was 9,567, an increase of 50% over the same period of the prior year.

- Adjusted Net revenue for the quarter which includes the impact of state decress and individual and collective legal proceedngs related to discounts granted due to COVID-19 on site classes restrictions, was up 52% year-on-year to R\$313 million, partially benefitting from the recognition of revenue that had been deferred earlier in the year when practical classes were unable to take place. This deferred revenue amounted to R\$14.4 million in the quarter.

Excluding the acquisition of UniRedentor, UniSL and PEBMED, Net Revenue grew by 16% Year over Year, reaching R\$239 million. The increase was primarily driven by organic revenue growth, mainly due to the maturation of medical school seats and an increase in the average ticket.

- The strong top line growth combined with cost efficiencies and synergies from acquisitions was reflected in Adjusted EBITDA increasing 63% to R\$149 million and the margin expanding 340 basis points. Adjusted EBITDA also benefitted from the inclusion of the deferred revenue I just mentioned. Excluding the consolidation of UniRedentor, UniSL and PEBMED, Adjusted EBITDA increased 32% year over year to R\$121 million and margin increased 620 basis points to 50.4% .
- Adjusted Net Income increased 47% from 3Q19 reflecting the revenue contribution, synergies captured and margin expansion from the consolidation of acquisitions. Earnings per share increased 48% from R\$0.54 in third quarter 2019 to R\$0.80 in third quarter 2020.

Moving on to page 10 for a discussion of key operating metrics by business unit.

We delivered solid growth across both Business Units. Growth in key operating metrics as shown on this slide is being driven by a combination of organic growth and acquisitions.

Starting with BU-1. Our average monthly medical tuition fees at the nine months were 8,053 reais, which was 17% above the same period in 2019. This reflects a combination of new students enrolling with a higher tuition rate combined with the students graduating with a lower tuition. As a reminder, this does not include UniRedentor and UniSL.

As shown in the middle chart, 78% of our combined tuition fees are derived from medical school, up from 69% in the same period of the prior year. The combination of a 50% increase in the number of students and a 17% increase in average ticket resulted in medical tuition fees up 41% when compared with the same period of the prior year.

With respect to BU-2, we had 113 thousand active paying users at quarter end, which includes 95 thousand from PEBMED. Excluding PEBMED, for the nine-month period we saw a 40% increase in active paying students. We saw the largest increase – 132% in specialization due to the acquisition of Uniredentor.

Now, turning to page 11, for a discussion about the Traction we are Gaining with our Digital Assets

All these recently acquired businesses are also helping to elevate our brand as well as deepening our connection with students and physicians.

We have focused our efforts over the last year on continuing to enhance the student experience. We are closely monitoring their behavior and targeted, personalized approach to keep them engaged.

The digital investments that we have made enabled us to be agile and ensure that we were supporting our students as well as the broader health care industry with what is so important to them: quick and timely access to important medical information and community. This is more critical now than ever and is also a key lever for both member acquisition and retention.

As shown on the charts on this page, we are seeing positive gains from our move to digital engagement. In the third quarter, Monthly Active Users across our Medcel and PEBMED platforms were close to 183,000, combined.

On the chart on the right you can see the trend in current consumption. Content that users are consuming include podcasts, learning assessment tools as well as instructional medical webinars. We are also seeing positive traction here with a 9% increase when compared to 1Q20 when we began our push into digital assets. The higher performance in 2Q is partially reflective of us opening up our digital assets for free at the start of the pandemic to other students and health care professionals temporarily inflating the number of users.

In sum, we keep looking for ways to modify and enhance our business units and to elevate our service offerings. And, as we further build our digital capabilities, we will

have a strong foundation of product offerings to support our long-term growth objectives to empower the physician.

Moving on to a deeper analysis of Revenue & EBITDA on Slide 12

As shown on this page we have provided a net revenue and adjusted EBITDA bridges from our historical 3Q19 revenue to reported 3Q20.

For the nine-month period adjusted net revenue increased 62.3% to R\$859.8 million. Excluding UniRedentor, UniSL and PEBMED, adjusted net revenue grew 35% through September to R\$715 million, with a contribution of R\$93 million from acquisitions and R\$90 million from organic growth, which is comprised of the maturation of medical school seats and increase in average ticket. UniRedentor contributed revenue of R\$64 million in the nine-month period while UniSL contribution was R\$73 million and PEBMED was close to R\$7 million. Lastly, there was also a R\$4 million benefit from the non-recurring discounts granted due COVI 19..

On the right side of the page, we show 9 month 2020 Adjusted EBITDA. During the period Adjusted EBITDA increased 77% Year on Year to R\$408 million, with a 390 basis points expansion in margin due in part to a R\$50 million contribution from UniRedentor, UniSL and PEBMED and \$4 million from the non-recurring discounts granted due COVI 19.. Excluding the contribution from these acquisitions, Adjusted EBITDA advanced 54%, to R\$356 million with R\$48 million contributed from acquisitions and R\$75 million from organic growth. The Adjusted EBITDA margin excluding these three companies expanded 1,020 basis points.

Moving next to a discussion of Cash Flow on Slide 13.

Cash and cash equivalents of R\$1.1 billion at quarter end were 3% higher than at period end 2Q20 reflecting the strong cash generation that we had in the quarter. The majority of these funds is invested in low-risk Brazilian real-denominated instruments.

Total debt was R\$599 million at quarter end 2020, up from R\$535 at the end of 2Q20 and R\$361 million at year end 2019. The increase reflects acquisition payables.

Cash flow generation remained strong in the nine-month period, increasing 39% to R\$325 million which resulted in a cash conversion ratio of 86%, compared to 109% in the same period of 2019. This decrease in cash conversion rate year over year is mainly due the consolidation of Medcel business, our students' renegotiation of overdue monthly installments due to Covid-19 crisis and we saw a decrease in advances from students.

Turning next for a discussion about Proforma Cash and Debt on Slide 14

On this page we have bridged our cash position at the end of the third quarter to arrive at a proforma level. This bridge takes into account the cash outflows for the 5 announced acquisitions since second quarter end, coupled with an increase in bank debt to support our growth initiatives. All of these actions have resulted in a proforma cash position of R\$656 million compared with R\$1.1 billion on September 30.

By contrast, our proforma gross debt has increased to R\$1.3 billion from R\$599 million at September 30th. The increase reflects the increase in bank debt that I just mentioned coupled with debt we assumed with the acquisition of FCMPB.

Turning next for a discussion about Guidance on Slide 15.

We are reaffirming our second half 2020 guidance based on the solid performance in the third quarter. Our Guidance takes into account the successfully concluded medicine students intake for the second half of 2020.

As a reminder, the world is still in the middle of a pandemic, economies are slowly opening up, and our guidance takes into account the best information available at this point in time.

Two key metrics for second half 2020 guidance are as follows:

- 2H20 Net Revenues: between R\$600 million and R\$640 million.
- 2H20 Adjusted EBITDA Margin: ranging between 45.5% and 47.0%.

Our guidance includes the impact of the adoption of IFRS16, UniRedentor starting February 2020, UniSL from May 2020, and PEBMED from late July and excludes any other acquisition that may be concluded after the issuance of the guidance.

Additionally, included in the revenue outlook is the revenue recognition for some practical classes that could not be held during the first half and were pushed out to second half of 2020 upon resumption of classes. This amounts to R\$14 million.

Before opening the call to questions, let me finish by saying that we are pleased with our performance in Q3 within the context of the challenging environment. I would like to thank every one of our employees and faculty for their continued hard work and resilience during these unusual times.

We remain confident that our strategic investments are establishing a solid foundation, creating further differentiation and positioning us for continued strong financial results that will drive long-term shareholder value creation.

This ends our prepared remarks. We are now ready to take your questions.

Operator, please open the lines for questions.

Q&A Portion

After Q&A, the operator will turn the call back to Virgilio for closing remarks

Thank you for joining us today and we look forward to speaking with you next quarter.