

Conference Call Script - 1Q21

Renata Couto

Good Morning everyone. Thank you for joining us for Afya's first quarter 2021 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 am very pleased to report a strong first quarter 2021 results continuing the positive trend of 2020, and also reflecting the successful execution of our strategic initiatives. We continue to deliver the combination of our strong and predictable growth with high profitability and healthy cash generation.

But, before we go through our financial highlights and detail our 1st quarter results, I would like to present our last acquisition.

We are very excited and honored to announce UNIGRANRIO acquisition and to enter definitely in Rio de Janeiro State.

This acquisition is a milestone for Afya. Considering the 308 seats from UNIGRANRIO, we will reach 1,159 seats acquired in less than 2 years, over delivering our guidance released during IPO.

The 308 authorized seats translates in 2,218 students at maturity, representing an embedded growth of 25% considering the current medical student base of 1.8 thousand today. Including UNIGRANRIO acquisition our total medical students at maturity is expected to reach 18.8 thousand students, representing a CAGR of 9% from 2020 to 2026.

Health sciences related courses are a important share of their business as well, with more than 5.7 thousand students.

And, to enhance Afya's Continuing Education offerings, 860 health related graduate students will be integrated to our student base.

I would also like to highlight the prestigious brand and the great academic quality of the institution: UNIGRANRIO has the highest quality score among all for-profit

Universities and University Centers in the state of Rio de Janeiro with a solid IGC continuous of 3.16.

Moving to the next slide to talk about the synergies in this transaction,

Today UNIGRANRIO has 1.8 thousand medical students what represents an embedded growth of 25% and 2.2 thousand medical students at maturity with 100% of occupancy.

This large health ecosystem is a fertile opportunity to offer AFYA's Digital Medical Services and cross sell Continuing Medical Education programs leveraging the Life time value of each student.

Back office activities will be migrated to our shared services center and, our career plan and medical curriculum will also be implemented, generating synergies already proved in past acquisitions.

UNIGRANRIO has also a Distance Learning Expertise with 79 distance learning centers and maximum quality score evaluation. All of this footprint and capabilities will be applied to improve margins of Afya's ex-Health undergraduate courses migrating on campus traditional students to a more hybrid learning process.

In terms of net revenues, UNIGRANRIO reported R\$263 million in 2020, of which 49% comes from medical courses and 68% also considering health related programs. At maturity in 2023, net revenue is expected to reach R\$343 million with 71% in medical courses and 85% in health related programs. Post synergies and maturation, this transaction is very accretive with an expected EV/EBITDA of 4.1x

The aggregate purchase price is R\$700 million, with payment structured as follows:

- 60% paid in cash upon closing of the transaction
- The remaining 40% is payable in cash in 4 equal installments through 2024, adjusted for the CDI rate

- There are 82 additional seats still pending approval. If approved it will result in a potential earn out structured as follow:
 - R\$ 1.1 million per seat if the approval is granted in the first year after acquisition
 - R\$ 1.0 million per seats if the approval is granted in the second year after acquisition
 - R\$ 0.9 million if approval is granted between the third and fourth year after acquisition

To get more informations about this acquisition I invite you all to see the presentation in our investor relations website.

Now moving to the next page - let's discuss the highlights for the quarter:

First, I would like to reinforce that we will start in this quarter to segregate our results in three business units.

Undergrad, what we used to call BU-1, comprised of undergraduate medical courses, health science courses and other courses.

Second, continuing education, comprised of specialization and graduate courses.

Third, Digital Services, which includes all services and products that composes the six pillars that our strategy is based on: Content & Technology for Medical Education; Clinical Decision Software; Practice Management Tools & Electronic Medical Records; Physician-Patient Relationship; Telemedicine, and Digital Prescription.

I am pleased that we have concluded another two acquisitions to enhance our digital offering.

At the end of January we closed the acquisition of iClinic, a practice management software. This acquisition consolidates our position in the practice management tools, telemedicine and digital prescription pillars.

At the end of the quarter we also announced the acquisition of Medicinae, a healthcare technology company that specializes in healthcare payments and financial services.

Moving on the chart we will highlight our results:

Starting with our topline, Adjusted Net revenue grew 48% year over year, reaching R\$ 403 million in the first quarter due to the consolidation of acquired companies, maturation of medical school seats and expansion of Digital Services' active paying users.

Adjusted EBITDA also increased 48% year over year, reflecting the synergies extracted from acquisitions.

Adjusted Net Income was up 22% year over year, reaching R\$160 million.

Total growth was partially offset by lower financial results, due to three reasons:

- The increase in loans and financing in R\$530 million, and,
- Exchange rate depreciation between Brazilian Reals and US Dollars of 11% from December 2020 to March 2021 combined with the 29% exchange depreciation rate between Brazilian Reals and US Dollars from December 2019 to March 2020, that increased the financial results at the time due to our cash position in US Dollars, and,
- Lower income from financial investments due to the decrease of Brazilian interest rate – CDI and lower cash position

Cash conversion reached 103% in the first quarter of 2021, with a solid cash position of R\$966 million, slightly lower than 2020 due to the payment to selling shareholders.

It is worth to recognize our collection process that, even considering the more flexible renegotiation policy adopted in 2020 because of Covid, our cash conversion ratio was 22pp above last year same period.

The number of medical students was up 62%, due to the consolidation of acquisitions and maturation of medical seats. Without considering acquisitions, the number of medical students was up 22%, reflecting only the maturation of current seats.

Moving to the next page we will discuss the guidance issued for the first half of 2021

Regarding the results for the full year 2020, we issued guidance on net revenue and EBITDA margin for the first semester of 2021.

Net revenue is expected to be between R\$740 and R\$780 million and EBITDA Margin is expected to be between 46% and 48%, excluding any acquisition that may be concluded after issuance of the guidance. For instance, UNIFIPMOC is not being considered. We expect to conclude this operation on June, 2021.

We are on track to achieve our guidance with the first quarter results.

Reported Net Revenue for the quarter was R\$ 403 million, achieving 53% of the middle guidance.

In terms of Adjusted EBITDA, we achieved 60% of the middle guidance, with an adjusted EBITDA margin of 52% for the quarter.

These strong results stem from a combination of medical school seats and average ticket maturation, distribution of digital services into our ecosystem and successfully concluded acquisitions.

I will now turn the call over to Luis who will detail our financial results

Luis André Blanco, CFO

Thank you, Virgilio, and good morning everyone.

Turning to the next slide to discuss the financial highlights of the first quarter 2021

I am pleased to present the high-growth track record that we were able to achieve in the last three years. Since 2019, we saw a strong trend in all key metrics:

- Adjusted Net revenue for the year, was up 48% year-over-year to R\$ 403 million, reflecting acquisitions and organic growth. Excluding the acquisitions Net Revenue grew by 11% Year over Year, reaching R\$301 million. Such increase was primarily driven by organic revenue growth, mainly due to the maturation of medical school seats and an increase in the average ticket.
- In terms of adjusted EBITDA we almost tripled our results in just 2 years, reaching R\$ 208 million, representing a 48% growth year over year. EBITDA margin remains flat comparing the first quarter of each year, reflecting higher EBITDA margins of integrated companies that were offset by lower margins of recently acquired companies.
- Adjusted Net Income was up 22% YoY, reaching R\$ 160 million, partially offset by the reasons mentioned by Virgilio.
- Our EPS had an increase of 6%, reaching R\$ 1.16 per share.
- Cash flow generation remained strong in the three-month period, increasing 81% to R\$194 million which resulted in a cash conversion ratio of 103%, compared to 81% in the same period of 2020.

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

Starting with Undergrad Programs

Operating Medical seats increased 25% YoY, to 1,893 operating seats. Medical students were up 62%, reaching a base of 12,852 students, reflecting medical seats maturation and acquisitions.

Our average monthly medical tuition fees were up 6% compared to the first quarter of 2020, reaching R\$ 8,714 excluding acquisitions. This reflects a combination of new students enrolling with a higher tuition rate combined with students graduating with a lower tuition rate.

Talking about revenue mix, 80% of our combined tuition fees are derived from medical schools, up from 77% in the same period of the prior year. In terms of total tuition fees we reached R\$ 414 million, up from R\$ 252 million, an increase of 64% YoY.

On the next page I will present Continuing Education metrics

We saw a 30% decrease in in Net Revenue.

This decrease was due to a reduction in paying students because of practical programs that are not being offered since August, 2020 and represents an impact of R\$ 7.9 million in Net Revenue and, physician's decision to postpone the intake in specialization courses due to COVID-19 pandemic.

Although, with the combination of the opening of 6 new campuses in 2021, expanding the specialization's portfolio and the strong intake process that started in 2Q21, IPEMED's reached 1,779 students in April 2021.

Going to the next slide, I will discuss Digital Services metrics

On the first graph in the slide you can see our active paying students per pillar. Those are the active subscribers that generates revenue. Medcel active paying students grew 53% year over year.

Clinical Management Tools reported a subscribers base of more than 13 thousand users and Clinical Decision software more than 110 thousand active users. We have a great opportunity here to distribute all products in this ecosystem.

This results reflected in a 58% increase in Digital Services' net revenue.

The last graph on the page shows the monthly active users that reach 221 thousand students and physicians all over Brazil, this accounts for approximately 30% of the market of medical students and doctors in Brazil.

Moving to next page, I will discuss in more details the Net Revenue and EBITDA Growth

We saw a 48% increase in Net Revenue year over year, of which 78% are coming from the consolidation of acquired companies.

On the right side of the page, we show the bridge of Adjusted EBITDA for the first quarter of 2021.

During this period, Adjusted EBITDA also increased 48% Year over Year to R\$208 million, with high margin as we presented in the past years, 75% of the increase is coming from 2021 acquisitions, the other 25% is coming from the synergies extracted from the acquired companies that we integrated into our shared services, the occupation of medical seats that increased to 100%, and the implementation of a career plan and integrated curriculum.

Moving next to discuss Cash and Net Debt Position

Cash and cash equivalents of R\$966 million at quarter end were 8% lower than at year end 2020, reflecting the payment for the acquired companies.

This cash position does not consider the closing of the Softbank operation, which was closed subsequent to quarter end.

Total net debt was R\$230 million at quarter end 2021, up from R\$167 million in the end of 2020.

Considering digital acquisitions that were closed subsequent to quarter end and Unifipmoc and Unigranrio acquisitions that were already signed but not closed, our proforma net debt would reach R\$1,3 billion.

I will now open the conference for the Q&A session, thank you.

Q&A Portion

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

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