

AFYA Earnings Call Transcript

Date: 2025-08-13

Quarter: 2

Operator: Thank you for joining us for Afya's conference call. I'm here today with Afya's CEO, Virgilio Gibbon; and our CFO, Luis Andre Blanco. During this presentation, our executives will make forward-looking statements. Forward-looking statements can be related to future events, future financial or operating performance, known and unknown risks, uncertainties and other factors that may cause Afya's actual results to differ materially from those contemplated by these forward-looking statements. Forward-looking statements in this presentation include, but are not limited to, statements related to the business and financial performance, expectations and guidance for future periods or expectations regarding the company's strategic product initiatives and its related benefits. 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 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. These measures are not intended to be considered in isolation or a substitute of the results prepared in accordance with IFRS. This presentation has reconciled these non-IFRS financial measures to the most directly comparable IFRS financial measures. Now let me turn the call over to Virgilio Gibbon, Afya's CEO.

Virgilio Deloy Capobianco Gibbon: Thank you, [indiscernible], and welcome to our second quarter and first half conference call for 2025 results. Starting with the Slide #3. We are pleased to report that Afya continues to deliver strong operational and financial results. This quarter's performance highlights the high predictability of our business model and the successful execution of our strategy, which consistently combines robust growth, increased profitability and solid cash generation, Afya's three strategic pillars for long-term value creation. This quarter, once again, was marked by significant revenue growth and gross margin expansion in both our Undergrad and Continuing Education segments, reflecting the steady expansion of our business and our ongoing commitment to operational excellence. We are also pleased to reaffirm that Afya remains on track to meet our full year 2025 guidance, supported by disciplined execution and strong business fundamentals. Once again, we delivered strong performance closing the first half of 2025 with a notable growth of 15% in revenues, reaching BRL 1,856 million. Adjusted EBITDA reached BRL 893 million, expanding 20% year-over-year with an impressive margin of 48.1%, an increase of 220 bps over last year. This margin expansion was primarily driven by the solid results of our Undergrad and Continuing Education segments supported by cost initiatives and our shared service center, helping to boost efficiency and unlock operations synergy across selling, general and administrative expenses. In addition, supported by the increase in adjusted EBITDA, our basic EPS climbed to BRL 4.69, representing a 17% increase over the previous year. Even after accounting for the effects of the new tax legislation aligned with the OECD Pillar Two rules, we continue to deliver higher value to our shareholders. Moving to our operational updates. We have 3,653 approved seats with the closing of FUNIC acquisition, which contributed an additional 60 seats to our portfolio. Furthermore, our number of undergrad medical students has reached almost 26,000 students, representing nearly 14% growth compared to the first half of 2024. In addition, the medical school net average ticket, excluding the UNIDOM acquisition, reached BRL 9,140 over 3% increase year-over-year. In Continuing Education, revenue increased almost 8% over last year, reaching BRL

138 million and in Medical Practice Solutions, we saw over 9% growth in revenues compared to the first half of last year, reaching BRL 84 million. Lastly, our ecosystem reached 302,000 active users, reflecting strong engagement and deep penetration among physicians and medical students across Brazil. Moving to Slide #4, where we'll discuss the highlights across our 3 business segments. Starting with the Undergraduate segment, medicine costs continue to show strong performance with a student base increase of 14%. This growth, in addition to integration of UNIDOM and the ramp-up of 4 Mais Medicos campuses launched in the third quarter of 2022 contributed to a gross margin expansion for the segment. Additionally, as already mentioned, we completed the acquisition of FUNIC, which added 60 new medical seats to our portfolio, with operations started in the second semester of 2025, further strengthening our academic capacity and presence. The Continuing Education segment was marked by an increase in graduate journey students in addition to our gross margin expansion, driven by our ongoing operational restructuring, which continues to contribute to improving costs. Medical Practice Solutions segment, growth was driven by clinical management payers, an increase of 10% year-over-year. B2P, business to physician, revenues for the first semester also saw a growth of almost 12% compared to the same period of the prior year. On the next slide, I would like to share Afya's new share repurchase program approved by the Board of Directors. We plan to repurchase up to 4 million Class A shares by December 31, 2026 through open market transactions or privately negotiated deals. This initiative reflects our strong commitment of creating shareholder value and ensuring sustainable business performance. It also reaffirms the strength and the robustness of our balance sheet, while reflecting our disciplined and forward-looking capital allocation strategy aligned with the current economic and political landscape. And now I will turn the call over to Luis Blanco, Afya's CFO, to provide further insight into the financial and operational metrics. Thank you.

Luis Andre Carpintero Blanco: Thank you, Virgilio, and good evening, everyone. Starting with Slide #7 for discussions of key operational metrics by business unit, starting with the Undergraduate programs. The number of medical students grew almost 14% year-over-year, reaching nearly 26,000 students, while the number of approved medical seats increased 14%, totaling 3,653 seats, considering the FUNIC acquisition. Our medical school net average tickets, excluding the UNIDOM acquisitions, rose by over 3%, reaching BRL 9,140 in the end of the first semester. As a result, revenue for the Undergraduate segment grew over 16%, totaling BRL 1,642 million. It's worth mentioning that 86% of this revenue comes from the medicine programs and [94%] from health-related courses, reinforcing our strategic focus and leadership in the sector. In the next page, I will present our Continuing Education metrics. We approach Continuing Education through 3 main journeys, starting with the graduate journey, the most relevant within Continuing Education. It presented a 12% growth, reaching 9,055 students and other courses and B2B offerings also saw a solid growth of 19% compared to the same period of last year. The residency journey which include products focus on the medical residency preparation ended the quarter with 9,224 students, a 29% decrease year-over-year. Revenue for Continuing Education rose to BRL 138 million, up from BRL 128 million in the first semester of 2024, representing an 8% growth. This includes a 5% increase in B2P revenue and an impressive 42% increase in B2B. Continuing on the next slide, I'll discuss the Medical Practice Solutions operational metrics. The first graph shows our total active payers, which generate revenues in business to physicians. This semester, we maintained a solid of 196,000 paying users, in line with the same period of the prior year. The second chart highlights our monthly active users, which accounts for 230,000, a reduction of 9% in comparison to the same period of the prior year. Finally, the third chart presents the revenue for the segment, which grew over 9% year-over-year, reaching BRL 84 million. Of this, BRL 75 million come from B2P, up 12% and BRL 9 million from B2B, 8% down compared to the same period of the prior year. On the next slide, we present Afya ecosystem. We are proud of the meaningful impact of Afya continues to make across Brazil health care ecosystem. By the end of the second quarter of 2025, 302,000 users were actually engaging with our service and products, reflecting our solid relevance and reach in medical education and medical solutions. Moving forward to Page 11, I want to discuss our financial overview for the second quarter and the first half of 2025. Starting with the next slide. With great satisfaction, I present another strong quarterly performance for Afya. Revenue for the second quarter of 2025 reached BRL 919 million, reflecting a 14% increase over the same quarter of the prior year. And for the 6-month period, revenue was BRL 1,856 million, an increase of 15% over the same

period of last year. This growth is mainly driven by a 3.2% increase in the net average ticket for medical courses, maturations of medical seats and acquisitions of UNIDOM. In the second quarter of 2025, adjusted EBITDA increased 17% to BRL 401 million with an adjusted EBITDA margin of 43.6%, marking an increase of 110 basis points compared to the second quarter of 2024. For the 6 months period, adjusted EBITDA was BRL 893 million, an increase over 20% in comparison to the same period of the prior year, with adjusted EBITDA margins of 48.1%, an increase of 220 basis points in the same period. The adjusted EBITDA margin expansion is mainly due to a gross margin expansions within Undergraduate and Continuing Education segments, completion of UNIDOM integration, the ramp-up of the 4 Mais Medicos campuses that started operations in the third quarter of 2022, operational restructuring efforts in our Continuing Education and Medical Practice Solutions segments, and more efficiency in selling, general and administrative expenses. On the next page, cash flow from operating activities grew 15%, totaling BRL 783 million, driven by our robust operational performance. The operational cash conversion ratio was 88.8% in the second half of 2025. Net income for the second quarter of 2025 amounted to BRL 177 million, a 9% increase from the same period of 2024. For the 6-month period that ended in June 2025, we saw an increase in net income reaching BRL 434 million, representing an increase of 70% year-over-year. Our net income this quarter reflects not only our strong operational performance, but also the impact of the new tax legislations implementing to the OECD Pillar Two growth. Our base EPS reached BRL 1.90 for the quarter, an 8% increase compared to the previous year and BRL 4.69 per share in the first 6 months period, a growth of 17%. And now moving to my 2 last slides will discuss our cash and net debt positions, also giving more color on our cost of debt. This slide presents a table detailing our gross debt compositions and total cost of debt, covering our primary obligations. The SoftBank transactions, the debentures, other financial liabilities, the IFC financing and accounts payables to selling shareholders. Afya capital structure remains solid with a conservative leverage position and the low cost of debt. Afya's net debt, excluding IFRS 16 divided to the midpoint of the 2025 adjusted EBITDA was only 0.97x. On the next page, we can look closely at our net debt variation. As of the second quarter of 2025, our net debt has reduced to BRL 1,621 million when compared to the end of 2024, a reduction of BRL 194 million even considering the payment of dividends and acquisition of FUNIC, reflecting our strong operational performance and capital allocation discipline. This concludes our prepared remarks. We are proud of our strong performance we've delivered this quarter. Our focus on improving the medical journey through an integrated educational system and Medical Practice Solutions remains strong, helping students to become doctors, supporting ongoing medical learning and making physicians more accurate and efficient. Looking ahead, we are excited about the opportunities in front of us, and confident in our ability to keep creating value in the entire ecosystem. I will now open the conference for the Q&A session. Thank you.

Operator: [Operator Instructions] Our first question comes from Lucca from Itau BBA.

Lucca Generali Marquezini: Our question regards the main leverages here for profitability expansion in the quarter. So you mentioned that one of the levers was improved efficiency in SG&A; expenses. If you could provide just more color on each of the segments these efficiencies are focused on? And then going forward, if you expect any further dilution in SG&A; expenses? That would be very helpful.

Luis Andre Carpintero Blanco: Thank you, Lucca. Blanco speaking. I will take your first questions. We always chase the higher efficiency performance by our shared service. So during this period, we had some additional centralizations regarding some service that was still on the Undergraduate units. We centralized it in our shared service. On top of that, remember that last year, on the Continuing Education segment and the practical management -- Medical Solutions segments, we made a huge transformations beginning on the first quarter, centralizing all the teams from different products from different units in a single team. So all of that help us to have the expansion that we presented in our margins during 2024. And these initiatives are keeping providing results during this year. So it's a little bit what we are doing and we are keep doing -- capturing all the synergies that we can within the 3 segments.

Virgilio Deloy Capobianco Gibbon: It's Virgilio, just to add here some points. Just remembering that, well, remember that we launched 4 Mais Medicos campuses 2.5 years ago and they are still maturing. So it's leveraging operational leverage as we have a very efficient G&A; corporate structure. So as the

top line goes up, you'll have all the synergies being captured to the bottom line. Also UNIDOM, UNIDOM is still maturing. It's a huge operation in Salvador. So it's improving the gross margin from the campus side and also helping to leverage and push our bottom line EBITDA margin. And the simple -- it's worth to mention here that, well, this first half, it's an all-time high first half EBITDA margin since we became publicly traded in 2019. So we are talking about efficiency. So that's the beauty of all the model that we designed in the past and now we have the full maturation of most of our campuses, of our operation, and also as Blanco mentioned, also capturing value and leverage from Continuing Education and Digital Services.

Operator: The next question will come from Flavio from Bank of America.

Flavio Yoshida: Thank you for the opportunity to ask questions. I have two on my side. The first one is on the guidance, more specifically on the EBITDA guidance and taking into consideration what you just mentioned about some more efficiency and more leverage. So if we annualize the first half EBITDA, we reached to roughly BRL 1.8 billion, right, for the year, which is slightly above the top of the guidance range. So given that there wasn't any guidance revision here, should we expect the EBITDA for the second half to be slightly below the first half? Or you guys just prefer to be a little bit more conservative here? And then my second question is on tax rate, okay? So if we consider the -- not only the second quarter but also the first half figures, we see an effective tax rate close to 9%, right, which is below the 15% tax rate proposed under the global minimum tax of the OECD. So it will be great if you guys could share some more color on what should we expect for the second half of this year related to the tax rate here.

Virgilio Deloy Capobianco Gibbon: Okay. Flavio, thank you for your question. I will take the first one and Blanco can help me with the tax rate. So regarding the guidance, we prefer to keep on the conservative side here mostly because we have like a seasonality on Continuing Education. So the road map of the new cohort of the new season, it's after September. So we are in the very beginning here. So we still have some uncertainty ahead even considering that we have a successful intake on the Undergrad segment, that's the most important business. So our side here, we are confident with our guidance and we prefer to keep the same range as we released in the first semester.

Luis Andre Carpintero Blanco: And Flavio, regarding the tax rate, you are completely right. The minimum tax rate is 50%, but on the first quarter and here in the second quarter, we could recognize 2 tax deferred assets in our balance sheet. And with these recognitions, we could reduce the effective tax rate in this semester. But coming ahead, we don't -- the impact of the Pillar Two is this 15% in the long run. There is adoption effect that is growing. But at the end of the day, keeping it, the effective tax rates change to convert to 15%.

Operator: Our next question will come from Marcelo Santos from JPMorgan.

Marcelo Peev dos Santos: Thanks for the opportunity. My 2 questions are about the medical business. The first is, could you please comment a bit on the competitive outlook for the second half intake? How did that go? How did you see competition, whatever you could add there? And the second question would be a bit about medical tickets. So could you discuss a bit? I mean, it grew 3.3%, if I'm not mistaken. And it's a bit below inflation. What are the effects that drive this maybe mix, maybe ramp up? So I just want to hear from you guys. Thank you.

Virgilio Deloy Capobianco Gibbon: I'm sorry. So we were on mute here. So just repeating here what was mentioned, Marcelo. So regarding the medical competition, as everybody knows here, we had a lot of new approvals on medical seats and also institutions during the first half. And we didn't have a new cohort of new or fresh students coming from the high school. So the competition on the second half to fulfill the seat was higher. We reduced the candidates ratio from 7% last year to around 5% this year, but we have a good trend on the enrollments. We already started our classes. So it's something that -- we keep our 100% of occupancy. For that we are -- we just launched our first half 2026 intake for next year. It's very beginning. We are very confident on that because now we don't have so much new seats coming as an expected, but we have a new and fresh cohort of students coming graduating from the high school. So the candidate ratio was reduced from 7% to 5%. It was a little bit more competition in some of the cities that we operate. About medical tickets, although we passed our gross tuition a little bit above inflation as we are having more discount coming from FIES, the net effect was a little bit below inflation, but we continue to pass around inflation, our strategy moving ahead. So the main effect

here was the 27% discount coming from FIES, depending on the campuses, we have around 10% to 15% of our student base enrolled on medical programs on that campus level.

Marcelo Peev dos Santos: Perfect. Just following up on this. I mean, regarding this is a bit more competitive second half, did this entail discounts or you're able to pursue your normal pricing policy despite this a bit more intense competition?

Virgilio Deloy Capobianco Gibbon: 0 discount. The same policy.

Operator: The next question will come from Samuel from BTG.

Samuel Campos Alves: Just one question on our end about this new taxation that you guys were commenting before. I imagine the company is seeking to challenge the tax charge here through legal or like the administrative means. My question is, if you guys could like elaborate on that opportunity, if you guys see like a more likelihood or more likely scenario through administrative efforts or through legal process.

Luis Andre Carpintero Blanco: It's Blanco speaking. I'll take this question. It's very good to have this question to make clear for you guys how we see that. We have 2 fronts that we are working right now regarding the new structure of taxation, one is to define it in the justice level, we enter a protection -- asking for protections regarding these new taxation, questioning some points about how it was defined and implemented. We don't have any concrete outcome from this questioning for this challenging yet, but we are questioning on the justice level. And in parallel of that, we are presenting to the executive and the lower house representatives that these taxations at the end of the day, how it was implemented, it takes all the benefit from the PROUNI program. At the end of the day, as PROUNI is not qualified as a qualified credit under this pillar, all the effect of the PROUNI is withdraw from the Pillar Two calculations. And because of the major -- because of it, we have these higher taxations. So we are showing that, that PROUNI is being directly affected. We have more than 10,000 students in medicine, other health and other courses being supported by PROUNI, and we don't want to reveal it -- our policy regarding PROUNI, we want to keep it because it's a very important program for the population itself. And with these Pillar Two taxations, these make PROUNI at risk for the company that are affected by Pillar Two. So we have these 2 fronts. It's very hard right now to define a probability regarding which one become -- take this to success, but we are working these 2 fronts.

Operator: Our next question will come from Mauricio Cepeda from Morgan Stanley.

Mauricio I Cepeda: We have 2 questions. The first one about the M&A; environment. Are we seeing that because we have seen some transactions that are being performed in Brazil by your competitors that seem to be cheaper than what we saw in the past. So are you seeing the sellers being pressured somehow? Can you take advantage of this new environment? And how did this wave that you did -- or how this wave of seats have changed the environment during the diligence process? And the second question is about a little bit this buyback program. We understand that 4 million shares is a significant portion of your free [flow] and then some -- several times your daily traded volume. So how are you considering this trade-off between the return to shareholders versus the stock liquidity?

Luis Andre Carpintero Blanco: Thank you, Mauricio. I'll take the questions and Vig, please, jump in if you want. Regarding the M&A; environment, we're always chasing the right opportunity, the right profile at the right price. Good brand, good reputations and good location, good municipality are becoming even more relevant for defining the price from the transactions. So with these new entities coming to the market with all these [judicialization], I would say that comes through the markets. Of course, we have offers, and we stake together with good locations with good reputations that we can take a part and get the right pricing for it. So location, reputation is very, very important in this scenario. Regarding the buyback itself, as you mentioned, that's relevant. It's something about 4% of our numbers of shares and have an impact in terms of liquidity. But we see that as an opportunity in capital allocation in all the shareholder remunerations. We discussed it last -- in the last past months. We decided that the combination between dividends and buybacks would make sense to return to shareholders to increase the shareholders' remuneration. So with the buyback, we can take opportunity about the price. So we can take a price to action strategy on that. And for the shareholders for the long term, we increased EPS in a very constant manner. Of course, we are going to follow up liquidity to see if it's a pressure in the short term. When we implemented the buyback itself, it could increase the trading volume but in the long run, we'll increase value for our shareholders because we are increasing the EPS.

Operator: [Operator Instructions] Our next question will come from Renan Prata from Citibank.

Renan Prata: Just a very quick question here. I think the colleagues cover on my point. But it caught my attention that the residents journey dropped significantly year-over-year. And I just want to know if there is like any meaningful trend on the market or this is just a [centrality] on this quarter. And lastly, you guys comment on the release about the ENAMED exams. So I just wanted to hear your thoughts regarding these new exams. I mean -- is there any additional CapEx that you envisage to put Afya to benefit from these new standards? Or I don't know, just want to hear your thoughts on this new exams.

Virgilio Deloy Capobianco Gibbon: Okay, Renan, Virgilio here. So regard the residents' journey, we had a very low cycle on 2024 or end of 2024 that reduced a lot the intake over 2023. So as the seasonality -- the highest seasonality is on the fourth -- end of third and fourth quarter. So we are just in the beginning. So we changed a lot our approach and our product on end of the first half. In July and August, we have seen a very good trend, but it's a very small intake when compared to the entire year. So we will have an increase of all volume coming on September. So it's too soon. I think the main point here is that we are seeing that residency, it's a very high competitive landscape. In 2024, we didn't have a successful intake, reduced and we are -- since then, we are reducing the overall revenues. But on the other side, the ENAMED, as you mentioned, I think it's a very important opportunity on Continuing Education besides the graduate business that is continuing to grow and pushing our revenues as the most important product on Continuing Education. But ENAMED, the CapEx required is marginal because we have all the assets in place, as also we can leverage what we are using on residence prep and all the learning objectives that we already have on our learning and our curriculum here in Afya. So it's marginal. It's just a good opportunity, not only on B2C, but also on B2B, leverage the relationship that we had with some institution not only for [NRE], but also now for ENAMED, okay?

Operator: As there are no further questions at this time, I would like to thank everyone for joining us today. On behalf of the Investor Relations team, we remain available for any follow-up questions. We look forward to talking with you again during our next conference call. Thank you.