Q1 2015 Earnings Call

Company Participants

- Carlos Alberto B. Lazar, Investor Relations Officer
- Frederico Abreu, Chief Financial Officer
- Rodrigo Calvo Galindo, Chief Executive Officer

Other Participants

- Maria Azevedo, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everyone to Kroton Educacional's First Quarter 2015 Earnings Conference Call. Today we have with us Mr. Rodrigo Galindo, Kroton's CEO.

We would like to inform you that 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 session. At that time, further instructions will be given. (Operator Instructions) Also today's live webcast, both audio and slide show, may be accessed through Kroton Educacional's Investor Relations website at www.kroton.com.br/ir by clicking on the banner 1Q15 webcast. The following presentation is also available to download on the webcast platform.

The following information is available in Brazilian reais in accordance with the Brazilian Corporate Law and Generally Accepted Accounting Principles BRGAAP, which now conforms with International Financial Reporting Standards, IFRS, except where otherwise indicated. Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Kroton 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 the company and could cause results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference over to the CEO, Mr. Rodrigo Galindo, who will begin the presentation. Mr. Rodrigo, you may begin your conference.

Rodrigo Calvo Galindo {BIO 17238232 <GO>}

Good morning, everyone, and welcome to Kroton Educacional's first quarter 2015 earnings conference call. With me today I have our IRO, Carlos Lazar; and our CFO, Frederico Abreu. Kroton's first quarter of 2015 was marked by great challenges, but the operational and financial results as well as the guidance we are announcing today are all proof that these challenges have been overcome. And none of these would have been possible had Kroton not adopted a very objective approach with defined clear priorities and have acted promptly to guarantee this deliverable. In the following slides we will present our main challenges, our priorities, and the results we achieved. I would like to briefly recap the scenario in the first quarter. As you know, various trend changes were made to the FIES Students Financing Program which were imposed by Normative Rule 21, which respectively requires [ph] a minimum score of 450 points on an exam for a student applying to the program.

Under the Normative Rule 23, which applies to the new payment schedule that significantly extends the period for the repurchases on FIES certificate.

In addition of these rules, other changes were also made. A cap was set on the total value of the student loan and a limitation was also imposed on the number of contracts offered by semester. On top of all that, in the first quarter of 2015 with great instability to expand the student financial fund transfer system as known as SisFIES.

Going to slide five, in order to overcome these challenges, we defined two major priorities for the company and they are detailed on slide five. The first priority was to mitigate the revenue impact from this new regulatory scenario, which forecasted the registered number of FIES contracts in 2015.

As a solution, we revised our commercial offer by prioritizing the conversion of paying student. In addition to offering an alternative to students to enable booked in FIES financial that allows them to continue to study at our unit. In seven weeks we put together and started to offer the Private Special Payment Plan or PEP. This new product is playing a critical role in further improving the efficiency of our operations in the On-Campus business seeking to drive revenue that is 100% incremental. We will provide further details on PEP program later in this presentation.

Our second major priority was to restructure the company for the new scenario with a focus on margin gain. In the restructuring process we were very careful not to adopt the easy way out, which would be to lower prices and reduce margin in order to drive volume. On the contrary, we chose to maintain our unique position in the regions we are operating On-Campus institutions without lowering our average ticket regarding cost as we once again made a decision to protect margins.

As you all know, we conduct an annual analysis before creating new classes. We analyze all the classes and we decided which one will be open in this semester. All classes are analyzed and only those that reach the expected margin are created. In this semester, we were more restrictive than usual in defining which classes would be created.

If a student for example were not considering for the achievement of the contribution margin, as a result, we create fewer or more profitable classes. So, we decided to make a choice and we choose profitability. Once again it would have been easier to be more practical on creating classes in order to increase volumes, but we prefer to focus on margin.

As regards expenses, we focused on a wide organizational restructuring during which we reviewed our budget and significantly reduced corporate expenses and administrative expenses in the On-Campus units. Regarding CapEx, we made thoughtful decisions to reduce investments while maintaining the necessary volume to continue the 399 ongoing products we currently have at the company. So we reduced CapEx, but we didn't impact all the 399 ongoing projects that we have today in the company.

We are also careful to maintain investments to drive future growth and we include here the three main growth projects that is the 400 new courses -- the 400 new programs in the existing units, the greenfield projects that we are planning to implement in the On-campus units in the next five years, and the distance learning projects that we are planning to launch the 448 new Distance Learning Centers by 2016. So, all the investments that we need to guarantee these products we will maintain.

I'd like to reinforce that this required intense efforts by the whole company to implement the actions defined by the priority, but the results are much clear and we see now in an overview of our results we achieved. We were able to extend our student base beyond our initial projections announced to the market in March. We even grew in admission to On-campus programs despite changes in FIES.

In the end, we were able to accomplish the original goals of growing student base which were set prior to the FIES changes. So, we delivered the targets that we decided before the changes in FIES. We're really, really happy with this result in number of students that we achieved. In the end, we are able to accomplish, like I said the original goals in the students base that we decided before the FIES change in December. The admission and the re-enrollment performance coupled with the restructuring process enabled us to deliver excellent financial results in the first quarter of 2015. As we concluded the division process for the first semester, which is the most critical, we can comfortably present a strong guidance for 2015 including revenue growth and significant EBITDA margin expansion.

EBITDA and net income targets for 2015 have not changed for the company original budget, which was filed and approved prior to the FIES changes. So like the student, in the EBITDA and revenue we achieved the original goals, the original targets that we have before the changes in FIES, so we are really happy that we can -- we were able to neutralize the impact of the FIES changes.

The chart in slide six shows the evolution in EBITDA margin and net margin in the first quarter of each year between 2010 and 2015. The results are indeed very, very positive. We can continue margin expansion prior to the merge, a trend that we are starting to repeat in post merger periods. We are confident that the future outlook is for continuing margin expansion. In summary, this was indeed a challenging quarter, but we were able to quickly respond and reverse the scenario and we are very confident for 2015.

So now moving to slide 8, I'd like to hand it over to Carlos Lazar to continue the presentation.

Carlos Alberto B. Lazar {BIO 17238206 <GO>}

Thank you, Rodrigo. So, it's with great satisfaction that we present the final results of our admission process for the first semester of the year. The figures for new enrollment that you can see on slide eight. Well, the results were really outstanding and we were able, as Rodrigo mentioned, to surpass even our March guidance for all the segments. The main highlight here was admission process in the On-campus business for which we were expecting a decline by March, but the actual results showed a 4% growth compared to the last year number despite the FIES restrictions that we faced.

The total student base, which we initially expected to remain stable in the On-campus business, expanded 5% in the period. And most important also this growth has absolutely helped since we maintained the same criteria for recognizing students and revenues as in previous years, but here that are recognized by the market as being conservative as a matter of fact.

In practice, this means that no revenue is recognized from students who did not follow through the process of contracting FIES financing or paid the first monthly tuition or did not contract and paid the first installments of the PEP plan even if they are attending the classes. Jumping to the Distance Learning analysis, we see that the number of new enrollments grew by 8% while the student base we expected are actually was over than what we were initially expecting, expanding 9%, in other words, surpassing the maximum range by 2 percentage points.

At the end of the quarter, the number of the new On-campus and Distance Learning Undergraduate students grew by 6% while the total undergraduate student base expanded by 7% also surpassing 2 percentage points the initial expectation. This was a really excellent result especially considering that it was achieved while maintaining our pricing strategy and of course using the unique position that our brands enjoys all over the country.

On slide 9, we provide some details on the numbers of new enrollments in the On-Campus undergraduate business. For the year of about 114,000 new students enrolled in the On-campus, around 49,000 were on the ex-FIES graduate, which comprehends the ex-FIES that students who don't have FIES and also don't have the PEP plan. In other words, these students also showed a very important increase and meanwhile the new enrollments of these students classified as FIES students fell by 39% year-over-year mainly due to restrictions imposed about the new contracts limitations.

In all we enrolled about 43,000 new FIES students, which represents approximately 37% of the total number of the undergraduate students enrolled in the period. And finally, we also enrolled about 23,000 new students that contracted in the PEP plans, that we will give you some more details later on. Moving on to slide 10, we present some details on the number of undergraduate students enrolled. We ended the admission process here with almost 320,000 new students enrolled, of which 114,000 were enrolled in the On-campus and 205,000 enrolled in the Distance Learning Undergrad business.

Considering also the number of new enrollments in student populations, we ended the admission process with over 1.060 million undergraduate students, of which 42% were in the On-campus and mobility and 58% in the Distance Learning. On slide 11, we provide some details on the growth of the undergraduate and graduate student base. We ended the quarter with, as I said, over 1.060 [ph] million students for growth of 13% compared to the end of last year. Meanwhile the number of the graduate students decreased by about 7% to 53,000 students, which brings a total and an impressive mark of 1.1 million postsecondary students enrolled at the company.

Let's jump now to slide 12. I would like to make some comments here on the performance of FIES and also some more details about the PEP program. We ended the first quarter with 255,800 [ph] of FIES students, which represent 56.8% of the On-campus undergraduate base so a reduction against last year. As I mentioned earlier, for incoming students who are unable to obtain FIES financing, we offered a Private Special Installment Plan that we call it PEP with the main goal of giving them an alternative so that they can pursue their education at one of our institutions.

We worked very quickly and responsibly to develop that which was offered to the students at an advanced stage of this type, after the start of the classes and also after the classes of incoming students had been followed. This also allowed us to avoid any paying students to migrate to this kind of payment model.

Another important aspect of that is the policies adopted of revenue recognition, provisioning, and adjustment to present value were very, very conservative. Just for example in the provision side, we provision about 50% of the total revenue recognized in our plan. For comparison purposes, the provision acquired for PEP is a little bit above 6%. In addition to the provision, we also are spending dollars of PEP lost to present values. We had a total of 22,600 [ph] PEP students at the end of the first quarter exceeding our initial alternatives and we also expected to offer that for the admission process of the second semester of this year. For 2016, we are developing here and making a lot of progress in setting up a long-term loan facility that probably will comes with a partnership with a financial institution that will be responsible for providing the fund.

These strong operating results enabled us to deliver very good financial results in the first quarter that I will detail in the next slides.

Let's move to slide 14 where we present the company's combined pro forma results. To enable comparison with the first quarter of 2014 respecting here different accounting practice adopted by each company at that time. In this analysis you can see the solid and consistent performance delivered.

Even if we take into account that the first quarter of 2014 had adopted accounting practice different than those of course. In other words, we were able to deliver growth of 6% in the topline, 14% on EBITDA, and 15% net income. And more importantly, we achieved margin expansion of 300 basis points even in an extremely challenging environment that we faced during the beginning of this year.

Jumping to slide 15, we start to also show the performance of each segment and we start here with the On-campus postsecondary business considering only the undergraduates and graduates On-campus language courses and vocational educational operations or Pronatec.

Net revenue grew 133% year-over-year driven mainly by the growth in the student base resulting from our new enrollment process as well as by the Anhanguera merger. The revenues from vocational -- from the Pronatec and also the revenues coming from the higher average ticket support this growth.

Gross income was BRL594 million increasing 128% from the same period last year. Gross margin was compressed 1.3 percentage points due to the merger with Anhanguera which is an acquisition that has a slightly higher cost structure compared to the company or the brands. However, it's important to note the strong gross margin expansion to 66% compared to the recent quarters that already incorporate the figures from Anhanguera especially the third quarter of last year and fourth quarter of last year.

And demonstrating the continuous capture of efficiency gains that we are achieving in our operation. Operating income before marketing expenses increased 116% year-to-year with operating margin of 49.7% down 3.9 percentage points on the year earlier also reflecting here the Anhanguera merger. As the same with gross margins, the operating margin also posted improvement when compared to the third and fourth quarter last year, which confirms the efficiency gains achieved by the integration process, the improvements in (inaudible), the centralization of the administrative structures at our units, and also the increased expenses in the contract renegotiation.

On slide 16, we can see the performance of the Distance Learning segment which considers the entire undergraduate and graduate distance learning as well the related programs and the prep courses under the brand LFG. The net revenue of this business in the quarter was BRL323 million growing 54% year-over-year, which like the On-campus business was driven by the student base growth generated by our recruiting office and by the incorporation of the students following that.

Gross income grew 46% year-over-year with gross margin of 81.1%, which fell 4.9 percentage points due to the consolidation of Anhanguera figures. And here I would like to note that we are making a very good progress on converging the Anhanguera model to the Unopar model so that meaning the model of two classes per week to the model of one class per week. And besides that we also centralized our administrative structures of tutoring and content, which should support better results of this operation in the coming quarters.

The operating income of the Distance Learning before marketing expenses grew 46% year-over-year with margin of 68.8%. The reduction here is basically for the same reasons that I mentioned before, but it's also very important to note the improvement against the third quarter and fourth quarter showing our good margin business and showing that all brands are posting better performance when analyzed individually.

On slide 17 we show the financial performance of the primary and secondary business in the first quarter with the net revenue growing 16% year-over-year to BRL65.6 million due to the change on the scheduled book collections deliveries that benefited the fourth quarter results. In this event, we also (inaudible) expected that the revenue of the fourth quarter of 2015 [ph] may offset this lower revenue of the first quarter of '15.

Besides this, we had also termination of some of the contracts of network that we provide services, which is called as SESI, and this also impacted the segment's revenues during this year against last year. The gross income for that reason reached BRL41.5 million presenting a gross margin of 63.2% was down year-over-year. In the same way we can analyze also the operating results that at least maintain pretty much stable margin over the two periods.

On slide 18, we can see the corporate expenses and also the marketing and selling expenses where the corporate came at BRL63.7 million, 4.9% as a ratio of net revenue, down less than 1 percentage points year-over-year. Here the most important effect is the post-merger synergy structure, the administrative structures, and also the better efficiency in managing contingencies and contracts.

Selling and marketing expenses as a ratio of net revenues increased 2.3 percentage points year-over-year due to incorporation of Anhanguera's expenses.

On slide 19, we show the consolidated EBITDA and net income. (technical difficulty). Adjusted net income in the first quarter was BRL455 million with net margin of 35.4%. (technical difficulty) we also adjusted the net income by the amortization of intangible assets from acquisition. So with all that said, I would like to invite now our CFO, Frederico Abreu, to continue the presentation.

Frederico Abreu {BIO 16674822 <GO>}

Thank you, Carlos. So, now moving to page 21. On the next three slides we will analyze the PDA, the accounts receivable, and the average receivables term. As the first comment as you know because of Normative Rule number 23, most of these numbers in the first quarter specifically in terms of average receivables term and the accounts receivable have a huge impact. I'll try to explain most of these impacts throughout the presentation, but this is an important disclaimer because this is a quarter that is in a lot of the ways not really comparable to the (technical difficulty) quarters because of the Normative Rule number 23 that impacted the schedule of payments of FIES.

So, another thing that I would like to emphasize in the beginning is that we are keeping exactly the same PDA criteria and the same provisioning criteria that we used for the last five years to use exactly the same methodology of looking at statistical harvest and we look at the probability of default of each of these harvests and we are using exactly the same methodology.

The only difference this quarter is the new product PEP. PEP is the product where we are being more conservative than the average and we are provisioning 50% of all of net revenues because since we do not have any historical statistical data so we are using our best assessment of what we expect to be the loss of these students.

So, looking at the On-campus business on the left side of the page in green, you can see PDA in the quarter of 4.9%. This is a level that is higher than the other quarters and mainly here we have two parts. The first is the mix of FIES and non-FIES students that is different from other quarters. Remember that FIES students have lower PDA. In this quarter we have lower number of FIES students and so when we exclude the FIES students, the paying students, the non-FIES students on the right hand side, you can see that there is a stable PDA around 6.5% so excluding the effect on the link of FIES and non-FIES, we have a stable PDA.

And also one of the reasons for that 4.9% is that we are also considering the PEP students so we are provisioning 50% of our revenue for PEP, with a combination PEP to a lower proportion of FIES students underneath, they have an increased to 4.9% in the table if we include the non-FIES students.

Now looking at the Distance Learning, you can see slight decrease over last quarter from 7.6% to 7.4%. This is basically a stable level. What we are seeing is a convergence in terms of the performance of Anhanguera operations both distance learning and LFG to the level of Kroton so this is a slight decrease positive reflecting this convergence of collection practices. Looking at basic education, you can see there we have 1.3% of revenue. This is a level that is very close to the level we adopted last year so there's stable provisioning also on basic education.

Now moving to slide 22, you can see here the accounts receivables. This is the most important thing that the (technical difficulty).

Operator

Pardon me. This is the operator. The backup speaker line is open.

Carlos Alberto B. Lazar {BIO 17238206 <GO>}

Yes, this is the backup. Can we start again?

Operator

Yes. It sounds fairly good. Please go ahead.

Frederico Abreu {BIO 16674822 <GO>}

Thank you. Sorry. So, we are reconnecting. I'm going to repeat the data. I'm going to go and start on page 22, okay. So on page 22, we can see the balance of accounts receivables. Here the main thing that changed over last quarters is the change imposed in FIES accounts receivable. Remember that the Normative Rule number 23 changed the repurchase cycle that has basically 12 repurchases a year to 8 repurchases a year and so part of this impact is already reflected in first quarter. And so, this is the main message in terms of the increase. The second thing that is important is beyond Normative Rule number 23, we had some delays in some of the repurchases that was scheduled for Normative Rule number 23. Those delays are already sold, but they've impacted negatively the first quarter accounts receivable. So, I want to give some more details here.

As of today, we have normalized 100% of the amounts related to FIES repurchases related to December. We've received a credit on May 11, yesterday. So we should have received these amounts before the March 31; because of the delay, we received yesterday. We have also received 100% of the amount of repurchases for January. It was planned to be credited in the beginning of May, we've received yesterday. This amount was not expected to have been received before March 31, but the last update is that we've received also the amount of January.

We were able also to receive all balances that were due related to Pronatec. We were able to process the FIES process for the competence of February and we should receive this balance in the beginning of June. And last, we have been able to offset all taxes that we were expecting to offset throughout the quarter. So we had a slight delay in terms of repurchases that impacted negatively the quarter, but all of these delays are already sold as of yesterday.

So as a result, we have an accounts receivable at 1.1 billion with 898 million on hand On-campus and most of this impact is related to shares, 189 million in Distance Learning, and 51 million in primary and secondary business.

So moving to page 23, we can see here all these accounts receivable translates in accounts receivable average term. So, here you can basically see the total On-campus accounts receivable increased from 84 days to 90 days from last year to this year. Most of this increase is related to FIES and therefore we have given here three analysis to better explain you the performance on On-campus. The first is the consolidated six days increase.

The second isolators the non-FIES students and here you have an important increase of 19 days from 56 days to 75 days and here I want to give you some explanations. There are basically four things that explain this increase.

The first is the structural effect and is related to Anhanguera operation and Anhanguera still has a higher average receivable term than other brands. We are converging the average receivable term of Anhanguera to other brands as we converge the positioning and the collection practices.

The reality is we still have a higher receivable term of Anhanguera and last year the comparison is without Anhanguera. The second effect is the PEP. So, our new product PEP is paid over time and therefore the student pays 10% of the tuition over the year and the remaining 90% the student pays over time therefore the average receivable term is high. We are already excluding from these accounts receivable related to PEP the high provisioning that we are considering now of 50% and also the ADP, the adjustment to Kroton's value.

So these two effects are already deducting the accounts receivable, but they include the average receivable term when we compare to last year. The third effect is related to Pronatec and it's temporary. We had a delay in the repurchases of Pronatec as I mentioned before. These payments was already sold in the beginning of May, but the fact is that it was not paid until March 31. And the fourth effect includes basically the difference between the 6.41% price cap for all FIES students that had this price cap.

We've considered the revenue on top of the 6.41% as non-FIES revenue because we will invoice the student as a non-FIES student and therefore the accounts receivable includes also this portion of revenues. And so, the sum of these four effects basically explain almost all the increase of 19 days. If we exclude these four effects and we look at our managerial numbers, we have a stabilization in terms of our average receivable term and let's say an adequacy in terms of our provisioning practices when we compare quarter-over-quarter.

Now looking at FIES, we can see that compared to last year there is a decrease of three days. This is very misleading because last year in the first quarter, these 101 days was also impacted by a delay in the repurchases from the government. I don't know if you recall that in the beginning of last year there was a delay in the repurchases. If we adjust this first quarter last year to what will be a pro forma as we've also presented to the market, we would have about 60 days. So if we compare the 60 days pro forma last year to what we have seen this quarter of 98 days, we can see that there is a 38 days increase, which is basically the reflect of the Normative Rule number 23.

And here we can expect a gradual increase in these average receivable term to about 180 days as we do not receive about four repurchases this year, so this 98 will converge to about 180 days until the end of the year. And now looking at Distance learning, we basically can see stability if we compare to last quarter from 54 days to 57 days. If we compare to last year, we also have the distortion of the inclusion of Anhanguera. Anhanguera have a different receivables term and therefore we missed a bit on the comparison, but basically we have a stabilization here on Distance Learning. And on primary and secondary education, we have a reduction of 38 days if we compare to last year.

So, positive news and contributing positively to our cash flow generation. So, this is about accounts receivable. The main message is we are consistent with our PDA. We had a distortion in terms of the Normative Rule number 23 and we have punctual delays in terms of the repurchases from Pronatec and we have a new product PEP and all of these effects they distorted the comparison to last quarter. I hope it was clear on the call what I just gave as information to you.

So now moving to page 25, we can look at investments and capital expenditures. On the left side, we have all CapEx that is related to maintenance and expansion and on the right side, we look at CapEx also where we add the special projects. So, we have BRL87.4 million in investments recurring and expansion, which is about 6.8% of net revenues. If we add special projects, we have 9.5%. Two comments here. The first, this 9.5% is seasonal. Our expectation and our budget and you're going to see it when Rodrigo already mentioned about our guidance for the year, this level will be decreased and our expectation is that CapEx will be at the level of about 7.5% of net revenues. So, this 9.5% is seasonal.

And the second thing, we do not need any long-term investments despite the budgets restructuring that we mentioned in the beginning of the call.

We do not need any long-term investments and Rodrigo will comment also a bit on that. Moving to page 26, we can see net debt. So, again the most important impact that we have here comparing to last quarter is the negative free cash flow generation, which is basically the result of two things. The first is the delay in terms of repurchases of FIES.

We then in the next page assimilate what would be a pro forma excluding the effects of FIES, but the fact is we've received much less repurchases than what we should have received. And the second, we have 87 million in payments in financial obligations, both related to Anhanguera's debenture and also M&A. So, the sum of the two generated a negative cash flow. If you look at that, it's pretty much stable and therefore our net cash is lower and basically our leverage today if we look at our EBITDA is about 0.45 times.

So we had a negative cash flow impact, but we start with a very strong cash position and we were able to absorb this negative cash flow in the first quarter. On second quarter onwards, we should have an improvement in terms of free cash flow generation. We will also comment a bit later on the presentation. And so main message, we are pretty comfortable with our liquidity and our cash position despite the changes in the FIES repurchases schedule.

Now moving to page 28, we can look at operating cash flow generation. We try to be as clear as possible here so that you understand the differences between what was the real quarter, what was last year's quarter, and what would be a pro forma excluding the effect of FIES repurchases. So, the real numbers are we had 97.2 million in cash flow before CapEx, 4.7 million in free cash flow after CapEx, and minus 22.1 million [ph] in free cash flow after all CapEx including special projects. This is a negative I think the first time in the last four years that we show a negative performance in the quarter and therefore we try on the right hand side to isolate the effect of Normative Rule number 23 and when we compare the numbers, we are much more in line to what we've seen in the last quarter.

So our operating cash flow before CapEx would have been BRL302 million, after CapEx BRL209 million, and after special projects 182 million; which is an (inaudible) to cash very close to what we had last year. So what we are assuming here to make this estimation in terms of pro forma is basically using what was the schedule of payments for FIES and Pronatec that we had last year. So all the FIES we purchase is related to December and

January, the FIES system working since the beginning of the process, all tax offsets working, and all Pronatec we purchased until December being paid. So if the world would have worked in the way before Portaria number 23, our cash flow would have been positively in line with last year.

So, I'll now hand over to Rodrigo so that he can continue the presentation.

Rodrigo Calvo Galindo {BIO 17238232 <GO>}

Thank you, Frederico. On slide 30, we present our guidance for 2015. As we concluded, there is still admission process for the first semester, which is the most critical admission process. We are very confident that we will meet natural [ph] guidance. Our expectation is to deliver growth across all lines; revenue, EBITDA, EBITDA margin, net income, and net margin.

And revenue should reach BRL5.2 billion or 8% more than in 2014, EBITDA should reach BRL1.9 billion growing 13.4% on 2014, EBITDA margin should reach 37% expanding 170 basis points from 2014, net income should reach BRL1.4 billion growing 8% on 2014, and projected CapEx is 7.5% on net revenue considering maintenance and special project CapEx. And it is important to note that despite the reduction in the level of investment compared to the last year, the company maintained its 399 projects including the long-term growth projects.

It's also important to remember that our guidance are not considering the offering of any new FIES contracts for the second semester of this year. Should it be available in the second semester, FIES will be an upside. Most importantly, these results are consistent and sustainable. We are conservative in recognizing students and revenues and also conservative in our provisioning policies especially for new projects such as PEP, the loans program that we offer for our students in this semester. Given the excellent results achieved in the first quarter, we are very confident that we'll be able to deliver the announced guidance.

Let's go now to the last slide of today's presentation for my closing remarks. We ended the first quarter of the year with strong results. Today, I'm absolutely sure that Kroton has managed to quickly and efficiently adapt to all of the challenges experienced at the start of this year.

We successfully expanded our student base in both the On-campus and Distance Learning segments. We showed agility and creativity in launching PEP, an alternative financial plan that offers yet another option so that students can continue their education. In terms of results; we delivered revenue growth, EBITDA growth, and net income growth on a very strong results. Regarding the integration with Anhanguera, on May 4th we concluded the unification of all the administrative, sales, and financial areas with the ERP management systems completely integrated. The integration was seamless and we can already say that people, process, and systems are now completely integrated.

On the academic front, we are accelerating the integration schedule more than two years and introducing the Kroton Learning System 2.0, the KLS 2.0 already in the second semester of 2015 to all freshman students in all brands including Anhanguera.

So, two-year anticipation of the original schedule and we will just be able to do these because of the success of the other areas integration. Another highlight is that we have already opened admission and re-enrollment process for the second semester and we are optimistic that we will achieve the targets we have set.

We are also making very good progress on developing our long-term private financial product to be launched in 2016, which will be structured with a third-party funding and a partnership with a bank. We are prudent to distribute of dividend, we have dividend payout in the amount of BRL88.3 million to ensure a constant flow of distributions to shareholders even in adverse scenarios.

And finally, if there is something I think we want to reinforce is Kroton's capacity to do that. We showed the company's capable to creating value (inaudible). We showed that it is possible to deliver quality education on a large scale with also growth and profitability even in adverse scenarios. We believe the cushion is the key word, the cushion is the name of the game and we are well prepared to the game. Thank you for your participation in this call and we will now begin the question-and-answer session. Thank you.

Questions And Answers

Operator

Ladies and gentlemen, we will now initiate the question-and-answer session. (Operator Instructions) And the first question comes from Maria Azevedo with UBS. Please go ahead.

Q - Maria Azevedo {BIO 16178885 <GO>}

Hi, good afternoon. Can you please expand a little bit more on the private student loan joint venture that will take place in the first quarter of '16 and if the banks are interested in offering attractive credit lines to the students or if you think that it will require higher subsidy levels from the company? And if I may as a follow-up question, could you please comment on your expectations for FIES or any restructuring of public federal student loan for the next years? Thank you very much and congrats for the results.

A - Frederico Abreu {BIO 16674822 <GO>}

Maria, this is Frederico. So, I'm going to give you some information on our private student loan. So, the first thing is we are still in early stages of developing this partnership. We started already; we've hired a consultancy company, we've made already contracts with some of the banks that we've pre-selected, and we are exchanging some information.

The process is still in the beginning so what I'm going to give you here is some of our assumptions, which do not mean that necessarily we will end with these assumptions. But the first assumption that we are negotiating with the banks is that the funding will come from the bank. The second is that we will receive the payments of 100% of each monthly tuition despite the schedule of payment of the students so we respect if the student finances 50% and pays 50%, Kroton will receive 100% a month.

The third, we are working with a structure that may be a mutual joint venture or associatory joint venture. In both irrespective if it's a mutual joint venture or associatory joint venture, which is the model that a lot of the retailers use in Brazil, we will have a co-share of both expenses and results, expenses mostly related with PDA and results related to interest rates and also other products that we may cross-sell to these students. And therefore the fourth thing that is important to mention, we are trying to do a partnership with a long-term horizon. We do not intend to do a short-term type of funding. We want to do a partnership with many years so that we can guarantee our funding and that we can learn together with a financial institution on how to better score the students and all together and collect the students.

Please keep in mind that there's no significant experience in Brazil in terms of private funding for education so what we are trying to build is something new and we want to find the right partner so that we can create something that today is not existent. So we will be very careful in terms of the partner we will choose, we will be very careful in terms of the conditions that we will assume, we will be very careful in terms of the commitment that we will have in terms of our balance sheet and these may include stop losses that are common in other partnerships.

So in summary, we want to build something long term that will help our students to study and if on top of that we can have some additional financial results, that's great. But the most important thing is to make sure that our students has an alternative to the public funding.

A - Rodrigo Calvo Galindo {BIO 17238232 <GO>}

Maria, it's Rodrigo. Just to complement your second question about the FIES changes. Actually we don't know yet what will be the conditions for FIES for 2016 and we don't know if we will have or not have FIES for the second semester of 2015. To be conservative, we don't consider any new FIES student in the second semester, but it is a possibility that we have and we will assume this like an upside in our guidance.

About the FIES changes, we are in conversation with the Ministry of Education and they didn't disclose as yet the rules for the next FIES offer, but we heard some opportunities and some possibilities that could be implemented in FIES. The first one is the system that runs FIES, we heard that there is a possibility to use the priority [ph] system to run the FIES process.

That means that all the process needs to change because today the student goes to the systems and directly asks for the financial. The most probable situation is the institutions applies for seats, the Minister of Education decides how many seats for each institution considering the terminated criteria, and then the student goes to the new FIES system and using their score, they could choose which institutions they want to go. So, the system is the first change. There is another change for example. The increase of interest rate, today 3.4% is too low. We have some analysis that shows that between 6.5% is completely reasonable for the student to pay back their financial amount. So, increase the interest rate is a possibility. The payment term is another possibility.

Today, we are talking about 13 years in a four-year problem so three times the length of the problem plus one year is too long. There is space to address a little bit of the payment term. And the most important, the percentage of the total financial for the students. Today, almost all of the students financed 100% of the tuition, but we know that a big part of the student with 50%, 60%, or 70% of the total amount financed, they will be able to pay the difference.

So with the same budget, we can bring for the system more students with FIES. With the same budget, we can increase the FIES contracts if we addressed the percentage that each student is financed. So, these are one of the changes that we heard about. We don't have yet from Ministry of Education any official information about the conditions for FIES in 2016.

Q - Maria Azevedo {BIO 16178885 <GO>}

Perfect. Thank you very much. That's very clear.

Operator

(Operator Instructions) As we have no further questions, this concludes the question-and-answer session. At this time, I would like to turn the call back over to Mr. Rodrigo Galindo for any closing remarks.

A - Rodrigo Calvo Galindo {BIO 17238232 <GO>}

So, my last message is it was a very hard first quarter. It was difficult in the beginning, but I believe that that quarter shows that we are capable to adapt. This is one of the most important assets that we have in the company, the capacity to adapt for new scenarios. So, we are really happy with the results that we delivered in the first quarter. We are completely confident about the opportunities that we still have in 2015.

We are completely confident with the guidance that we provide. We have some upsides in this guidance, for example the FIES in the second semester is an upside. So even considering that we had a very challenged first quarter, we are very optimistic with the perspectives for 2015. Thank you very much.

Operator

Thank you. This concludes today's presentation. You may disconnect your lines at this time. Have a nice day.