Q3 2014 Earnings Call

Company Participants

- Carlos Alberto Bolina Lazar, Investor Relations Officer
- Frederico Brito e Abreu, Chief Financial Officer
- Rodrigo Calvo Galindo, Chief Executive Officer

Other Participants

- Maria Tereza Azevedo, Analsyt

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 Third Quarter 2014 Earnings Conference Call. Today with us we have Mr. Rodrigo Galindo, Kroton's CEO.

We would like to inform you that this event is being recorded and all participants will be in a 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, maybe accessed through Kroton Educacional's Investor Relations website at www.kroton.com.br/ir by clicking on the banner 3Q '14 webcast.

The following presentation is also available to download on the webcast platform. The following information is available in Brazilian reals in accordance with Brazil's Corporate Law and Generally Accepted Accounting Principles, BR GAAP, which now conforms with International Financial Reporting Standards, IFRS, except or 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 and welcome to Kroton's earnings conference call for the third quarter of 2014. With me today is our IRO, Carlos Lazar; our CFO, Frederico Brito and the Integrations Vice President, Igor Lima.

Let's start on slide three, with the highlight of the period. Starting with the operational and financial highlights, considering the incorporation of the figures from Anhanguera in both quarters, our student base grew 13%. This performance was due to the chooses [ph] of our student recruitment of process for the second semester, which posted a strong results as were in line with the company's targets.

We saw a robust growth in both On-Campus and Distance Learning Undergraduate students based and in all Kroton's brands including Anhanguera. With a strong operational performing -- operating performances reported a very strong financial results as well, with EBITDA of R$398 million, EBITDA margin of 34.8%, adjusted net income of R$304 million and net margins of 26.6%.

In the year-to-date EBITDA was R$1.1 billion with EBITDA margin of 41.5% and net income was R$881 million with net margins of 34.6%. Cash flow was also strong with our cash flow after CapEx of R$302.2 million for an EBITDA to cash conversion rate of 85.2%. In the nine month, cash flow after CapEx was R$745 million with an EBITDA to cash conversion rate of 65.7%.

During the presentation, you'll see how these figures represent solid growth from last year and they cross on to a whole new level of performance.

I now invite our IRO, Carlos Lazar to present Kroton's financial performance in the third quarter.

Carlos Alberto Bolina Lazar {BIO 17238206 <GO>}

Well, thank you, Rodrigo. And before I start my presentation, I would like to go over a few highlights. Well, first, as mentioned in our earnings release, only the third quarter figures for this year considered the combination of Kroton and Anhanguera operations, which figures for the third quarter of last year considering only the figures reported by Kroton result in effect from Anhanguera.

Another important point is that we maintained Kroton's accounting practice and reporting structure of analyzing in a separate basis, the performance of each segment. We charge the On-Campus, Distance Learning in primary and secondary education. We believe that's the best way to follow the performance of the segment. As we analyze than -- in an integrated basis, regardless the distribution of the channels. In other words, Distance Learning students, who is studying the On-Campus for example, are considered in the results for the Distance Learning segment.

Additionally, we also made two adjustments to our profit and loss statement. The first one was the reclassification between cost and expenses to better reflect that the nature of the different costs. And second, it was the reallocation of the marketing and selling expenses to after the operating results. This reclassification, I mean, was necessary, because since Anhanguera has On-Campus and Distance Learning operations in the sales channel that meaning the On-Campus it is impossible to allocate adequately the marketing expenses for each segment, which would represent some distortion in the analysis.

So this adjustment seeks to improve our reporting and refining our market disclosure practice without changing our accounting practice or impacting our main profit and losses line, such as revenue, EBITDA and net income.

So let's turn now to the slide five and start analysis of our financial performance by segments. Here you can see our net revenue, gross income and operating results for the On-Campus business and here, we consider only the On-Campus Undergraduates and Graduate students from the Language Courses, Vocational Education operations, which is the Pronatec. So the net revenue here grew 166% year-over-year to reach R$824 million, with mainly by the student growth resulting from the recruitment in the admission processes during the last semester and also by the Anhanguera merger.

It is also important to note that with the Anhanguera's Incorporation, the On-Campus segments has gained greater relevance and this segment has revenue contribution, which was 60% in the third quarter last year, now stands at 72%. Well, gross income was R$504 million with gross margin increasing 6.2 percentage points year-over-year due to the capture of efficiency and quality gains in economies of scale in our entire operation.

In the same way, operating income before marketing expenses grew 229% year-over-year, to which R$368 million in our operating margin expanding 8.6 percentage points above the previous years.

It is important to note that the margin, the On-Campus segment increases even with the incorporation of Anhanguera's On-Campus operation, which do has lower margin than the other Kroton brand. Anyway, in this business segment that we could see that all brands forming Kroton including Anhanguera operations improved their performance in a standalone analysis. The operating results in the On-Campus segment also increases in relevant. It accounted for 45% of the operating results in third quarter last year and now accounts for 68%.

Now on slide six, we can see the performance of the Distance Learning segment, which considers the entire Undergraduates and Graduates Distance Learning operations, including the Distance Learning operations looked at in the On-Campus units as I mentioned before and also considers the Unregulated Programs and the Preparatory Courses and that the brand LFG.

Distance Learning, net revenue in the quarter was R$286.3 million, growing 76% year-over-year, which just like the On-Campus business was driven by the student base growth, resulted from the admission process and the incorporation of the students from Anhanguera. The gross income grew 58% year-over-year with gross margin of 72.5%, which fell 8.6 percentage points due to consolidation of the Anhanguera figures for the third quarter.

Note that the lower margins at the Anhanguera are due to the two factors; the first is the structure of transfers to the Distance Learning centers at Anhanguera and also here Rods pointed out that the Anhanguera transfers [ph] represents 30% of its net revenue to the centers and assume that the costs of the On-Campus tutors, while Anhanguera transfers assumes 36% of rebates to the centers, but the centers are responsible to pay the On-Campus tutors. Well, this means that even though the operations have same level of efficiency, Anhanguera post lower margins in a structural manner. The second reason for that lower margins in Anhanguera is effect efficiencies, but we believe that there are many opportunities to capture gains here, in turns this margins up.

Well, the Distance Learning operating income before marketing expenses grew 48% year-over-year with margins reaching 57.9% or 11.3 percentage points lower due to the reasons I just mentioned for gross income.

Despite that the lower margins in the case of -- as in the case of the On-Campus segments, we also observe that we have better performance at all brands Unopar, Uniasselvi and also Anhanguera when analyzed in a standalone basis.

Moving to slide seven, we can see the financial performance of the Primary and Secondary education business and here we mentioned last quarter, the business was impacted in the second and third quarters by the earlier than usual sale of collections for the second semester, due to the World Cup and this -- and that means that a good part of the quarter was already recognized and booked in the second quarter, which is also just starts the analysis between this periods and last year.

In the analysis of the year-to-date, which naturalized this effect, net revenue grew 10%, but here even with this growth, the segments contribution in the -- of the company's total revenue declined due to entry of Anhanguera. Year-to-date, the revenue contribution on the K-12 sector was only 6%.

We also saw a drop in margin from 48% in the first nine months of the last year to 42.1% this year, which was mainly through the stronger growth in the contract business, which is structurally has lower margins than the learning system basis. For the fourth quarter, we expected to recover part of this gross [ph] margins.

Well on slide eight, we can see the corporate and marketing expense. Corporate expense totaled R$74.9 million or 6.5% of net revenue, which is practically a stable relations with the third quarter last year considering the incorporation of Anhanguera in the corporate structure of Kroton and also the higher level of provisioning for profit-sharing programs and stock option plan for its (inaudible) coming Anhanguera.

Selling and marketing expenses in the other hands that were reallocated to after the operating results included overall year-over-year in 2013 this corresponded for 4.9% of net revenue and now in this quarter, they corresponded for 6% of net revenue and this is was basically due to the merger since Anhanguera operations historically has higher marketing costs.

Moving onto slide nine, we show the EBITDA and the net income in the quarter, on the slide 10, which starting for the EBITDA analysis. The adjusted EBITDA in the third quarter was -- 399 million, growing 112% year-over-year with margin of 34.8%. On the year-to-date analysis the adjusted EBITDA was R$1.1 million with margin expanding 4.4 percentage points year-over-year. It's important to note that the drop in margin from 36% to 34% is relatively small in the quarter, but the figures we -- as it includes the figures of Anhanguera, we believe that, we have a very potential here to lever [ph] up this -- the margin in general.

Remember also that the EBITDA is adjusted by non recurring items, which in the year-to-date totaled R$56 million of which 45.8 million was related to expenses with the Anhanguera mergers, such as the financial, legal administrative and consulting services during that was reinforced during this third quarter. For the fourth quarter it's important to highlight here, that our expectation is to have about R$15 million to R$20 million of non recurring cost regarding exclusively the merger of Anhanguera.

Finally on slide 10, we can see the performance of the net income that was nearly R$305 million during the quarter with net margin of 26.6%. Note that the net income adjustments also includes the non recurring cost and also the amortization of intangible assets from the acquisition. In the year-to-date analysis, net income grew 98% with net margin increasing 4.9 percentage points to 34.6%. For net margins the same comment I made on EBITDA applies, so net margin fell slightly from 28 in the third quarter to 26 in 2014, but this fall was very small and in fact, and given that the 2012 figures include the results from Anhanguera again the same statements is open, so we believe that's the result is going to be upgraded with the efficiency gain that we expect to capture over the next quarters.

Well, I'll now invite our CFO, Frederico Abreu to continue the presentation.

Frederico Brito e Abreu {BIO 16674822 <GO>}

Thank you, Carlos. Good morning, everyone. So and we saw revenue, EBITDA and net income numbers -- strong numbers in the quarter -- in the nine months. In the next slide, in the next page 11 goes through the working capital, capital expenditures and cash generation.

So moving to page 12, we can see the behavior of working capital and just before going into the numbers, I would like to make some few comments. The first is that as in the previous quarters and to ensure full comparability between quarters, we will analyze the numbers on a pro forma basis, which means that we are considering in the pro forma numbers that we purchased from FIES credits that was delayed as compared to the original [ph] chronogram to the original calendar to October. So if we add back that repurchase, which is about R$192 million on the quarter, we get to the pro forma number and we believe this is a better way to compare to the performance on the previous quarters and to compare to last year.

So on a pro forma basis on page 12, our working capital measured in days of net revenue fell by eight days, if we compare to the second quarter of this year and fell by 12 days, if we compare with the first quarter of this year, which is seasonally were comparable with the third quarter. So a strong evolution in the decrease of working capital, you'll see that -- is part of the reason why our cash generation remains strong again in this quarter.

So moving to page 13, we can understand the behavior of the provision for doubtful accounts. In the same way we'll show to the market in the last quarters. On the green side, we have the post On-Campus -- Postsecondary On-Campus, in red the Distance Learning Postsecondary and in the orange the Primary and Secondary. So starting on the On-Campus Postsecondary and just to make sure that the concept is clear, we are using exactly the same methodology for provisioning as we are adopting since 2010. So the provision you see here is exactly using the same methodology since 2010. And Anhanguera is already adopting exactly the same methodology.

So and this methodology is basically the analysis of statistical historical collection data and harvest-by-harvest [ph] we adopt with the level of provisioning that best reflects this historical collection data. We are using this since 2010 and we are adopting this quarter, the first time also to Anhanguera. The second thing, we are also adapting and standardizing the accounting practices revenue recognition and more specifically to FIES students revenue recognition.

So on top of having the same methodology for PDA, we also have the same methodology for revenue recognition which regards FIES Student. And third all the historical effects from those two adjustments both on PDA and on revenue recognition, we're recognized on our opening balance sheet. So there is no need for future non-recurring adjustments in those items specifically.

So moving now to the numbers, on the On-campus PDA sell to 2.8% of net revenues, so total Postsecondary PDA on 2.8%, which is down 1 percentage point from last year -- in the third quarter last year.

The main reason for this decrease is the mix of FIES students in our base as we can see stability on the PDA for the non-FIES students.

So, if we exclude the FIES students on the right hand side of the green bar, you have ex-FIES, non-FIES students and you can see that the level of provisioning is pretty much stable over the last quarter at a level of 6.5%, already including Anhanguera provisioning on the same criteria of Kroton.

If you look now at Distance learning on the red bars, we can see an increase in 1.1 percentage points compared to last year at 7.6% provisioning this quarter and this is mainly related to an increase in the provisioning requires for Anhanguera student. If we take out Anhanguera students, the provisioning for non- Anhanguera students is stable and Anhanguera students requires a higher level of PDA and therefore the average provisioning for Distance learning increased, and we are also assuming here the LFG operation, so the non-regulated courses from LFG is also included on this PDA.

And last if you look at the PDA for primary and secondary business, we have an increase of 1.9 percentage points compared to last year and this is basically a reflect of adjustment in the accounts receivable coverage due to the anticipation of the sale of collections from second quarter. As you remember the last quarter, we've showed a big increase in revenues and account receivables because of the World Cup. We've anticipated part of the sales from the third quarter to the second quarter which was good and therefore, thus that the accounts receivable increased in the second quarter and we are now decreasing both the accounts receivable and the level of PDA in the third quarter and we should converge in the next quarters to the historical levels of PDA again in Primary and Secondary business.

Moving to page 14, we can see the accounts receivable. Basically, we have a total of R$827 million in accounts receivable from which R$641 On-Campus business, R$147 million Distance Learning business and R$40 million Primary and Secondary business. If you look at a pro forma, considering the repurchase of FIES in September, our accounts receivable will be 635 million.

So the next slide on page 15, you can see how these accounts receivable translate in average term. So what we try to show here is different analysis, so that you can understand what's the behavior of our accounts receivable term. So starting on the Postsecondary On-Campus, we show four analysis. The first three are related with non-FIES students and the last is related with FIES students. So starting with the first analysis where we can see the total average term for the Postsecondary On-Campus, we can see a drop of seven days, which is good news. So we've reduced our accounts receivable from last year.

If you look at the analysis number two and three, looking only at non-FIES students, the second analysis we can see a reduction of two days. And on the third analysis, excluding FIES from net accounts receivable and net revenues, we can see an increase. Here it's important to mention some few things, like there is a six days increase. The first, we have the incorporation of the accounts receivable of Anhanguera, the average receivables term of Anhanguera is higher than the average receivable term of Kroton.

The second, we have a higher balance of accounts receivable in the very short-term. So the harvest from one to 30 days, the very short-term accounts receivable increased. We were able to compensate this increase until 360 days, so that we did not have to increase our PDA, but the fact is a few number of students paid on time and we have to be stronger on the collection after the due date of payment. And if you look and if compare there is an increase in six days in addition of early [ph] last quarter, we can see deduction of 13 days, so this is part of the reason also why our cash generation in the quarter is strong, so we have an increase compared to last year, but we have a very important decrease compared to last quarter.

And finally, if you look at the number, the criteria number four, we can see the evolution of the cash receivables of FIES, only FIES students and we can see a 42 days receivables down, which is significantly lower again compared to last year we've decreased 15 days on the average receivable times. So a good news on the evolution of FIES receivables. If you look at the Distance Learning, we can see an increase of 8 days, two reasons, the first as mentioned in other quarters a convergence of billing and renegotiation practices between the Distance Learning and as the Postsecondary On-Campus.

The billing and the renegotiation practices were different, remember Distance Learning units were acquired unit Unopar (inaudible) converging the practices in this increase part of this increase is related to that and the second Anhanguera again as a higher receivable term both on graduated Distance Learning also on LFG business. And if you look at primary and secondary, we can see (Technical Difficulty) compared to last year, so 81 days and the sharp decrease of 30 days compared to second quarter again we've anticipated the sell off some collections to the second quarter and we are recovering and receiving the accounts receivable from those schools on second or third quarter, therefore we have a receivable then very comparable to last year.

Moving to slide 17, we can see the capital expenditure as in other quarters, we divide the capital expenditure in two blocks, the first is the CapEx recurring and expansion and the second is the special project. So the CapEx, the CapEx recurring is everything that has to do with the short-term, CapEx and long-term CapEx related to new units, (inaudible) fields large expansions, we take it to the special projects, so that you understand the differences.

So if you look at the CapEx in the quarter was 95.3 million, which is about 8.3% of net revenue and if you look at the nine months of the year, CapEx was 188.4 or about 7.4% of net revenues. If we take into account, special project, and we have that to the CapEx the special projects, you can see R$122.8 million in third quarter and R$244.7 million in the nine months or 9.6% of net revenues.

And here, I'd like to make some few comments. The first is why there is an increase in this amount compared to last year. The main reason is related to a high growth of our student base. The most of these CapEx is related to expansion, we are assisting a growth of our base of students. Therefore, we are building and we are adding and shifting keeping our buildings with laboratories, IT equipments and libraries.

And the second, we continue to be very optimistic for the future, so for the fourth quarter this year, the level of CapEx should be high and in line with the third quarter, so we should keep up with the high level of investment, but we will not have a CapEx higher than 10% of net revenues which is the guidelines we provided to the market.

So despite this increase in the third and the fourth quarter the level of CapEx should be at about 10% of net revenues as we've provided as guidance to the market in the beginning of the year.

Now moving to page 18, we can see the company's debt. We have and you'll see on the next page is a strong cash -- strong operating cash generation in the period. Despite that strong cash flow in the period, we ended the quarter with R$397.3 million in cash and equivalents, which is a 15% reduction compared to last year. So two main reasons why we have this decrease.

The first, we have two extraordinary dividend distributions, one related to Kroton of 483 million and one related to Anhanguera of 53 million. So an extraordinary distribution of dividends and the second effect a prepayment of parts of our debt totaling R$150 million and if we paid a part of our debt that we've considered to be expensive. Therefore, we should generate a positive benefit on net income over the next quarters.

Now looking at that if we incorporate the effects of Anhanguera debts and considering only bank debt, debt in the quarter was 748 million, and if we had all short-term and long-term obligations beyond bank debt Germany related to tax and M&A, our net debt is 1,055 million, which is an increase of 218% compared to last year. And I would like also to, but I mean, this increase still represents a level of net debt over EBITDA, a very comfortable level, a low level in fact of net debt over EBITDA. What we are doing is we are trying to prepay all debts that we consider to be expensive and maintain the debts that we consider to be healthy.

And in that line, I would like to mention that in the fourth quarter in October, we've prepaid an additional 124 million related to a four line denominated debt in Euros, there was -- that has been contracted by Anhanguera. It was the extensive debt without any type of swap, so we were exposed to exchange rates fluctuations and we decided to prepay and this generates also a net present value -- positive net present value.

Okay. So now moving to page 20, we can see the cash generation. Once again, we can see all numbers that are here both for the quarter and for the nine months, very strong numbers both from the quarter and the nine months. And this is already after the incorporation of Anhanguera as you remember, presents a structural lower cash generation then Kroton, but despite that we are presenting a strong cash generation compared to last year.

If you look at operating cash generation before CapEx we sell during the quarter 415.9 million, which is 117% EBITDA to cash, higher than last year. After recurring CapEx, cash flow was 302 million or 85% EBITDA to cash again, very strong. And if we consider also the special projects, cash flow generation was 285 million or an EBITDA to cash of 80%, so a very strong level again this quarter. And we've -- but are able over the last quarters to delivered strong cash generation once again in this quarter.

So I'll now hand the works back to Rodrigo for his closing remarks.

Rodrigo Calvo Galindo {BIO 17238232 <GO>}

Thank you, Frederico. On the slide 22, we can see the combined pro forma results of Kroton and Anhanguera in the year-to-date, I believe that these results is to consider the different accounting practices adopted by the companies until June of this year. So from January to June that accounting practices in both companies are different, than if we start to have the same accounting, practice accounting in 4th of July, I don't have the balance sheet -- opening balance sheet.

Considering the pro forma combined analysis in the first nine months, net revenue was R$3.6 billion and EBITDA was R$1.3 billion with EBITDA margin of 36.2%. Net income was R$1 billion with net margin of 28.9% and cash flow after CapEx of R$916 million. Then we'll definitely meet together the guidance for this year that we gave to the market is about R$1.5 billion in EBITDA. But more importantly, they give us an idea of the scale that we have achieved with the mortgage [ph] from the standpoint of the financial performance.

Let's go to the last slide of today's presentation for my closing remarks, please. My closing remarks will be above the Anhanguera integration process. I'd like to emphasize that we are very satisfied with the results achieved today. In fact, I'd say that we have never started an integration process so well prepared, since we've been more than one year waiting for approval by CADE and we took excellent advantage of the time to plan the integration.

The results are very strong, we had made consistent progress in aligning the corporate Q2 and on all 26 integration fronts and we have concluded our important steps, such I'll explain the budget system, which is allowing us to prepare a budget for next year that is standardized the company wide. All 205 integration products currently in progress. I am articulated through what clear methodology and (inaudible) process of a combining deliverables. And we are only scheduled with the delivers of the plan activity of more than 8,000 lines in the timetable we had traffics for today delivered 46% of activities delivered. And we are now at 47% of activities concluded. So we are only completely on this schedule based on the original timetable.

This progress has allow us to anticipate the start off the process of integration the academic models or problem, which originally were the schedule for two to three years after the integration. So we are able now to anticipate in two years the integration of the academic models.

We are developing a new academic platform, the Kroton learning systems 2.0, which will bring more technology, more innovation and (Technical Difficulty) in this Anhanguera business model. As a result by 2016, we plan to have a single academic model for the entire organization with more quality attributes, which we will improve the image of our brand and how consolidate our leading position in our markets. The (inaudible) and he will be present to the market on Kroton Day in November this year.

Another thing that I'd like to point in my closing remarks is about the new courses in the actual unit. We have around 600 courses in process to be approved by Ministry of Education just to have an idea how big is the growth strategy in the actual units to date, we have 1.4000 courses as Anhanguera. So the courses that we are asking for Ministry of Education now represents all most 40% of improvement of the amount recorded. Besides the new cost in the actual unit, we still have the Greenfield project and we're planning to launch 20 Greenfields per year for the next five years that means 100 new Greenfield in five years.

Once again to have an idea how big is this growth strategy today we have 130 units in operation, and we are planning to increase this number for 230 in five years. I would like also to say that we have launched the student recruiting process for the first semester of 2015 and their initial signs are very positive in both On-campus and Distance learning segment, so we will be very confident in terms of student's base growth for the next year.

And in closing, I'd like to invite all of you to participate in our Investor Day events, which will be held in Sao Paulo on November 26 at 2:00 PM for more information, please go to our IR website. Once again, thank you for participating in today's call and now we'll begin the question and answer session. Thank you.

Questions And Answers

Operator

(Operator Instruction) Our first question come from Maria Azevedo with UBS. Please go ahead.

Q - Maria Tereza Azevedo {BIO 16178885 <GO>}

Hi, everyone thanks for taking the question. I would like just if you could comment a little on, if you see room for the government to improve the quality -- the minimum quality levels for this FIES program and if that's the case, how do you think Kroton would be positioned to handle it. Thank you.

A - Frederico Brito e Abreu {BIO 16674822 <GO>}

Hi Maria, this is the Frederico, thanks for the question. We are not assisting any complete or formal move on that direction. We understand that there is a general concern on the government to make sure that the level of a quality increases, but there is nothing specifically on increasing the level of that part to three or four and therefore we cannot comment on that, but if that happens, we believe that we are well positioned to the effect [ph], whether to that level or new level.

So we understand there is a general concern, we are also concerned on the level of qualities something that we try to follow and provides the markets as disclosed on that information, but so far we don't have anything concrete on that direction.

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

Maria, its Rodrigo speaking only to complete the Frederico's information. Actually, we have today almost 100% of eligibility in FIES and this high level of eligibility is because we have a good regulatory index in our analysis from Ministry of Education. So we have a high-quality indicators in (inaudible) and we have high-quality indicators in CPC that is the most important indicator, quality indicator for FIES.

So we believe that these the government decided to increase the (inaudible) to demand more quality for FIES, it would be helpful for a program, because we already have these level of a quality in our operations. Okay.

Q - Maria Tereza Azevedo {BIO 16178885 <GO>}

Perfect, thank you very much. And just as a follow-up question. The anticipation of the ProUni renewals. Do you see any risks to that or would you see that it would be unconstitutional to change that going forward. Is this is a 10-year guarantee in terms of the tax exemption that we should assume?

A - Frederico Brito e Abreu {BIO 16674822 <GO>}

Hi, Maria, it's Frederico again. We don't see any risk. The original terms were valid for ten years from 2005 to 2015. What the government is doing is to extend those terms for additional ten years. So the document that supports those -- that extension is solid from a technical and a law, judicial point of view. So we are in fact very optimistic and happy with that extension and we are planning to incorporate our almost 40 units on the extension, so that starting on the 27th of November, we already on that way to that norm. We have until 27th of November to do that, so we are planning to go with all of our units to that supportive situation of 10 additional years.

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

And just a compliment, it represents 100% of our institutions, so in 100% of Kroton's institutions, we will anticipate the renewal of, so we would have -- we will have 10 more years guarantee. It's a good stability to the program, we didn't know if that renewal is going to happen and it's very good that the renewal is going to happen for additional 10 years.

Q - Maria Tereza Azevedo {BIO 16178885 <GO>}

Perfect. Thank you very much and congratulations on the results.

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

Thank you.

Operator

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

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

Once again, thank you everybody for participating in this call and our IR area is available for further information. Thank you.

Operator

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