Q4 2017 Earnings Call

Company Participants

- Carlos Alberto Bolina Lazar, Investor Relations Officer
- Jamil Saud Marques, Chief Financial Officer
- Rodrigo Calvo Galindo, Chief Executive Officer

Other Participants

- Thiago A. Bortoluci, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everyone to Kroton Educacional Fourth Quarter 2017 Earnings Conference Call. 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.

Also, today's live webcast, both audio and slideshow, may be accessed through Kroton Educacional's Investor Relations website, www.kroton.com.br/ir, by clicking on the banner Fourth Quarter 2017 Webcast. The following presentation is also available to download on the company's website. The following information is available in Brazilian reais, in accordance with 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 on the company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or not may (00:02:07) 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 will turn the conference over to Kroton's CEO, Mr. Rodrigo Galindo, who will begin the presentation. Mr. Galindo, you may begin the presentation.

Rodrigo Calvo Galindo {BIO 17238232 <GO>}

Good morning, everyone, and welcome to the earnings conference call of Kroton Educacional for the fourth quarter of fiscal year of 2017. With me today are our IRO, Carlos Lazar; and our CFO, Jamil Marques. In today's presentation, we'll take a detailed look at our results for the fourth quarter and for the year.

We once again beat the guidance that we gave to the market at the start of this year, despite extreme challenging macroeconomic scenario with high unemployment and industry pressures, including the higher number of graduations on FIES students that we have this year. But even with these headwinds, all the company's business - On-Campus Undergraduate, Distance Learning Undergraduate, and Primary and Secondary Education or K-12 - all the businesses present an increase in operational results and operational margins, and the company beat all the estimates it had announced to the market.

So let's tackle slide 4, please with the incorporation of our actual results in the year with our guidance that was provided in April of 2017; in 2017 we delivered net revenues of BRL 5.6 billion, 1.3% above our guidance, which is a major achievement considering the scenario we are going through. Higher employment, increase in competition, pressure in enrollment and regulation of larger classes of FIES students pressuring our student fees.

It is important to highlight that our strategy to invest heavily in organic growth did not yield practically any revenue in 2017, so we have not been positively impacted yet by the strategy of the organic growth because we are just starting to deliver now and this strategy takes time to really impact the revenues in the results. And even so, we're reached the guidance at the same time as we implemented 15 new units which will gradually generate revenue in the coming years. We'll talk more about this in the end of this presentation.

It is also important to point out that in the year of 2017, we had four fewer months of revenue, and the results of the FAIR and FAC/FAMAT units, which would sell in August 31, 2017, and the result on demand from (00:05:11) operations. So we had four less months of these two units and even with these less revenues than results, we beat the guidance. Even without this revenue and these results, we were able to overcome it, and we beat the original guidance. Our perception is that the 2017 numbers are solid and does justify the idea that a significant reduction in FIES students will lead to a deterioration in revenues, results, and margins. This was our concern on the market in the beginning of the year, because everybody knew that we will lose big, big (00:05:52) because of FIES students that enter in 2013. And the question was, could Kroton be able to neutralize or mitigate this impact of last year's students?

And since they started 2017, we have repeatedly reaffirmed that we have, in the company, levers that will help us to neutralize these pressures and these results proved that our methods are right. We used these levers to neutralize this impact and we delivered results that beat our guidance. For 2018, the same levers we are observing, the same levers that neutralize the pressure in 2017 remain valid going 2018. Therefore, we have a positive expectation in relation to the results of the year.

But this is my first message and now I invite our IRO, Carlos Lazar, to continue the presentation and present the results of our different business: On-Campus, Distance Learning and K-12. Please, Carlos.

Carlos Alberto Bolina Lazar {BIO 17238206 <GO>}

Thank you, Rodrigo. Well, so let's turn to slide 6 where I'm going to start talking about the main lines of our results for the fourth quarter and each of the segments. To ensure comparability, we have excluded the results from some assets that we sold, still regarding the remedy of the Anhanguera's merger. So, that was excluded in the numbers of fourth quarter 2016 even though the investment happened in this late August 31.

Starting with the On-Campus OpEx, net revenue was stable despite the smaller base of FIES students. And the fact that the last classes of (00:07:39), the location according to (00:07:41) students is what we need in the first semester of 2017. The main reasons were the good results achieved in the new enrollment in (00:07:50) processes, as well the higher average tickets that contributed in line with the better program mix.

For efficiency initiatives, we were able to deliver gross income growth in the On-Campus segment of 2.1% with gross margin expansion of 140 basis points. Among the measures adopted, a highlight was the rollout of the Operational Research software, together with the economic model, KLS 2.0, which were the main drivers of gross margins in this segment, by optimizing the costs of the faculty and infrastructure.

Another factor that contributed to the margins was the expansion and the high penetration of digital content, the successful (00:08:40), and expenses, and finally the strategic sourcing product which currently that we filed.

Operating results and margin before marketing expenses remain exactly stable in relation to the 2016 numbers, with impact from the higher provision of losses given to the increased exposure to the project's funding plan that we are offering, that offset our cost and expense austerity and efficient levers, as we already commented in the gross margins release.

So, moving on to the Distance Learning segment, you can see the 4.1% drop in the net revenue which was due to the higher share of 100% online students in our base which have a lower average ticket and by the lower revenue from the LFG operations, with this effect neutralizing the solid enrollment and the enrollment process throughout the year.

However, we offset the revenue gap through efficient means, and as a result, Distance Learning gross income grew by 0.6% with a gross margin over 410 basis points up, driven by the optimization of our tutoring model and the performance of the Anhanguera business line operation (00:09:57). Note here that the higher share of 100% online student also contributes to the margin rates. Assets carries a lower level of costs.

Meanwhile, the operating results before marketing expenses (00:10:13) 4.6% year-over-year with margin expansion of (00:10:17). In addition to the efficiency measures mentioned before, other factors like the initiatives through two-line (00:10:27) head counts offset the pressures from the high provisioning given to the (00:10:33) introduction of PMT payments in these segments.

And lastly, the primary and secondary education, K-12, the net revenue grew 14.6% in the fourth quarter following the good performance of the book collection process, the sales process that we received for the 2018 academic year. We also presented the gross income increase of 42% almost with gross margin (00:10:59) about 14 percentage points demonstrating the (00:11:02) which led to the client (00:11:07) the key cost and expense line.

Operating results before marketing in the segments posted a strong growth of 53% and the margin were up like almost 16% supported me (00:11:18) by the actions and through the technical teams in the segment.

Going to slide 7, we show the consolidated results for fourth quarter and 2017 (00:11:31) same adjustment in terms of the fee (00:11:35) of the assets. And the net revenue in fourth quarter was BRL 1.3 billion, remained stable year-over-year despite all the top line pressure (00:11:47) the resilience of our operations. As a result, net revenue in the year grew by 7% to reach BRL 5.5 billion, which is extremely important and confirms the strength of our enrollment and re-enrollment process and also the adequate pricing methodology.

In the middle of the slide, the adjusted EBITDA in the fourth quarter reached BRL 534 million, up 2% with a margin 39.6% meaning so 100 basis points reflecting the cost control and the constant focus on efficiency to make sure that our operation is more robust. (00:12:28) of course, the margin will be (00:12:32) and I will comment a little bit more in the next slide.

In 2017, we delivered an adjusted EBITDA of BRL 2.4 billion and a margin of 44.1%, representing improvement of 8% and 30 basis points, respectively, meaning so we met our guidance and bigger than the margin consensus for the margin, so it's very, very important. For 2018, we expect more pressure from the - even higher (00:13:02).

But we also are working in very slow fronts in all the business segments and we will (00:13:13) efficiency levels while seeking some new ways to further optimize the cost structure. (00:13:22) we're going to be reporting (00:13:28) the first quarter 2018, we will also be announcing our guidance for the year, which is the same thing that we did last year.

Well, on the final part, here, the charts on the right-hand side (00:13:42), the adjusted net income in the fourth quarter was BRL 489 million, which is about 2% up and a margin of 36.2%. So the margin was (00:13:55) basis points year-over-year. (00:13:59) 2017, the adjusted net income was BRL 2.2 billion (00:14:04) margin of 40.3%, which was 13% and 210 basis points on the margin side. So (00:14:12) again our guidance of 200 basis points, which is very, very important to show.

In slide 8, the left-hand of this chart (00:14:22), we show the evolution of adjusted EBITDA (00:14:25) 2016 with 38.6%, and then we quantified the impact of the shift in the student mix with a smaller share of FIES student and the higher share of PEP and PMT students for which we continue to provision 50%.

So these effects alone (00:14:43) had an impact on our EBITDA margin of 410 basis points. However, as in previous quarter, our efficient levers were crucial for recovery indicator, and given the improvement of 210 basis points from the efficient gains on it (00:14:55), we ended the fourth quarter with an EBITDA margin of 39.6%, up 100 basis that I did mention before.

And finally for 2018, we are also making progress in our (00:15:13) the retention and the collection indicators, which should make an additional and important contribution to the operating and financial results for this year, (00:15:24) to ensure the long-term sustainability of all our operations.

Well, to continue the presentation now, I would like to invite our CFO, Jamil Marques (00:15:36).

Jamil Saud Marques {BIO 21416820 <GO>}

Thank you, Carlos. Hi, everyone. Well, I'll start this section of the presentation with a few indicators, the level of provisioning for losses and the average receivables term. If you turn to slide 10, you can see there the (00:15:50) PDA as a ratio of net revenue for each of our (00:15:53) segments. As mentioned already by Carlos before for consolidating (00:15:57) purposes, these figures also exclude the results from FAIR and FAC/FAMAT, which affect only On-Campus segment.

If we start with the On-Campus segment on the left side of the page, the total PDA stood at 8.1% in the fourth quarter, up 160 basis points year-over-year, reflecting a higher number of PEP and PMT students in our base. FIES provisioning (00:16:21) for this product remains at 60% (00:16:23).

If you compare it to the third quarter of 2017, the decrease of 550 basis points reflects the seasonality of the business with a lower volume of PMT due to the anticipation of the enrollment curve in the last student recruiting cycle and also to the early repayment of outstanding installments, as well as the dropouts in the period.

Meanwhile, PDA for only out-of-pocket students remains stable in relation to both the prior quarter and the same quarter of 2016 at a level of 7.4%. As we mentioned in the last earnings session, this reinforces the recovery trend and (00:17:03) indicator, sustained by our more effective (00:17:07) collection actions, including higher (00:17:10) which is a positive indication for the year 2018.

On the Distance Learning segment, which is on the center of the page, the total PDA in the fourth quarter stood at 9.1%. This is up 100 basis points year-over-year which basically explains about introduction of PMT clients (00:17:29) as of early 2017, for which we have bought an accounting practice (00:17:33) (00:17:34) and also, for the higher share of 100% online students in our base.

In the (00:17:43) the 10 basis points growth reflects the same situation we see on the On-Campus side which is the (00:17:51) anticipation of the enrollment curve with a reduction in the (00:17:55) in the quarter.

Considering only out-of-pocket students, PDA in the quarter stood at 9%, up 90 basis points year-over-year and at 30 basis points sequentially penalized by the macroeconomic scenarios, especially due to high unemployment, which in turn affects the dropout and delinquency rates. On top of that, (00:18:16) also affected by the pressure related to the growth of 100% online students.

Turning to the right side, in the Primary & Secondary Education segment, once again, the PDA remains stable at 0.8% (00:18:32) on the provisioning quality in this segment. And I would now like to turn to page 11, where you can see the variations in the average receivables term in each leading (00:18:44) segment. Also excluding the impacts from Uniasselvi, FAIR and FAC/FAMAT. (00:18:50) On-Campus segment, the average term in the fourth quarter stood at 129 days, practically stable in relation to 120 days in the third quarter.

If you consider only the average term for out-of-pocket students, there was an increase of nine days in the annual comparison which (00:19:07) have implemented in three recent months ago. Especially for the (00:19:16) portfolio that had already been written off, which despite the negative effect on average term made up positive contribution to the effective loss.

Meanwhile, the average term for FIES students improved by 16 days sequentially, given the normalization of the payment flow and the receipt of an additional FIES installment in the fourth quarter. With the installment of this November once again being received in December rather than in January, as was the case back in 2016. Note that as of August, when the government reported the remaining 50% of the balance not paid under the PN23, we expect the FIES average receivables to return to its levels of 2014 before we experience the PN23. Lastly, the PEP and PMT receivables term in the fourth quarter stood at 321 days. That represents an increase of 16 days sequentially in line with the (00:20:15) expected maturation of these products (00:20:16).

Turning to the Distance Learning segment, the average receivable term for out-of-pocket students was 94 days. That's an increase of seven days on a year-over-year basis, which is explained by the deterioration in the macroeconomic scenario that also affects delinquency, and also by the increase in the 100% online student base. The average term of PMT students in the DL segment decreased by 60 days year-over-year. That's a reflection of the anticipation of payments of (00:20:50).

Finally, looking at the Primary & Secondary segment, the average term stood at 153 days in the quarter. That's an increase of 30 days year-over-year, especially due to the high volume of book (00:21:04) collection sales anticipating in the fourth quarter.

Overall, we are very satisfied with our results in the quarter, especially the stability (00:21:13) out-of-pocket PDA, and with the recovery of past-due (00:21:17) balance from part of the portfolio that had already been written off which are the initial signs of improvements in our collections growth (00:21:24).

Now I'd like to turn to page 13 to talk a little bit more about our CapEx. In the fourth quarter, we invested BRL 207 million, which corresponds to 15.3% of our net revenue, and that's an amount that's 61% higher than in the prior year quarter given high investments related especially to content development and the expansion and improvement (00:21:53), given the more premium product mix with a higher share of medicine and engineering programs which (00:22:01) the average prices but also require laboratories for practical class. In 2017, CapEx was BRL 507 million or 9.1% of our net revenue for the year.

Moving to the right side of the page where we include investments in special and greenfield projects. The CapEx in this last quarter was BRL 232 million which corresponds to 17.2% of net revenue and represents a 56% increase on a year-over-year basis, reflecting the high investments in greenfield projects with 11 units launched already in the first semester of this year. In the year, total CapEx amounted for BRL 595 million corresponding to 10.7% of net revenue, above our guidance of 8.9%.

I'd now like to speak about (00:23:01) more about our cash generation which is on page 14. In 2017, as already mentioned, we also received the FIES installment for November and December rather than in January of the following year as was the case already back in 2016. However, note that 2016 had 13 FIES repurchases and the (00:23:27) installment for November 2015 was also received in 2016, while 2017 registered only the normal course of action due to our installments.

Once again, we delivered very robust cash generation after CapEx in special projects, up BRL 1.2 billion, representing a cash conversion-to-EBITDA of near 56%. As we have done in recent quarters, we are presenting (00:23:59) free cash flow for 2016 with and without impact (00:24:03) of the first installment from the Uniasselvi sale which we received back in March 2016 and represented an amount of BRL 358 million that's basically in order to facilitate our comparisons between peers. On this basis, the free cash flow in 2017 was BRL 382 million. That's down 3.4% from BRL 396 million in 2016, reflecting the impact from the (00:24:36) in 2017.

In our view, an extremely robust performance that demonstrates the strength of the company's operations despite all the challenges faced – that we've been facing, including the deterioration in the economic crisis and the need to offer students an alternative installment payment using our own (00:24:59) capital.

Moving to the debt slide, which is on page 15. Our balance of cash and equivalents finished the year on the fourth (00:25:11) quarter at the level of BRL 1.7 billion, increasing 5.4% sequentially, reflecting the strong cash generation this year and the receipt of one additional FIES repurchase since the installment for November was once again Uniasselvi payment (00:25:28).

Considering as well all the financial liabilities and (00:25:32) short and the long-term obligations, we ended the quarter with a net cash position of BRL 1.2 billion. That doesn't include what I would like you to remember (00:25:42) which is the short and long-term net accounts receivables which consist essentially of 60% (sic) [50%] (00:25:49) of the FIES amount not paid in 2015 under the PN23 which we expect to receive in full in August 2018.

The second part of the – also the second part of the Uniasselvi payment, adjusted to present value, which will be made (00:26:08) five annual installments beginning this year and finishing in 2022. And last but not least, the outstanding balance of the payment for the sale by (00:26:20) FAC/FAMAT, which already mentioned was concluded in August 2017.

Considering all those receivables, we held a net cash position of BRL 2.2 billion (00:26:32) at the end of the fourth quarter, which is a very significant position (00:26:38-00:26:44) of the company.

Well, I'll now pass the call back over to Rodrigo for closing remarks.

Rodrigo Calvo Galindo {BIO 17238232 <GO>}

Thank you, Jamil. On slide 17, I'd like to make some comments about our strategic planning and our growth strategies. In the last few months, we have (00:27:04) a silent revolution (00:27:05) in the company discussing and redefining (00:27:08) strategies that will lead us (00:27:11) in the long run.

The discussions were conducted in a structured manner in a Strategic Planning process which involved 100 (00:27:18) over 4,500 hours of work during eight months. A very objective and strategic map (00:27:27) for the next few years, for the following years.

There are three structured drivers (00:27:34) strategy: Student Success, operational and financial efficiency and growth, all this supported by a clear digital strategy which seeks to digitalize the student experience, while at the same time change the company's mindset turning into increasingly digital company. Kroton's (00:27:59) very clear to the team, and this gives us a peace of mind to how to know where to walk. I think it's very important to have a clear strategy for the team to guarantee that we are following the right steps, and we did it in the Strategic Planning that (00:28:18) in the last eight months.

Let's talk a little bit about growth opportunity now. Growth was always one of Kroton's most important value, and we generate a lot of value for our shareholders delivering growth and growth – we maintain the growth strategy going forward. We divided our growth opportunity in five main blocks.

The first one is a On-Campus Undergraduate in Brazil and is basic (00:28:48) with organic and inorganic growth. The second block is the Distance Learning Undergraduate Brazil opportunities. And (00:28:58) implementation of new Distance Learning centers (00:29:02) relevant increase in the portfolio, especially regarding Distance Learning premium. That is the most novel course in Distance Learning.

The third block of growth opportunities is related by Primary & Secondary Education (00:29:16) in terms of consolidating schools on K-12.

The fourth growth block is the (00:29:24) Education with relevant growth opportunity in this segment and both positive signs already (00:29:28) in 2018. In the fifth slot, the last slot that is not less important, is the possibility of internationalization which we began and that is analyzing more in 2018. So we are doing analysis about the internationalization, the opportunities about internalization. We believe we will develop in the company SKUs to delivering scale and quality education that could be helpful in making an internationalization process.

So, I will now pass the call to Carlos Lazar to detail these growth opportunities.

Carlos Alberto Bolina Lazar {BIO 17238206 <GO>}

Thank you, Jamil, Rodrigo; so let's start with the On-Campus Undergrad in Brazil. As you may know, our initial plan was to open our 100 greenfield projects, which we later increased to 112 units and also during our Investor Day back in December 2017. Of this total, 15 are already operational and 9 were opened in the first semester of 2018. In the second semester of 2018, we will implement another 17 greenfield projects, closing the year with 28 units implemented, of the 112 initially planned.

For 2019, we will implement another 35 greenfield projects. So, in total, we're going to have 63 greenfield projects by the end of the next year. The results of the first 9 greenfield projects that we have already opened this year are very positive. They all show a demand in the opening classes. So we were activating them. The activities are really happening and everything is going out to achieving the global projects in terms of the students' admissions for all of them. Of course, there is a ramp-up phase of revenue and results generation for these units, but the basics for the future growth have been set.

To ensure the optimum implementation of this organic growth strategy, we created a dedicated vice president. In other words, the company is really prepared to continue to grow organically, very strongly in a very solid manner in the coming years. In addition to the two projects, we acquired also two small units that accelerate the company's growth and have a – and above that, we also have further pipeline and a very important pipeline of acquisitions.

About the second block of growth opportunities, we can comment about the Distance Learning Undergrads in Brazil also. So considering the new regulatory framework for distance learning announced in last June, we were able to open about 200 new centers per year. In 2017, we did open these 200 new centers. And in 2018, we also are taking advantage of the benefits and have already opened about 100 centers by the beginning of this year. By the end of the first half now, we will be opening the additional 100 that we are able to, so completing the 200 for the year and achieving about 1,310 centers already this year.

Please be reminded that our process for selecting and training partners is very complete. Of course, these new centers will also undergo a ramp-up phase before creating more value to the company but with these initiatives and with a very strong partner network that we build and continue to be built, we believe that this will – we are certain that the basis for an accelerated growth in this segment, in DL segment, has also been laid.

With 1,300 centers implemented in 2018, we are reaching about 75% of the addressable market, and, therefore we estimate that to reach 2,800 centers in the coming years totaling 93,000, 90% of the addressable market in Brazil. That means that there's a lot of – still a lot of room to grow in discipline throughout geographic expansion.

An additional to this expansion, another important strategy to support the growth in DL is the expansion of the portfolio, especially regarding the Premium Distance Learning programs with – today, we listed (00:34:06) about 1,500 new programs and offers, which means that one program in one center. This means an increase of 81% in the offer of Premium Distance Learning programs compared to the same period of 2017. So, again, the strategy has a lot of potential to create value in the coming years.

Third block of growth drivers is the K-12 projects, and as already present to the market, the plan here is advancing. The first two acquisitions should be announced in over the next four months, and another acquisition is slated toward the second half of 2018.

The pipeline includes 26 potential flagships, 6 of which are more in advanced stage of negotiation. Therefore, sales in products, that's the K-12, is completely on track, on schedule, in line to the company's expectation.

For the fourth quarter of growth, the drivers, we have the continued indication which is like our graduate courses, MBAs, and so on. So, in 2017, we completed our comprehensive restructuring projects of the year and in increasing the autonomy and decision speed of this area, and the results are already starting to be showed. The (00:35:32) of these students in these of programs in the fourth quarter increased by 70% from same period over a year ago, which shows that we are trying (00:35:42) restructuring process implemented in 2017 is easy to compute results.

And we also have a great opportunity in this segment because our market share is only 2.1% and we believe it's reasonable to have approximately the same market share as we have (00:36:03) in the Undergrad, which is approximately 15%. So, the growth is really goal here that we can be achieving.

And finally, the fifth block as well for the opportunity related to the Kroton's international expansion project. And for that, we believe that we developed a confidence to deliver, as Rodrigo said, the same quality. So, we are going deeper in the analysis of the international expansion and we're probably going to have more ideas about what we're going to be doing there during the year.

Thank you. I will now pass the word back to Rodrigo for his final comments.

Rodrigo Calvo Galindo {BIO 17238232 <GO>}

Thank you, Carlos. Moving to the next column in the same slide 17, let's talk about enrollment and reenrollment. The enrollment and reenrollment process for the first semester of 2018 are approximately 70% completed. So, we still have more four weeks to complete the process. In terms of student admission, we should reach the managerial targets that are close to the figures that we had in 2017. So, we are in line with our managerial targets. With the healthy prices, the best news is that we are doing this is healthy prices levels in both segments, the On-Campus and Distance Learning, and effectively with a financial offer in line with the projects that we originally made our provisions.

The graduation of a large number of students that we needed in 2013, specifically in FIES, is expected to pressure the student base. Everybody knows that we have a big harvest that entered in 2013. They are graduating now, and of course this will pressure the remainder of students. We already anticipated this.

However, we have been seeing a slight trend of decrease in the dropout, which is a good sign for the creation on a long-term value since, in 2019, the large volume on student evolutions over the past year would have all graduated, and then dropout rate becomes more relevant for the growth of student base.

So, what we are going to say here is we still have, in 2018 and 2019, a big harvest of FIES students. But after this, the level of dropout is the main driver to drive the student base level, and we are seeing a slight decrease in the student dropout rate. That is a very good news.

We believe that we are seeing the reduction in dropout because the focus that we are doing in the future of the students. We are donating a lot of products to guarantee the retention of the students since 2016, and we have seen that this product has made the difference in building student loyalty in the company.

And we are very pleased to announce the first concrete results of our Kroton digital transformation journey. We talked a lot about digital transformation in our Investor Day in December, and our ambition about a digital transformation is very high. Our ambition is to become the most digital educational company in the world, and we are working hard towards that, and now we are glad to announce the first initiative and then the first concrete results of this process. We are in the process of implementing an agile developed model across the company, supported by clear agile framework. We are using the same methodology to guarantee agile teams in the whole company. And by year end, we will have over 400 people on 55 agile teams, focusing on 10 agile delivery trends, supporting 22 value streams to – and ensuring 770,000 hours of development and shipments. All of them in agile methodologies.

It is irrelevant that both (00:40:07) that places Kroton among the few Brazilian companies with 100% of the develop teams working on agile teams. So this is a very important process to be one of that few companies in Brazil that will have in the end of this year, all the develop teams, the develop teams (00:40:25) teams are working in agile methodologies. And this is (00:40:31) doubt, an important step on our digital transformation.

Moving to the next column, our board of directors approved a distribution of over BRL 148.4 million in dividends which corresponds to BRL 0.09 per share for a payout ratio of 40%. So we keep the payout of 40% and our expectation is to keep 40% during the next - this year - during 2018. And these levels of payout even being high at 40%, we will preserve our cash flow - our organic and inorganic projects which will help us to create giving more value for our shareholders in the long term.

Last, I want to announce that this week, we launched our new Investor Relations website, which was completely redesigned to offer more credible and unique experience for our users and we like everybody to use our new website - IR website. So, we have - welcome challenging result to comment. We had some challenge in 2017. We would face it with - for that the following question.

Will Kroton be able to keep margins and keep results and keep revenues even being face it with a high - strong reduction on FIES student in their base? And the results show that yes, we did it. We delivered more efficiency. We delivered our other strategies like that and we were able to deliver the result and increase - even increased margins and increased revenue and increased operational results in a difficult year like 2017.

In 2018, we had exactly the same challenges, exactly the same pressure (00:42:21) student and we have exactly the same lever of efficient to capture. And we are very confident that we can do this in 2018. But in 2018, we are being treated with another question that is, is Kroton be able to grow even the year being big like-for-like it is? And the answer is yes.

And there's these five blocks of growth that we just present before a few minutes ago show that we have a lot of opportunities in the company and we will use all these opportunities, and we are prepared like a company like an organization to capture all these five blocks of opportunities of growth. So growth is on (00:43:03) our Kroton's D&A in the past and we will continue growing going forward.

Once again, thank you for the participation in today's call and I invite you now to participate in the question-and-answer session. Thank you.

Q&A

Operator

Ladies and gentlemen, we will now initiate the question-and-answer session. Our first question comes from Mr. Thiago Bortoluci from Morgan Stanley. Mr. Thiago, you may proceed.

Q - Thiago A. Bortoluci {BIO 17950069 <GO>}

Yes. Hi. Good morning, good afternoon, everyone. Thank you, Rodrigo and team, for taking the question. I would like to explore a little bit more the pricing dynamics. My question is if you could shed some light on how you see On-Campus intake prices behaving, not only for you but if you're seeing incremental pressure from competition. Thank you very much.

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

Hi, Thiago. It's Rodrigo talking. Thank you for the question. The answer is, yes, we are seeing more competition in the industry, both in On-Campus and Distance Learning. Competition is more focused in Distance Learning. I will comment how we are managing with this more competition.

We developed in Kroton a very sophisticated price at modern methodology that allows us to specify product by product, city by city. Just as an idea, in Distance Learning, we have 16,000 different products in different Distance Learning centers. So we kept with the prices of each one of our competitors, each one of our competitors, each one the series and we compare with the 16,000 offerings that we have. Until last year, we just do this analysis to define the first prize that we offer in the beginning of the process. This year, we would give another stack and we are able to capture it in a daily basis. They offer that our competitor (00:45:39). So when we see for example a very aggressive campaign charging BRL 49 for a distance learning for example is not a campaign that is - gives a brand (00:45:55) that has been facing or impacting a lot of the costs and a lot of series.

Normally, this kind of campaign affects just one core in one series. And now we have information to react to react to specific invest to specific core in that specific series. So what we are doing, we are using intelligence, market intelligence to react in a proper way and hurt just a little bit our revenues.

So, yes, we have been faced with more competition, but not. We are not - we will not discipline it in the pricing. So we have no reasons to see a very strong decrease in the average in bolt-ons and in our distance learning because of this higher competition, okay.

Q - Thiago A. Bortoluci {BIO 17950069 <GO>}

Very clear. Rodrigo, thank you very much. And just a follow-up, on top of that, the mix, the course mix is still positive, right?

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

Yes. The course mix is still positive and we believe that the part of the decrease of average tuition that we have in normal courses will mitigated or neutralized because of the better mix.

Q - Thiago A. Bortoluci {BIO 17950069 <GO>}

Very clear. Thank you very much, Rodrigo.

Thank you.

Operator

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>}

I'd like to thank you everybody for participating on this call. And we have our IR area available for further questions. Thank you.

Operator

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