Q1 2018 Earnings Call

Company Participants

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

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 2018 Earnings Conference Call. 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, may be accessed through Kroton Educacional's Investor Relations website, www.kroton.com.br/ir by clicking on the banner 1Q '18 Webcast.

The following presentation is also available to download on the company's website. The following information is available in Brazilian Real in accordance with Brazilian Corporate Law and Generally Accepted Accounting Principles, BRGAAP, which now conform 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 operation factors could also affect the future results of 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 your conference.

Rodrigo Calvo Galindo {BIO 17238232 <GO>}

Good morning, everyone, and welcome to the earnings conference call of Kroton Educacional for the first quarter of 2018. With me today are our IRO, Carlos Lazar; and our CFO, Jamil Marques. This presentation will cover our operation and financial results for the first quarter of 2018 which show how Kroton continues to deliver solid results while implementing a robust organic growth project, with the first delivery of this project already being seen.

As you know, 2018 should be another challenging year for the industry as a whole, given a combination of factors. First, unemployment remains high. Second, we registered a high number of graduations on FIES students which were admitted in 2013 and '14, and classes are graduating now. And third, a more competitive scenario. However, despite all of these challenges, we are very confident in Kroton's capacity to continue generating sustainable results.

The results for the first quarter and the guidance that we will provide -- and we'll be giving later today make [ph] that clear. And most importantly, we are delivering these results while significantly improving on the quality of the educational offer with a stronger focus in student choices and implementing a deep digital transformation, and at the same time we are laying a solid foundation for organic growth.

I will now hand the presentation over to our IRO, Carlos Lazar, who will analyze our operation and financial results. Carlos?

Carlos Alberto Lazar {BIO 17238206 <GO>}

Thank you, Rodrigo.

So let's start today's presentation on Slide 4 with the main operational highlights of the quarter. And starting on the left hand side of the slide, you can see the results of our student enrollment and reenrollment process for the first semester of the year, with very good results in both the On-Campus and Distance Learning segment. We increased enrollment in both segments even with the headwinds that Rodrigo just mentioned, the more challenging competitive scenario, the high unemployment in the market and the significant reduction in the FIES program.

Despite less than 700 students enrolling through FIES, we were able to grow our total enrollment without pressuring our average ticket in the period. This reinforces our company's resilience and the capacity to deliver a consistent and sustainable result. We were also able to achieve this because we have a very fair and clear value proposition that is recognized by our students, the academic quality with regionally strong brands, commercial efficiency and solutions that support students, such as our employability channel called Conecta, which continues to demonstrate its role as an important competitive advantage. In all, we enrolled 323,000 new undergraduate students, up by 3.4% from a year ago, closing the quarter with a little bit less than 1 million undergrad students, with an increase nearly to 14% compared to the previous quarter and a decrease of only 1.6% year-over-year despite the 12% growth in graduations during the period.

In the On-Campus segment, new enrollment totaled 116,000 students, up 4.2% year-over-year, reflecting the continued efforts to improve the quality of the education we offer, as well as the portfolio of programs which is always aligned with the market demand. Another factor supporting this growth were the 10 new units opened in this semester, which enrolled 1,200 new students approximately, beating even our initial estimate for these units. And all the units here demonstrated the viability and the demand that justify the formation of classes, which also indicates that the process to implement the greenfield projects was very well structured. This process involved several factors, such as selecting the city, identifying the best location for the campus, an intense training program for the teams and also the decision of the best initial program portfolio, preparing the sales team, and finally, implementing systems and process at the new units. This entire effort is what effectively ensure the success of the opening of the 10 new greenfield in the first semester of this year. And I should remind that the opening of this new unit is just the beginning, because in the next semester we're going to be adding 20 more units to -- and so -- and then next year, an additional 38 new units. So it's going to be fully started by the end of next year, more than 180 units. Even after excluding the figures related to these expansion projects this year, the On-Campus segment continue to be positive, growing 3.1%.

At the new enrollment in the third quarter of last year, one of the main highlights was the behavior of the student paying out of pocket, which grew 24% to 76,000 students. This result is even more notable considering that we maintained the same pricing policy with trends similar to previous processes, seeking to preserve profitability in the segment. Meanwhile, the PEP program accounted to -- for 21% of the new enrollments in the On-Campus segment with FIES continuing to be present in a declining -- with a declining share, accounting for only 3% of the new enrollments in the segment. After adding the 200 -- almost 300,000 reenrollments in the On-Campus segment, the student base ended in the quarter at 406,000, down 5% year-over-year, which reflect basically the high number of graduation given the graduation of the classes admitted in the process of 2013 and '14 and partially offset by the improvement in the dropout rates, as I will show just in a sec.

Turn now to the Distance Learning segment. The new enrollments also recorded a very solid performance, especially given the more competitive scenario following the new regulatory framework. The second enrolled 208 -- 207,000 new students, with an increase of 3% compared to the same period of 2017 (sic). The new Distance Learning centers contributed to -- by enrolling approximately 10,000 students. And if we exclude this impact, we would have almost a 2% contraction in new enrollment. These are very satisfactory results in our view, because it shows that Kroton is very ready to face the new competitive dynamic in the segment, supported by a highly effective platform, which consistently -- with consistent quality indicators, highly dedicated partners, differentiated -- a very high level technology and content and a rigorous control of our portfolio and offers.

Here, I should mention also that once again the importance of our Premium Distance Learning programs, which not only extend addressable market, but also strengthen our competitive advantage. This semester 10% of new students enrolled in these premium programs, an increase of 400 basis points compared to the last enrollment cycle. The 100% online programs were also representative, accounting for 23% of the new student, in line with the last process. Finally, reenrollment in the DL segment remains practically stable, so we could close the quarter with 552,000 students, an increase of 1% year-over-year. So generally speaking, our expectation is very positive considering the scenario.

And turning to the middle of the slide. We're very pleased to report a strong improvement in dropout in both segments. In the On-Campus segment, the dropout rate stood at 11.2%, down even in relation to the first quarter of 2015. And in the Distance Learning segment, the dropout stood at 13%, also decreasing nearly 200 basis points from a year ago. These improvements directly reflect the extension and consolidation of our initiatives under the Retention Program.

Two years ago, we announced the launch of this program and made it clear that it would generate results only in the midterm. First, we implemented the pilot project. And only after we saw a satisfactory level of results, we moved it to a roll-out fashion -- phase. This quarter, we have already begun to observe a very concrete results in the reduction of dropouts. This program also include the retention teams at all units and also predictive models for dropout that try to understand better the profile of our student, to identify and attribute probability of dropping out in order to treat the root causes before the dropout reoccurs. The success of these initiatives becomes even clear when we consider the important change in the student base profile in both segments, with fewer FIES students in the On-Campus and also more online students in the Distance Learning. There are still several opportunities in our view to be captured in the student retention project, and we are working very, very hard to capture them.

Now on the last part of this slide, the right hand, you can see the evolution of the average ticket for the Postsecondary Education in the periods. And in the On-Campus segment, the average ticket increased by 2.4%, which is explained by the improvement in the mix of programs, with a greater share of health and engineering courses and also by the annual tuition increase. The average increase -- the average ticket increased despite the seasonal effect of ProUni, which has a faster new enrollment and reenrollment cycle than other kind of students, impacting the average ticket in the first and third quarters of the year. This means that the trend is for the average ticket to improve further in the second quarter. And in our view, this is a very successful result since it demonstrates the company's capacity to preserve value creation, maintaining its consistent pricing policy despite the reduced offer of FIES and also the higher competition.

In Distance Learning, the average ticket increased 1.4%, which is also very positive, given the concern to the -- due to the new competition environment. Factors that contributed for this result was the annual increase and also the higher share of 100% web-based programs and also Distance Learning programs as well. We managed to grow the average ticket size -- despite the 100% student, just correcting what I just said. So the -- and here, we also see the same effect from the accelerated growth of ProUni students, which also can benefit the trend in the second period of the semester.

To close the first section, I just want to say that the performance in the student reenrollment and dropout and also in the average tickets are very effectively -- and shows that we are delivering again a very consistent performance in these results. And then that will provide us the capability to deliver, again, a very solid year in 2018 as we will provide some more details by the end of this presentation with the guidance.

Let's turn now to Slide 6, where I want to talk about the main lines of our consolidated results for the first quarter of 2018, I'm talking about more in the financial area. As part of our constant efforts to ensure the transparency and comparability of our results, here we are presenting two perspectives of our consolidated results. In the first one, we barely [ph] exclude the results of the assets sold during 2017 and as we were doing even in the previous quarters. And the second perspective excludes not also that, but also the impact from the new On-Campus units since that requires a series of costs and expenses without the necessary corresponding revenue in the same proportion since they are just in the start of their maturation cycle. Bear in mind, that behavior is totally expected and that the initial reports of the student recruiting process of these units boosts our confidence regarding our organic growth plan.

So starting with the consolidated perspective, in the top of the slide, Kroton delivered a net revenue of almost BRL1.4 billion in the first quarter. So it's stable year-over-year, benefiting from the new enrollment and reenrollment process in the On-Campus and Distance Learning segments and from the initial results of the recently opened greenfield projects. These effects were partially offset by lower net revenue on the K-12 business given to the higher anticipation of sales in the previous quarter.

Now in the middle of the slide, the adjusted EBITDA was BRL615 million with a margin of 45.1%, which represents a reduction of 3.1% and 160 basis points, respectively, mainly to the cost associated with our organic growth plan. As we already noted, this is a short-term trend since these units will mature, as I did comment before.

On the right side of the slide, you can see the adjusted net income in the quarter was BRL539 million. And here, the margin was 39.5%, down 5.8% and 260 basis points from the same period of last year due to the same reason I already mentioned, and also because of the lower financial result due to the lower interest rate in the period and the higher depreciation amount due to the investment in content production and technology that we put in place over the last year or so.

At the bottom of the slide, we can go to the other scenario when we also have the net revenue coming practically [ph] stable in relation to the same quarter of last year, which we believe is a very good result, bearing in mind that the high number of provision on FIES students. And just to quantify a little bit more than this impact, our FIES student base shrunk by 32%. So it was a great result that we could achieve. The result also impact the level of the EBITDA. And here we were able to keep margins practically stable over the year. So this, I would say, the highlight -- is the highlight of the slide. And lastly, the adjusted net income ex-greenfield was BRL555 million with a margin of 40.8%, basically, with the same trend explained previously.

Going to Slide 7, you can see the main lines of the result by segment in the first quarter. And starting the comment of the On-Campus Postsec. The net revenue grew 0.6% (sic), reflecting mainly the solid results of our student recruiting process as we commented before, and with the highlight of the new enrollments of these units paying out of pocket and the contribution of the new units opened in the semester. Net revenue grew -- was also -- I'm sorry, net revenue growth was also driven by a high average ticket which tends -- that reflected the improvement of our program mix and the annual tuition increase.

This quarter we recorded declines in gross profit and margin -- in the operating result and margin, which is, mainly reflects the increase in the cost that's required to support the organic expansion plan and the lower also reversal of contingencies. Note that these initial impacts are required to enable us to deliver higher growth in the medium term as we commented in the last Investor Day event. It's also important to remember all the efficiency initiatives we continue to implement which should mitigate some of this impact, which will include the rollout of the operational research system, together with our academic model and the higher penetration of digital content, plus the strategic sourcing project that is currently in the Wave 5, among other initiatives.

Let's move now to Distance Learning. In the first quarter, DL net revenue grew 0.5% driven by the student enrollment and reenrollment, which were supported by the higher number of DL centers and by the expansion of the program portfolio, especially the DL programs. I already mentioned increase in the average ticket of 1.4% also contributed for these results.

DL gross income (sic) grew by 3% with gross margin expanding 220 basis points, benefiting from the optimization of the tutoring model, which had the proposal of improving the customer services and the quality of responses while also increasing the profitability in the segment. The higher share of 100% online students also benefit the margin gain given to the much lower cost structure that the students carry. So this is another point to be highlighted. Last, the operating results before marketing expenses grew 6.1% with operating margin expanding 420 basis points, capturing the operational efficiency gains and economies of scale in the business.

And also you can see the Primary & Secondary segment in the last part of the slide where net revenue fell 3.7%, affected by the high anticipation of collection sales in the fourth quarter last year. However, we offset this revenue gap with a series of initiatives to optimize cost and expense in the segment. So the gross income grew 5.1% and the gross margin also improved 540 basis points, which is a some -- very interesting and positive effect in this business.

Now I would like to turn the call to Mr. Jamil Marques, our CFO, to continue the presentation.

Jamil Saud Marques {BIO 21416820 <GO>}

Thank you, Carlos. Good morning, good afternoon, everyone.

Well, let's take a look now at the level of provisioning for losses and our average receivable terms. For that, I'd like to turn over to Slide 9, where you can see the provisioning for losses as a ratio of net revenue for each of our segment. With these analysis, I remind you, excluding the results from FAIR, FAC/FAMAT and NOVATEC, which affect only the On-Campus segment.

Starting with the On-Campus segment, the total PDA stood at 13% in this quarter. This is up 60 basis points year-over-year, reflecting the higher share of PEP and PMT students in our base, remembering that the provision rate for these products remained at 50%. Comparing this to the fourth quarter, the total PDA increased by 490 basis points, reflecting the seasonality of PMT plans, which are mainly offered in odd-numbered quarters, so first and third quarter, which concentrate most of our new enrollment. If we look only at our out-of-pocket students, the PDA provisioning once again remained stable over the previous quarter with a decrease of 10 basis points on the year-over-year analysis, continuing the positive trend already observed last quarter, which is essentially due to our more effective collections actions, including for part of the -- including that for the part of the portfolio which has already been written off or for no longer active student.

Moving on to the Distance Learning segment. The total PDA stood at 9.7% in this quarter, this is down 50 basis points on a year-over-year basis, reflecting the smaller base of PMT students in this quarter. If we compare to the fourth quarter, the total PDA in the segment increased 60 basis points, as in the On-Campus side, reflecting the seasonality of PMT plan and of enrollment in the first quarter of this year. Last, looking only at our out-of-pocket PDA, there was an increase of 20 basis points, which is explained mainly by the large -- the 100% online students and by the still-challenging economic scenario with high unemployment and its effect on the dropout rate.

Turning now to the right-hand side of the slide, you can see PDA in the Primary & Secondary Education segment, which once again remained stable at 0.8% and demonstrated the company's effectiveness on provisioning for the segment.

And I invite everyone to turn over to Slide 10, where we're going to speak a little bit more about the average receivable term for each of the business, also excluding any impact from FAIR, FAC/FAMAT and NOVATEC. If we look into the On-Campus segment, the average term in the quarter stood at 163 days, which is an increase of 17 days year-over-year, essentially due to the higher average term for students with PEP and PMT plan. If we look only -- solely for our out-of-pocket students, the average term was 89 days, practically stable in relation to the first quarter of last year, with an increase of only 1 day. If we compare to the fourth quarter, the average term decreased by 5 days, which is in line with the seasonality, but also demonstrate that we converge to a more stable scenario. These reinforces the effectiveness of our collections management, which after being implemented [ph] in 2017 is starting to show results with an excellent potential for generating value for the company.

Looking to the FIES, the average term was 146 days in this quarter, which is down 5 days on a year-over-year basis, supported essentially by the normalization of FIES payment flow and by the receipt of another 25% of the installment, both under the PN23 back in August 2017. Lastly, looking to the PEP and PMT receivables, the average term stood at 393 days, increasing by 112 days year-over-year, in line with the expected maturation of these products.

Moving on now to the DL segment. The average term for our out-of-pocket students was 87 days, this is up 9 days year-over-year, reflecting the challenging economic scenario, still-high unemployment and also the higher penetration of 100% online students, with both of these factors pressuring the higher dropout as we already mentioned in the previous slide. If we compare to the fourth quarter, the average term in the DL segment decreased by 7 days, mainly due to seasonality, but also as on the On-Campus case, reflecting signs of converging to more stability. The average DL -- the average term for the Distance Learning PMT was 242 days, an increase of 53 days from the first quarter of last year, also reflecting the natural maturation expected for this product.

And lastly, looking to the receivables for Primary & Secondary Education, which stood at 141 days, which is a decrease of 12 days sequentially and by 33 days year-over-year due to the higher volume of textbook collections in the fourth quarter. As you've just seen, the result of this quarter were extremely positive, especially the stability in our out-of-pocket PDA in the On-Campus segment. The average receivables term also demonstrated a very satisfactory behavior and provided additional guarantee to the solidity of our operation.

Moving on now to Slide 12, which shows our CapEx in the first quarter. If we consider only the recurring CapEx, our investment came to BRL102 million in the first quarter. Or if we look to it as a ratio for net revenue, 7.4%, a growth of 26% on a year-over-year basis. Out of this amount, important to highlight, 72% was allocated to the development of content, systems and licenses and also to the expansion and improvement at our units given the growth in programs in the field, such as medicine and engineering, which require laboratories for practical classes on the more mature term of the course. If we also include investments in special and greenfield projects, the CapEx for the quarter came to BRL115 million or 8.4% as a ratio of net revenue, growing by 22% on a year-over-year basis. And here, I would like to highlight our organic growth plan and the digital transformation that impact this line.

Let's now go to Slide 13, which shows our operating cash generation. The cash generation for this quarter was mainly affected by the lower receivables from FIES students due to the later start of the FIES reenrollment process when we compare that to 2017, and also by the contraction of the FIES student, which was not fully offset by the higher receivables from our out-of-pocket students and students using installment plan given here that this form of payment has a longer average payable term. Another factor that impacted the cash generation was the higher CapEx, which as you see in the previous slide, as well as some other one-off impacts, such as the adoption of collective vacations in December, which was the first time we implemented that last year and resulted in a fiscal seasonality in expenses in December and January, and also the increase in share buybacks under our repurchase plan, in force until the end of this year. Lastly, we also were adversely affected by the interest earned in our cash. This is because we have a net cash position, and there was a significant drop on Brazilian base rate.

Note, it's important to note that as of 2016, the government modified the timetable for the payment of FIES credit, so the schedule was changed with the installment of the November competence, which was BRL180 million, being made during -- already in December instead of January. As a result, the first quarter of the year now presents naturally a lower cash generation, with the second half of the year concentrated in higher share of FIES repurchase. In light of this, we registered cash burn in the first quarter, ending the period with a negative free cash flow of BRL190 million. For the coming quarters, we expect higher flows of FIES payments and consequently, a higher cash generation.

To speak a little bit more about all these seasonal effects, I invite you all to Slide 14, which has a more detailed comparative analysis of operating cash generation pre-CapEx for the first quarter of this year, excluding here any seasonal or no recurring effect to ensure more accurate comparison. In this analysis, we compared the reported cash generation with the pro forma cash generation, adjusting here essentially by four major events that had a temporary effect in these quarters. Which are these effects? So the first is the late payment of FIES credit under the Administrative Rule 23 or PN23, which adversely affected our receivables in the first quarter of 2016 by approximately BRL200 million. Important to highlight here that the receipt of this delayed installment had been occurring in line with a preestablished schedule with payment dates on August '16, August '17 and August '18. The second event was the anticipation of the FIES payment from January to the -- of the FIES November competence from January to December, which adversely affected the payments for the first quarter of 2017 and '18 in the amount of BRL192 million and BRL180 million, respectively.

The third event is the timetable for the reenrollment of FIES contracts for the second semester of 2016 and the first semester of '17 which atypically and temporarily increased receivables in the first part of '17 by BRL100 million. In this case, what happened was the FIES contract reenrollment for the second semester of '16, which typically occur between August and October, occurred between the end of October and December. This generated a higher volume of contract renewals in December and January with a -- and constantly affecting the cash flow of the first quarter of '17. On the other hand, the cycle of FIES reenrollment for the first semester of '17, which typically begins in February, began on January 10, leading to a higher volume of reenrollment already in January, and the receivables of these reenrollments have been registered already in the first quarter of '17.

The last effect is the introduction of collective vacations at the company in the fourth quarter of '17, which I mentioned on the previous slide, which led to a higher volume of payments that we shifted from December to January, adversely impacting payments in the first quarter by BRL18 million.Starting in the first quarter of '16, our reported cash generation -- looking to the chart, if we start with the first quarter of '16, looking to this adjusted analysis, our reported cash generation was only BRL9.1 million, reflecting here the impact by the delay of FIES payment under PN23. If the payment flows had been normalized this quarter, the cash generation would have been BRL202.8 million, with an EBITDA to cash conversion rate of 26.6%.

Last year, if we look into the data of last year, there was a change in the schedule for the payment of the FIES November installment, with the receipt of BRL191.7 million being anticipated from that, the January to December. In addition, there was -- the first quarter of 2017 also received a one-off benefit with the receipt of an additional BRL100.7 million, essentially due to the postponement of FIES reenrollment for the second semester of '16 and also due to the anticipation of FIES reenrollment for the first semester of '17. If we consider all these adjustments, the cash generation was BRL224 million, with a conversion of 37.7% of the EBITDA, and this compares to a reported figure of BRL133 million.

Lastly, let's take a look at the first quarter of this year, which requires two -- essentially two main adjustments in order to make cash generation fair [ph]. The receipt of the FIES installment of the November competence of BRL180 million, which was received in

December 2017, and the BRL18 million in payments in December that were postponed because of the collective vacations. If we adjust for these two factors, the cash generation pre-CapEx was BRL174.7 million in this quarter, which would lead to an EBITDA conversion of 30.7%. So essentially, overall, with this analysis, we can conclude that cash generation in the first quarter of this year was heavily affected by the seasonal event mentioned above. And once we eliminate this effect, the expectations become clear that cash generation should accelerate over the coming quarters and to reach a conversion rate more in line with what we registered last year. To reinforce this fact, we are receiving around BRL500 million from FIES repurchases already during the second quarter of this year.

Turning now to Slide 15, you can see our net debt position continue to be solid. At the close of the first quarter, our cash and equivalents stood at BRL1.5 billion, which is down 11% from the end of fourth quarter, reflecting the cash burn already mentioned in this period. And if you compare that to a year earlier, the cash position grew by 13.7%. If you considered our financial liability and short and long-term obligations, we ended the quarter with a net cash position of BRL1.1 billion. Another thing I would like to highlight is that our short and long-term accounts receivables also include a couple of other factors. The remaining 50% of the FIES installment not paid in 2015 under the PN23, which we expect to receive now in August 2018. Secondly, the second part of the Uniasselvi payment adjusted to present value, which we will receive in five annual installments between 2018 and 2022. And the payment coming from the sale of FAIR and FAC/FAMAT that was concluded back in August last year. If we consider all these receivables, we still hold a net cash position of over BRL2 billion, it's BRL2.1 billion, which is extremely robust and 20.5% higher if we compare to last year. This cash position will play a very important role in sustaining our growth plan.

Well, now I'd like to pass the call back over to Carlos for his closing remarks.

Carlos Alberto Lazar {BIO 17238206 <GO>}

Thank you, Jamil. Actually, let's start the closing part of this presentation. And to start that, I would like to announce the guidance -- officially the guidance here that we're putting out today. And as we did comment in the beginning of this presentation, 2018 brings important challenges, the year we record the highest number of graduation of FIES students from the large classes admitted in '13 and '14. Also, the macroeconomic scenario that remains challenging with unemployment rate above 12%. And the competitive -- and finally, the competitive scenario has also become somehow more intense.

So we are working internally to find levers that could allow us to mitigate most of these issues while always ensuring the improvement of our academic quality with a strong focus in our student's success. Seeking efficiency is marked [ph] -- seeking efficiency at whatever cost is somehow -- is responsible through our sustainable growth. And Kroton's commitment is not just to create value in the short term, but also to strike the best balance in terms of our short-term results while building the foundation for generating value in the long run. Today, we officially present the 2018 guidance. And as we have widely disclosed and repeated in today's presentation, we have a robust organic growth plan in both Postsecondary Education segments. And we hope to open about 112 new units and almost 1,800 Distance Learning units with partners until 2028. This expansion plan is making good progress based -- and based on our initial results for the enrollment and the engagement of our partners, and we will, of course, further expand our geographic footprint. Initially, however, this growth will negatively impact the margins since On-Campus unit have negative margins or lower-than-average margin in the first semester. On the other hand, the rate of return of this investment for this organic growth are highly attractive, which justify this initiative. For this reason and to ensure the comparability of our past results with our future results, we are adopting the present two perspectives of our guidance. One, consolidating the perspective that encompass the company and all its organic growth -- its organic growth projects and one excluding the greenfield projects, which facilitate the comprehension and the comparability.

So starting with the ex-greenfield projects perspective, our guidance for 2018 (sic) calls for net revenue of BRL5,440 million (sic), down 1.8% from 2017. The adjusted EBITDA is -- will be about BRL2,350 million (sic), down 3.7%, mainly to the impact from the maturation of our PEP student base. And you should recall that we adopt the provisioning for losses of 50% for this group of students. And in this scenario, our EBITDA margin should contract by only 80 basis points, which is completely aligned with our plans to protect margins despite all the adversities while maintaining and improving the quality of our service.

So our guidance for adjusted net income is BRL2,030 million (sic) with net margin of 37.3%, which represents a decline of 8.6% and 280 basis points year-over-year. The net profit of 2018, recall that the effect of the reduction of the financial result, which lower the remuneration on the cash position due to the lower interest rate and also the higher level of depreciation due to the recent investment made especially in content and technology.

Now if you look on the right side, you can see the consolidated guidance, which includes all the company's organic growth. And note here that none of these figures include the acquisition of Somos since the transaction pending on typical precedent conditions, especially the approval by CADE. So on the consolidated basis, we project a net revenue of BRL5,480 million (sic), down 1.1% compared to 2017. As you can see, the initial contribution to revenue from our new units is not very relevant, but its growth should be gradual and cumulative since we have these three effects at the same time: an increase in the number of greenfield; the expansion of the program portfolio at each greenfield; and finally, the maturation of the program and to the graduation of the first batches in each program. And these three effects will occur all together.

Our guidance for adjusted EBITDA is BRL2,275 million (sic), down 6.7% with adjusted EBITDA margin of 41.5%, down 250 basis points year-over-year, reflecting all the higher cost required for the growth projects, which includes expanding the workforce, rent, utilities, third-party services, et cetera. Guidance for our adjusted net income was BRL1,940 million (sic), down a little bit less than 13%, with net margin of 35.4%, following the same trend of my previous comments. And last, given the investments required to support these projects, we estimate an increase of CapEx as a ratio of net revenue in the year of around 280 basis points to 13.5%. And as we comment, the rate of return of the investment in the organic growth projects are more than attractive, so we are confident to continue with that.

Of the total investment planned for the year, around BRL150 million -- between BRL150 million and BRL200 million should be more accurate, is related to greenfield projects. So therefore, if we exclude that, the CapEx guidance of 2018 is -- would be around 8.6% of net revenue, even lower than last year. The guidance reflects our belief that we will continue to deliver a robust, but attractive results without adversely affecting our capacity to create value in the future. And we are confident in meeting this guidance, especially after the results of this first quarter and first intake process.

Thank you very much. I would like to pass the word again to Mr. Rodrigo.

Rodrigo Calvo Galindo {BIO 17238232 <GO>}

Thank you, Carlos. Looking on to Slide 18, I want to comment briefly on Saber, our new holding company that will be dedicated exclusively to the Primary & Secondary Education market. Saber is the result of an internal restructuring of our current Primary & Secondary Education business, including the learning systems and owned schools. Saber also will encompass all of the company's future businesses in the segment, including any acquisitions of assets and their subsequent expansions via greenfield or brownfield projects. And even after just one month, Saber already has a lot to talk about, with its most noteworthy achievement being the announcement of the acquisition of 73.35% of Somos Educacao for BRL23.75 per share. This is a strategic acquisition of an important player in the Primary & Secondary Education market that offers an enormous avenue of opportunities and with operations that perfectly complement Saber's offering of products and services. We are very happy to announce this acquisition and we are working to approve that in CADE.

Another highlight of the transaction is the synergies, which we estimate will reach BRL300 million to be captured within four years with a potential margin gain of 16 percentage point. It is important to remember that the conclusion of this operation is subject to certain conditions precedent, particularly the examination and approval by the antitrust body in Brazil, CADE. The transaction is completely aligned with Kroton's strategy since it will enable us to advance by large strides in our product for the Primary & Secondary Education segment, creating a new avenue for future growth.

I also should mention that the acquisition of Leonardo Da Vinci Educational Center, which is located -- which is a college, a school located in Vitoria, Espirito Santo, which has a strong focus in academic quality, has placed first in the ENEM exam in the state for 6 of the 7 last years. The school is completely aligned with our growth plan in the premium segment of Primary & Secondary Education, and we are very confident in the value of this brand and in its potential to expand. In aggregate, our strategy for school management is to preserve the attributes to ensure the quality of the acquired schools, including the legacy product, the teaching product and team.

Moving on the last slide, Slide 19. I want to begin with an update of our growth projects in the Postsecondary Education segment. For the second semester of this year, we hope to inaugurate another 20 new campuses and 100 new Distance Learning centers. In '19, we will expand even further the number of new units by opening 38 campuses while taking advantage of our autonomy in the Distance Learning segment to open the 200 new centers authorized for 2019. That means that by the end of the next year, we expect to have 186 campuses and 1,510 Distance Learning centers, which represents very strong growth and will further extend Kroton's geographic footprint, laying the foundation for sustainable value creation in the future.

Turning to the middle of the slide, although we are in the very early stage, we have already begun our student recruiting process for the second semester of this year, with new sales campaigns and a highly engaged team to once again deliver growing results. Considering our stock price over the past few months and our differentiated cash position, we carried out a series of share buybacks in the first and second quarters under our current buyback program, which is in force until the end of this year. In the first quarter, we repurchased 1.1 million shares, while in the second quarter we repurchased another 12.4 million shares. Since the start of the program, we have purchased 13.8 million shares at an average price of BRL13.83, which corresponds to 28.2% of the total permitted under the program.

Turning to the last column in this slide, I want to update you on the status of our digital transformation project. And it's with great satisfaction that I report to you that we have made a significant progress today. We have approximately 150 professionals with IT and business profiles already working and organized into three trains of agile deliveries. And another 150 professionals are being trained and reorganized into three new trains, which will be launched in June. By the end of the year of 2018, 100% of the system development teams will be working on a Scalable Agile Framework, the SAFe methodology, which will make Kroton one of the few companies in Brazil to have the entire development structure based on agile methodologies, ensuring complete alignment between the business and technology areas, which is an essential step on our digital transformation journey. And last, our Board of Directors approved the distribution of BRL180.7 million in dividend, which correspond to BRL0.11 per share for a payout ratio of 40%, as we anticipate in our last call. The payment of dividend is scheduled for this May 28.

And in closing, I want to reinforce that in a challenging year, such as 2018, I am certain that we are in the right path, maintaining right high levels of profitability, while improving the quality of our educational systems, services, thinking of a disruptive movement of a digital transformation and striking the ideal balance between the short and long term. And in parallel, we are building the foundations for solid organic growth in the Postsecondary segment and have made an important strategic acquisition in the Primary & Secondary Education segment. For all of these reasons, we believe that 2018 will be a great year for Kroton.

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

Questions And Answers

Operator

We will now initiate the question-and-answer session. (Operator Instructions) We don't have any questions. At this time, I would like to turn the call over back to Mr. Rodrigo Galindo for any closing remarks.

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

Once again, I would like to thank you everybody for participating on this call. And I have my -- the company's IR area to answer further questions. Thank you very much.

Operator

Thank you. This does conclude today's presentation. You may disconnect your line at this time. Have a nice day.