Q1 2013 Earnings Call

Company Participants

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

Other Participants

- Bruno Giardino, Analyst
- Marcelo Santos, Analyst
- Rubin Quoto, Analyst
- Unidentified Participant

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 2013 earnings conference call. Today with us, we have Mr. Rodrigo Galindo, Kroton's CEO. (Operator Instructions)

Also today's live webcast, both audio and slide show may be accessed through Kroton Educacional's Investor Relations website at www.kraton.com.br/ir by clicking on the banner 1Q13 webcast. The following presentation is also available to download on the webcast's platform. The following information is available in Brazilian reals, in accordance with Brazilian's corporate law and generally accepted accounting principles, BR GAAP, which now conforms with international financial reporting standards, IFRS, except where otherwise indicated.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Kroton management and on information currently available to the company. They involve risk, 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, sir.

Rodrigo Galindo {BIO 17238232 <GO>}

Good morning, everyone, and welcome to the earnings conference call of Kroton Educacional for the first quarter of 2013. With me today, our IRO, Carlos Lazar and our CFO, Frederico Brito.

I'd like to start today's presentation on slide three with the highlights in the period. We are very happy and satisfied with the results. There are three fruits -- there are (inaudible) making since 2010. Our enrollment targets have been surpassed in both the onsite and distance learning segment. We have surpassed the mark of 0.5 million students for growth of 27% from the fourth quarter of last year. The outlook for 2013 is excellent. Given the excellent operating performance, we were also able to achieve very good financial results. EBITDA of BRL218 million with EBITDA margin of 43.7%, which is almost half of the EBITDA in 2012. Adjusted net income of BRL186 million, almost double the amount in the first quarter of last year. Cash generation was also very strong with operating cash flow before CapEx of BRL154 million and after CapEx of BRL124 million, which represent an EBITDA to cash conversion rate of 58%.

The excellent operating performance made possible the deliver of positive, very positive financial results. So let's go now to today's presentation, starting with the company's operation and financial performance. To present our operation and financial performance, I'd like to invite our IR Officer, Carlos Lazar.

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

Thank you, Rodrigo. So, I'd like everyone to move to slide number five, where we start to comment on the operating results of the company, which we are very satisfied with the results. In this specific slide, you can see new enrollments of undergrads weighted students. For the first academic semester of 2013, which is actually the most important event of the year and represents a large part of the company's performance in the whole year.

Well, as we commented already during the first quarter presentation, we had surpassed our internal targets -- we felt even haven't concluded the process. But with the conclusion of the admission process, we obtained even stronger growth in new enrollments. That means about 18% in the on campus business, 39% in the distance learning business and total new enrollments growth of 33%, so reaching 175,000 new students in the base. It's also good to keep in mind that the figures of 2012 are considered the pro forma data for (inaudible) to ensure a comparable base.

Moving to slide six, we show the growth in the student base, which is the same of new enrollments and reenrollment. As we mentioned in the previous slide, the performance of the new enrollments at the start of the year was really excellent, but the reenrollment performance was also very positive, very good. The reenrollment totaled approximately 300,000 students and together with the enrollment, generated a growth with total undergraduate student base of 25%, with the on campus student base growing 17% and the distance learning base growing 30%.

On slide seven, we have a summary here of the number of students divided also between the business. Considering both undergraduate and graduate students, we ended the first quarter of 2013 with almost 519,000, which represents a growth in the student base of 27% from the close of 2012. This level of growth was only made possible by the excellent admission and re-enrollment process for the first semester of 2013, that's how we will cover even -- that I just covered in the previous slide.

Well, on slide eight, we show the number of students with FIES loans. At the end of March, we had more than 66,000 students with the FIES student loans, which represents about 44% of our on campus undergraduate student base. Note here that the FIES loans play a very important role in the admission enrollment -- in reenrollment process that I just presented. And lastly, we continue to have a very high performance -- presentation, sorry, of students who are eligible for FIES. That means about 98% of our students could apply for FIES. That exactly passed the high quality of our recommended programs and institutions.

On slide nine, we provide some details of a very important study that we carried out here in the company. This is a study of the behavior of the drop outs and the impacts of FIES on drop outs and what we can see here is that very good positive contribution that FIES student loans have on reducing drop out rates among students on the on campus business.

Well, one of the analogies made was to understand the behavior of these students, admitted in the first semester of 2012 by following their behavior until the reenrollment process by early 2013. So it was following this -- it was following exactly two phases of re-enrollment, the mid-year last year and now the end of this 2012, beginning of 2013. So by the end of the reenrollment process and the start of this year, some students had enrolled and others had dropped out, which is normal -- very normal of any process and keep in mind that the highest drop out rate is always observed in the first academic semester of the program.

So this method allowed us to observe that the total student drop out rate was 19%, but that dropout rate among students who had contracted FIES at the start of the program was 14%, which means 46% lower than the rate of the students without FIES loans.

In another study, we used also the students base as a whole in the second semester of 2012 as an initial base and followed the dropout behavior in the first half of 2013. In this case, the FIES reduction was also very high at 41% ratio. This only -- this information in these figures only reinforces the position of the FIES student loans as a very important tool for reducing dropout rates among other positive impacts.

On slide 10, we also present a very important study, but now about increase in the income of our students. This is just one of the datasets that we instructed from our student, which analyzed various characteristics of our students in all our institutions. Here, we compared the students at the start of their academic programs in the first two semesters with the students in the last semesters of the program.

So based on this analysis, we observed an increase in the income levels of the students in both on campus and distance learning, but I would note here that the increase was lower in the distance learning because the main impact of the students occurs after graduation. On the on campus impact of the program, during the program, was about 41%. The distance learning was about 23% and in the total, it's about 29%.

In the following slide, we show also some research about this analysis, but here we divided -- we broke down by different academic programs that we offer in our institutions. And it's good to point out here the engineering, that had the most concentrated and the highest increase in the income levels, followed by the healthcare and the humanities. Engineering here accounted to 74% increase on salaries, healthcare 48%, humanities 30%. This analysis shows the contribution that Kroton and education can make improving the people -- the quality of life of our students, offering them a very important opportunity in terms of personal and professional development, which also can get our brands even stronger.

Well, let's jump now to the financial performance and starts on slide 13, where we can find the net revenue of the company, the consolidated net revenue and according to each of the business segments. Well, we can see here that in both as reported and also in the organic growth, organic analysis, we presented a very important growth number, being the consolidated net revenue growing by 47% in the first quarter 2013 against the same period of the last year, which can be explained by the growth on post secondary business together with distance learning and on campus as well the 12% increase in the K-12 revenues.

Another analysis here that I would like to point out, even excluding the effects related to (inaudible) We have a growth in the organic base, about 21% in the on-campus, 50% in the distance learning and in the consolidated basis, about 25%. So everywhere you look, you can see a very intense growth in our revenue numbers.

Let's now start to show detail, financial performance of each business. On slide 12, you can see the changes in the net revenue, gross income and operating result for the on-campus, post-secondary in the period. Net revenues in this business grew 34% from the first quarter of last year, driven mainly by the growth in the student base due to the excellent admission process for the first semester of this year as well the higher average ticket presented in this quarter.

And also when we exclude the net revenue from the new acquisition, we, as I spoke before, we have an increase in the net revenue of about 21%. Meanwhile, our gross income grew 50% with gross margin expanding 5.6 percentage point for the same quarter last year, which is explained by the figure here and also the rigorous control on costs that we have able to maintain. Along the same lines, operating income grew by 63% from the same quarter last year, with operating margin of 38%, which also reflects the control of operating expenses and the excellent admission process of the start of the year.

Moving on to slide 15, we show the performance of the distance learning segment. Note here that the first quarter of 2012 includes only the operation of Unopar and that from 2013 on, we also have Uniasselvi consolidation on the results. Well, the result on distance learning business remained very strong in health, which highlights here the importance of the business to the company, especially in terms of operating income that grew 116%, reaching BRL106 million in the first quarter 2013, representing our operating margin of 67.7%, very in line with the same margin of last year.

On slide 16, we comment on few aspects of the primary and secondary education business. This is a business that we also grew this year. We are starting the year with approximately 277,000 private students in the base. That means a growth against last year and this growth wasn't even better because we adopted some strategic actions to maximize the financial and operating performance of the business, which I would point here that the reduction of our exposure in the public sector, we reduced our exposure, retaining only one contract in this segment.

Well for this the expansion in the gross and operating margins are explained in exactly by that matter and also because of the better management of the production of collections and the services with higher margins. We maintain our positive outlook for this business and especially for the -- private learning system network.

Finally, we achieved here, on slide 17, the EBITDA and net income comments. Note here that the adjustments made in both indicators involve basically the non-recurring impacts for the EBITDA and also for the net income, the amortization of intangible assets related acquisitions. The non-recurring item this quarter, in the first quarter 2013 totaled BRL3.3 million only and were mainly related to the M&A process and the integration of Uniasselvi. Adjusted EBITDA in the first quarter of 2000 was -- I'm sorry, was 218 million, with margin of 43.7%.

That represents an expansion of 6.6 percentage points from the same quarter last year. This growth was driven by the solid performance of all the business units, the success of the integration process and also the excellent admissions process as Arag mentioned. So the net income in the first quarter was BRL180, growing 85% from a year ago and reaching a 37% margin, high-30 margin, which means a very good improvement compared to last year.

So now, I will invite our CFO, Frederico Abreu to continue the presentation.

Frederico Abreu {BIO 16674822 <GO>}

Thank you. Good morning, everyone. In the next four slides, we'll cover the evolution and performance of our provision for doubtful accounts, our accounts receivable and our working capital.

On slide 19, you can see the behavior of our working capital in the quarter, which is composed of the difference between current assets, excluding cash effects and current liabilities, excluding debt effect. The company's working capital registered a significant decrease of 47% compared to one year ago and 51% excluding the effects on FIES receivable. This reduction is measured in number of days of net revenues. These results is basically the combination of three efforts. The first is a reduction in the average term for FIES.

This was achieved through a work on the optimization of the process of new contracts and renewals and optimization of tax compensation and repurchases from the government in a conjoined effort with FNEBA [ph] to solve remaining operational issues related to systems and processes.

The second is an optimization of ex-FIES receivables through a continuous effort to improve collection at Kroton and an improvement in the collection practices of the acquired companies, Unopar, Uniasselvi and Unirondon.

And third, an increase in the average payment term through two things, the first, renegotiation with important suppliers and second a strict policy for new contracts.

Moving to slide 20, we show the PDA, which is the provision for doubtful accounts as a percentage of net revenue for each of our businesses and in accordance with our provision methodology, which is based on the analysis of statistical historical data and this is the same methodology since 2010.

In the post secondary, PDA in the first quarter was 4.3%, which is down from the same quarter last year mainly due to a higher sale of FIES students in our base and a stability in PDA for non-FIES students. Looking on at the non FIES loans, the level of provisioning in the post secondary segment was 6.5% which is stable from one year earlier. So FIES students keep in mind that Kroton conservatively continues to adopt the provision, corresponding to 2.25% of all FIES revenue to cover any potential future losses from students in this program and this 2.25 is applied for FIES students with guarantor and FIES students with no guarantor. As mentioned in previous quarters, we expect provisioning in the distance learning businesses to converge to levels close to those of ex-FIES on campus business which was confirmed in the first quarter of this year and resulted in a PDA of 6.5%, which is similar to the PDA of non-FIES students in face-to-face. And last, the level of PDA in the primary and secondary business remained stable in the fourth quarter, compared to last year.

Moving to slide 21, we analyze the evolution in accounts receivable, net of the provision for doubtful accounts broken down for each of the three businesses. The total accounts receivable was BRL318 million, of which BRL217 million was on post secondary business, BRL40 million in distance learning and BRL61 million in primary and secondary business. The post-secondary business registered an increase from the fourth quarter last year, mainly due to an increase in the accounts receivable from FIES.

I'd like to give some light and some comments on this point. There is a seasonality in the repurchases from FIES in the beginning of each semester. The new enrollments or existing students need to formally contract or renewal their FIES contracts, so that it can be formally registered in FIES. This is independent of whether the student is at the classroom or not, because the deadline for renewal was extended to the 30th of June, some students took longer to renew their contracts and therefore we did not receive the repurchases from FIES for those students. To give you an idea, in the first quarter, we received 115.8 million in FIES. This represents an average of 38.6 million per month in the first quarter.

Only in April, we received already 78.3 million, which partially compensated the delay in the first quarter or in other words, the average cash received from January to April including the repurchase of the 78.3 we received in April was 48.5 million or 9.9 million more than what we have actually received. If we would have received a linear repurchase from the government in the first quarter, excluding the seasonality, we would have received 9.9 million more amount or 30 million more on the quarter or in other words the balance of FIES will be 30 million lower than what it is presented on our numbers, which would represent an average days of receivables lower than what we've demonstrated in the fourth quarter last year.

Okay. Moving to slide 22, we can see the average receivables term in each of our businesses. In general, we are very comfortable with the performance of our average receivable term and there are four analysis that we present on page 22 that show a higher cash generation capacity, more effective efficiency on collection and recovery and also an provisioning practices. So in the first analysis, we considered a consolidated accounts receivable for FIES and non-FIES students on post secondary. In this analysis, the average term decreased 42 days compared to last year.

To understand the evolution of non-FIES, we should look at analysis number two and analysis number three. From analysis number two, we consider accounts receivable, excluding the balance of FIES and we divide by all the revenue. In line with the trend of the recent quarters, we have a reduction of 11 days in the average term and in the third analysis, where we exclude the balances of both FIES accounts receivable and the FIES revenues. We have an increase of four days and a decrease of two days in comparison to the fourth quarter.

And I would like to make three considerations in respect to these non-FIES average term. The first is related with the quality. We had an important decrease in renegotiation, meaning that we have a higher number of students that are paying on time, renegotiations meaning -- means the higher PDA. So if we have a lower percentage of our mix of accounts receivable with renegotiation means that we could have a lower PDA.

On second, we have an improvement in our aging with a larger share of the younger balances, meaning that the we have decreased our accounts receivables with more than 90 days in our mix. So we have a younger accounts receivable aging. And despite those two effects, we have maintained our provisioning level, which provide us with additional comfort that we are making the right provisioning on our accounts receivable.

And in the fourth analysis, we present only the balance of cash receivables. We see a sharp drop of 176 days from the first quarter last year and an increase of 12 days from the fourth quarter of last year. This is mainly related to what was mentioned before in respect to the seasonality of our repurchases from FIES. And this will be fully compensated in the next quarter. In the distance learning segment, the average term was 29 days, which was stable compared to last year fourth quarter and in the primary and secondary business, the average term decreased by 19 days, which is due to the more restrictive practices for negotiations with our associated schools.

Moving to page number 24, we present the -- our capital expenditures. So if we start looking at recurring investments, we totaled 29.7 million in the period or 5.9% of net revenues in the quarter. These investments were mainly related to laboratory, IT, library as well as expansion and improvement projects in our buildings. Kroton is also conducting investments in special projects with mid to long-term impact, which include expansion projects on existing properties to support higher growth rate in the coming years. In the quarter, these investments totaled 7.6 million. So as a result, the total CapEx, including recurring and the special projects reached 37.3 million or 7.5% of net revenue.

Move to slide 25, we show company's debt at the end of the first quarter. We ended the quarter with 350 million in cash, which increased from the fourth quarter last year due to the strong operating cash flow in all businesses. The balance is already net of the payment of the last installment of Unopar acquisition and also the payment of the interest of the debentures that we paid in the fourth quarter. As a result, net debt, considering only financial debt was 251 million, which represents an extremely comfortable level of leverage of less than one time EBITDA for 2013. If we include other short term and long-term liabilities that are mainly related to the payment of acquisitions, net debt would be 527 million or around one time EBITDA for 2013.

Moving to slide 27, we show the company's cash generation, which again was very strong in this quarter. Operating cash flow before CapEx was 154 million, which corresponds to 72% EBITDA to cash in the period, once again demonstrating strong cash flow generation in all businesses. After recurring CapEx, cash flow in the first quarter was 124 or 58% EBITDA to cash, which is almost four times larger than last year. If we consider the CapEx for special projects, cash flow generation was 117 million or 54% EBITDA to cash. And two final notes on cash flow that are important. The first is that there are no recurring operations or events impacting positively this cash flow. So this cash flow is recurring and the second due to the seasonality of FIES repurchases, the average amount received from FIES as mentioned before was 38.1 a month. In April alone, the repurchases amounted 78.3 and in May, we have a similar amount, which means that we will have a very positive impact in the next quarter from these delays in FIES repurchases.

So I'll now hand back the call over to Rodrigo.

Rodrigo Galindo {BIO 17238232 <GO>}

Thank you, Frederico. In slide 29, we can see our new guidance. The student admission and retention process for the first semester of 2013 were very positive and surpassed our expectation. And given these operating results, we decided to revise our guidance already on this occasion. The previous EBITDA guidance of BRL500 million was increased by BRL50 million or 10% to BRL550 million with EBITDA margin of 29.6%.

And the guidance for net revenue was revised upward to BRL1.8 billion, while net income should come in that BRL413 million. For investment, we maintained previously announced guidance, in other words, 6% of net revenue for maintenance and organic growth and 4% of net revenues for special projects.

Going through slide 30, let's go now to the last slide of today's presentation for my closing remarks. First, first of all, I would like to say that we are very optimist on the prospects of the merger between Kroton and Anhanguera. As already announced, the realization of the merger has three present conditions. First, the due diligence procedure. Second, the approval by the Brazilian tourist agency, CADE and third approval by the shareholders meeting. In accordance with the time table, we are already conducting the accounting, legal and financial due diligence.

The due diligence procedure is advancing well. The data rooms have already been opened for both companies and we believe the process will be concluded by the end of June. Meanwhile, we are providing all information necessary to submitting the filing at CADE, which should take place by the end of this month.

Another highlight is the creation of the position of on campus education officer, which I have accumulated up to now. So I'd like to welcome our new on campus education officer Americo Matiello. Americo has been COO of educational companies in Brazil for 10 years with a strong track record in education.

For the first quarter results, we approved the distribution of dividend of BRL41 million, which will be paid to our shareholders on June 7th. Another important highlight concerns Kroton's product management. The company has grown a lot and to ensure the adequate control and monitoring of products, we have adopted a very robust methodology for managing change products. We have a total of 336 projects being conducted exactly now, all of which are monitored by a product management officer, PMO. The area leaders are also fully aligned with the company's needs, since this product has a direct impact on the variable compensation of the manager in charge.

Lastly, I'd like to inform that the new enrollment process for the second semester of 2013 has already begun. We have very efficient tools from controlling new enrollments, figures with daily targets by region, by unit, by program and by sales consultant. We'll continue to focus on delivering strong in operation results. We've already shown with the Unopar acquisition last year that we can conduct a major integration process, while also extending the student base and improving the financial and academic results. We have been delivering outstanding operation, financial and academic results since 2010, and we will continue to do so.

But this is only possible because Kroton is an educational company managed by people who truly understand education. This is our competitive advantage and also a great source of pride.

Once again, thank you for participation in today's call and now we will begin the question-and-answer session. Thank you.

Questions And Answers

Operator

Thank you, sir. (Operator Instructions) The first question we have comes from Bruno Giardino of Santander. Please go ahead.

Q - Bruno Giardino {BIO 15974970 <GO>}

Hi, everyone. Good afternoon. I'd like to pose two questions. First one, the statement of dividends imply that you were thinking of making quarterly payments of dividends and what's -- what would be your payout expected for 2013? And second question, be on distance learning, we have seen some new players getting authorization from the ministry of education to open new centers, have you seen any sign of stronger competition in this, in some locations. Is this a point of concern for you guys for the short term. That's it from my side.

A - Rodrigo Galindo {BIO 17238232 <GO>}

Okay. Hi, Bruno. It's Rodrigo Galindo speaking. Your first question about dividend, we can distribute dividend around 25% in the following quarters. We will decide this each quarter, we don't have a preview decision, but we can in the agreement that we have, in the merger agreement, we are allowed to do this, to distribute until 25% of dividend. And we did it in the first quarter after the merger agreement been signed. And we can do this in the next quarter, but we will decide it quarter-by-quarter.

About your second question, the environment in distance learning approval by Ministry of Education. Yes, we are seeing movement in the ministry of education to flexibilize the approval of new distance learning centers and new players. We don't see a very strong chance in the competition dynamic. But yes, we are seeing new players and we are seeing new distance learning centers. I'd like Frederico Abreu to complete this answer.

A - Frederico Abreu {BIO 16674822 <GO>}

Just to complement, all the feedbacks that we have from the Ministry of Education and there is a trend to flexibilize, that are being created formal timings and formal processes for these opening of new distance learnings and also for the accreditation of new players in the sector.

So, yes, there is a trend. We don't see this trend as impacting as in the short-term or in the meantime, but it's a positive trend from the Ministry of Education. Yeah.

And it is important to reinforce that this flexibilization could help us to approve our 225 new centers that are running in the Ministry of Education right now. So, we will be benefited with this flexibilization.

Q - Bruno Giardino {BIO 15974970 <GO>}

Excellent. Thank you, Rodrigo. Thank you, Fred. Have a nice day.

Operator

The next question we have comes from Marcelo Santos of JP Morgan. Mr. Santos, your line might be muted sir.

Q - Marcelo Santos {BIO 20444938 <GO>}

Hi. Good afternoon. Yeah. It was muted. My first question is regarding growth. Do you see yourselves doing M&A from here on? Or would you rather grow through Greenfields? Do you have anything that you could talk on that direction?

A - Rodrigo Galindo {BIO 17238232 <GO>}

Thank you very much, Santos for your questions. It's Rodrigo speaking. No, we're not planning to do M&A activities meanwhile. And for -- until we are completely comfortable with the approved (inaudible) the merger with Anhanguera and the integration process completed, we are not planning to be integration. There is a lot of value in synergies in this business and we will be focused in capturing this value. About Greenfields, Kroton before the announcement of the merger, we already had very strong Greenfields products to be applied by Ministry of Education. So, yes, we can see new campuses in new cities for Kroton and it takes time to be approved one and a half years, in some cases two years, but we are planning our mid to long term growth. So, it makes a lot of sense to expect new greenfield for Kroton.

Q - Marcelo Santos {BIO 20444938 <GO>}

And just second question about the Kroton learning systems, just wanted an update on how that's developing, if you had some early results that you could share?

A - Rodrigo Galindo {BIO 17238232 <GO>}

Okay. I think the most important evolution by the Kroton learning system is that in the second semester of this year, we will begin all the activities in Kroton with exactly the same curriculum. So the distance learning of Unopar, the distance learning of Uniasselvi and the on-campus business for all Kroton where we start exactly with the same curriculum in July of 2013. This is the most important evolution that we have.

Q - Marcelo Santos {BIO 20444938 <GO>}

Will Unopar and Uniasselvi continue to have distinct methodologies for distance learning?

A - Rodrigo Galindo {BIO 17238232 <GO>}

Yes. We must understand that there are two different things. One thing is the content that we distributed, the content and the curriculum will be exactly the same. And other thing is the way that I distribute this content. We will keep all ways that we have today, we can distribute this content by 100% on campus methodology and 100% on learning methodology.

And in between, we have the semi presential methodology that are the Uniasselvi methodology and the direct presential methodologies that are the Unopar methodologies. We will keep the way that we distribute in the company. So, Uniasselvi will continue to distribute by a semi presential methodology and Unopar will continue to distribute by direct presential methodology (inaudible). But the content that will be distributed is exactly the same.

Q - Marcelo Santos {BIO 20444938 <GO>}

Okay. Thank you very much.

Operator

(Operator Instructions) The next question we have comes from Rubin Quoto of Brasil Plural. Please go ahead.

Q - Rubin Quoto

Good afternoon. Thank you for the opportunity. I wanted to hear a little bit more regarding G&A dilution, which is coming pretty strong in this quarter. I understand there is a significant operating leverage going on, particularly in business learning. But I wanted to get a feeling on the limit of it, the current G&A structure in distance learning, for instance is it able to complete another one or three enrollments as large as this one in the quarter? Just wanted to get a clearer picture on this, thank you.

A - Rodrigo Galindo {BIO 17238232 <GO>}

Okay. Rubin, let me split the answer face to face in distance learning. So in face to face, what we are seeing is basically an increase in the number of students per class room. Our main fixed costs in faculty are rental, professor and with more students per class, we are yet diluting those costs and we saw that in face to face in this quarter.

In terms of distance learning, our G&A is composed by marketing expenses mostly and also the structure that we have in place in (inaudible) in the case of Uniasselvi. So yes, it's also expected a decrease in most cost fares, we increase the number of students, despite marketing expenses that we've been increasing at distance learning, both at Unopar and Uniasselvi, which is generating an increase in the number of students as we saw in our results. So in summary, distance learning, yes, we will dilute G&A, except the marketing that we should continue improving gradually to continue demonstrating the growth rates that we've been experiencing recently.

Q - Rubin Quoto

That's helpful. Thank you.

Operator

The next question we have comes from (inaudible) of ESG.

Q - Unidentified Participant

Hi, thanks for taking my question. Frederico, I just had a follow up on margins. I just noticed that in the first quarter that you just reported, you're on campus margins, I think, expanded something like over 600 basis point. Your distance learning margins expanded 50 basis points, even though you had a -- had a lower margin acquisition in the second half of last year. And I think on the Portuguese call, I think, it was mentioned that EBITDA margins in 2015 would be 32%. But if you continue at the rate you're at right now through the rest of this year with the same margin improvement quarter over quarter, you should really be hitting 32%, 33% this year.

So, I just wanted to understand if there was any incremental costs or something that we should see throughout this year that would cause you not to really hit those margins this year? Thanks.

A - Frederico Abreu {BIO 16674822 <GO>}

(inaudible), thanks for your question. So, yes, we are comfortable with a 32% EBITDA margin. There may be upside in our internal models, we have different simulations on different scenarios. We are very comfortable with a 32% EBITDA margin. In 2015, run rate 2015, said that, we expect gradually decrease in the benefits of margins in on campus, part of the increase in margins in on campus was effectively due to an increase in the number of students per class room, but part of which was also an increase in the performance of our acquired companies. Keep in mind that we've acquired Unopar with a face to face activity presential activity that have a low margin.

Uniasselvi had a low margin and Unirondon had a low margin. In our integration, part of this increase was already -- a part of this increase was due to an increase in margin of these acquired companies. And we do not expect marginally increase in the margins of the acquired companies in the same magnitude for the future. So while our existing operation in fact to face is stable, we will see some gradual increase in margins and our acquired face to face companies already reached a decent level of performance. So we do not expect the jump on margin that we have in face to face. In distance learning, as we said, we expect the marginal decrease --a marginal increase in margins.

Unopar margins are higher than Uniasselvi margins in distance learning. So Unopar, if we look at separately at Unopar, there was a large increase in margins. Uniasselvi also increased margins, but on the mix that Uniasselvi distance learning has a lower margin than Unopar and the need to increase was slightly lower. But yes, we will see a continuous improvement in margins, despite marketing expenses as mentioned, they should continue growing. They are resulting in larger enrollments, larger reenrollments as well. So we're comfortable with the 32% margin with some upside yet until 2015.

A - Rodrigo Galindo {BIO 17238232 <GO>}

This is Rodrigo Galindo. Just to complement the answer of Frederico Abreu, another thing that is important to reinforce is we are always conservative in our projections. We just announced the number that we are completely comfortable that we can achieve. So we can achieve a little bit more than this BRL550 million this year. Yes, we have opportunity.

We too have a very, very strong intake process in the second semester, we can achieve more than BRL550 million. We are able to achieve more than 32% of the EBITDA margin in 2015 to 16. Yes, we have opportunity to do this.

But the number that we are comfortable to announce right now is that 32% between '15 and '16.

Q - Unidentified Participant

Got it. Thank you.

A - Rodrigo Galindo {BIO 17238232 <GO>}

Thank you.

Operator

As we have no further questions at this time, 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. Sir?

A - Rodrigo Galindo {BIO 17238232 <GO>}

I would like to thank you everybody to participate in this conference call and our IR also are available to further information. Thank you.

Operator

And we thank you, sir and for the rest of management for your time. This does conclude today's presentation. At this time, you may disconnect your lines. Thank you and have a nice day everyone.