Q3 2016 Earnings Call

Company Participants

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

Other Participants

- Marcelo Santos, Analyst
- Rodrigo Gastim, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everyone to Kroton Educacional Third Quarter 2016 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. (Operator Instructions)

Also, today's live webcast, both audio and slide show, may be accessed through Kroton Educacional's Investor Relations website at www.kroton.com.br/ir, by clicking on the banner 3Q16 Webcast. The following presentation is also available to download on the webcast platform.

The following information is available in Brazilian Reais in accordance with Brazilian 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 risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of company and could cause results to differ materially from those expressed in such forward-looking statements.

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

Rodrigo Calvo Galindo {BIO 17238232 <GO>}

Good morning and welcome to Kroton's earnings conference call for the third quarter of 2016. With me today is our IRO, Carlos Lazar, and our CFO, Frederico Brito.

As in past quarters, let's start today's call on slide 4, presenting the evolution of our margins in the first nine months of the year since 2010. The numbers show strong improvement in EBITDA margin from 11.7% in the nine months period of 2010 to 45.6% in the same period of 2016. The number shows that we've reached new levels of efficiency and also prove the company's resilience in a highly challenging macroeconomic scenario.

EBITDA margin expanded by 340 basis points from 42.2% in the nine months of 2015 to 45.6% in the same period of this year. In the chart on the right, you can see the expansion in net margins of 420 basis points from 35% to 39.2% in the nine months period of this year. Over the course of this presentation, you will see in more detail how we were able to deliver this financial performance, as well as the excellent result in student recruiting and retention for the second semester of this year and our strong discipline in the management of costs and expenses.

However, it is important to emphasize that going beyond the excellent results in 2016, we are also planting opportunities for the future. We maintain our investment in greenfield projects, new distance learning centers, new academic programs, new premium distance learning courses and also increased our investment in teaching quality, especially the acceleration of our investment in the production of content for our academic model KLS 2.0. So we are delivering value in the near term without foregoing the things that will ensure our sustainability and growth in the long term.

Let's go now to the analysis of our main student and ticket numbers and our financial performance, for which I will invite our IRO, Carlos Lazar, to continue the presentation.

Carlos Alberto Lazar {BIO 17238206 <GO>}

Well, thank you, Rodrigo. So let's begin in slide 5, where I want to draw your attention to some of the most important operational indicators that are intakes, dropouts and delinquency rates.

Well, the admission of new students for the second semester of this year was without a doubt a result worth to celebrate. Compared to the same period of last year, we were able to grow in both businesses with new enrollments up 1.5% in the on-campus business and 12% in the distance learning. On a consolidated basis, the number of new undergraduate students grew by 8% and we achieved these results while reducing discounts and scholarships, which as a matter of fact supported the increase of our average ticket as well also -- like we are going to be seeing in the next slide.

Moving to the dropout rates in the center of the slide, we can see a significant improvement with a decrease of 230 basis points among the on-campus and the undergraduate -- on the undergraduate students and about 30 basis points for the DL students. One of the main reasons for this decline are the actions taken under the retention program. As we showed before, we have been implementing a series of initiatives under our retention program to identify and attribute probabilities to dropouts, treating the routes caused even before dropouts occur. The retention program has been rapidly maturing and the results are beginning to be perceived.

And last on this slide is our provision of doubtful accounts, where the criteria that we use since 2010 and we also seek to adopt conservative practice for both revenue recognition and PDA. Our provision has suffered a series of slight adjustments since the start of the year as a result basically of the macroeconomic scenario. So the PDA increased from 6.9% to 7.2% in the on-campus business and also from 7.5% to 7.8% in the distance learning business during this quarter.

Towards the end of this presentation, we will be providing a more detailed analysis of the accounts receivables, delinquency and also provision rates and evolution. For the coming quarters, our best expectation is that PDA will remain under pressure, but in a slower pace compared to the one that we saw until now. So we believe that this indicator should be already normalizing by next year.

So let's turn to slide 6, where I will comment on the performance of our net average tickets. A few weeks ago, we published our student intake results and said that the increase in the percentage of students enrolled under the private special installment plans, the PEP program, was part of the company's strategy to focus on PEP instead of offering scholarships and discounts since this would support an increase in the average ticket in the on-campus business and also help the profitability of the company. And the third quarter numbers have actually confirmed this decision.

In the on-campus business, the average ticket increased by 15.8% year-over-year from BRL692 to more than BRL800 in the third quarter of 2016. A large part of this increase was related to the much more restricted policy for granting scholarships and discounts, which were translated to the PEP program. So that had a positive impact on the average ticket, since the PEP students are not eligible for scholarships or any kind of discounts. Other factors also contributed to the higher ticket was basically linked to the annual tuition increase and the participation of programs with higher tickets within the mix.

Note that we adopted a highly conservative practice for booking revenues from PEP students and also not only revenue, but also the provisions, with the recognition of our future revenue and at present value in our plans saw a PDA of 50%, which is much more than six times higher than the rate adopted by -- for the other courses students.

Despite the conservative criteria for booking revenues and provisions, the APV of PEP students is almost the same that the students paying out of pocket. This reinforces our perception that the PEP strategy is successful and has been generating value for the company.

Meanwhile, in the DL business, the average ticket excluding the impact from one-off sales discounts, which impacted only the average ticket in this quarter, increased from BRL243 in the third quarter of last year to more than BRL266 in the third quarter 2016 or 90.5% higher than the last year number. Actually, this is a consequence of the premium DL programs that have a higher ticket in our portfolio. Once again, we demonstrated robust levels in the three key indicators, intake, dropouts and prices, due to the efforts to admit and retain students, while preserving the fundamentals to ensure our sustainability in the long run.

On slide 8, we see a summary of the main lines of our results in the third quarter and also in the year-to-date until September. I should note here that to improve comparability, the figures exclude the results from Uniasselvi for both 2015 and 2016 and also includes a pro forma analysis in terms of the revenue from FIES renewals that falls in the regular schedule.

Actually, in fact about that, the delay on FIES renewals is an excellent opportunity for us to show the company's sound accounting practice. We maintained the revenue book in practice adopted in the last five years, that is in the corporate results, we consider only the revenue from FIES students amended and enrolled, excluding so the revenue from students who were not able to amend their FIES contracts even if they were attending the class. To help the market understand the company's actual performance, we have provided the pro forma analysis including revenue from students considering the scenario that this year assistance from FIES had not been delayed.

We use these academically active students in the classroom and we adopt a conservative approach, excluding from this base dropouts until this day. And on this base, less dropout, we apply -- with less dropouts, we apply the same conversion rates that we had in the first financial of this year and also the same period of last year.

Of the total students that we are considering in the pro forma population, 94% had already been validated by the students. Since the deadline is December 15, we are fully confident that the numbers used in this pro forma will be delivered.

So let's move to the numbers and to the results. The results for both the quarter and nine months were very positive. Net revenue grew by 5% in the quarter and 3% year-to-date despite the macroeconomic scenario in 2016. In addition improvement in the top line, we also were very efficient in terms of costs and expenses.

The top right chart shows EBITDA grow by 10% in the quarter and 11% year-to-date, with margin expansion in both comparisons. Net income and net margin posted similar performance, as you can see in the graph in the bottom left of the slide.

And last the operating cash flow; after CapEx, we also posted a very solid performance in both quarter and accumulated the year with growth of 39% in the quarter and with EBITDA to cash of more than 94%, even considering that -- here it's also very important to highlight that we received the 25% of the installments from FIES credits that were not paid in 2015 related to the Normative Instruction 23. In the nine months, we saw 9% increase in cash generation after CapEx with a EBITDA to cash ratio of over 53%.

We remained focused on capturing efficiency and synergy gains, as Rodrigo mentioned, and also on taking advantage of the new opportunities to continue to create value for our stakeholders, as clearly demonstrated by the results that we presented this quarter.

Let's comment now about the results of each of our business lines, starting on slide 10, where we explain here the performance of the on-campus business, remembering that we used the same approach -- it means the pro forma analysis and excluding the Uniasselvi numbers.

Net revenue grew by 6% year-over-year, supported by a high average ticket and also by the important results in the enrollment process for the second semester of the year. Gross income in the quarter was BRL642 million with gross margin of 67.7% for increases of 12% due to the ongoing capture of efficiency gains in class formation for the growing use of our operational research software and also the capture of synergies across the units.

Other positive factors were the restructuring of units to optimize of our capacity and also the ongoing gains from the strategic sourcing projects. With this result, our operating results before marketing expenses was BRL482 million [ph] with operating margin of 51.1% and year-over-year increase of 10% or almost 160 basis points.

Turning to slide 11, we can see the performance of the distance learning business. And here, the net revenue grew by 3% year-over-year to BRL253 million, supported by the positive effects of the student enrollment also, but also during the enrollment process and the higher average ticket. Gross income grew 6% with gross margin expanding 257 basis points to 85.1% due to the lower expenses with payroll in the period. Here, I should mention also the initiatives we implemented to optimize the performance of Anhanguera DL business with the migration from the two weekly meetings -- two weekly classes to one and also the restructuring of the sales volume in the whole segment.

The operating results before marketing expenses in DL business reached BRL178 million, increasing 3% year-over-year. The operating margin in the other hand was 70.6%. This reflects with the capture of synergies and the operating efficiency. Note that the slight increase of operating expenses due to the higher number of centers during this year. However, in the year-to-date analysis, the operating margins increased almost by 340 basis points, indicating also the higher efficiency in the operation as a whole.

Turning to slide 12, you can see the performance of the primary and secondary education business, the K-12 business. And here for the analysis, I should begin by reminding you guys that Kroton has seen (inaudible) sale and delivery of textbooks to even-numbered quarters, which means that the revenue that before was recognized in odd-numbered quarters will now be recognized in the prior quarter. This effect, as a matter of fact, was already saw in the start of this year, but was even more significant now in this transaction in this mid-year.

However, bear in mind that this change will also be observed again between 2015 and 2016, which will lead us to forecast net revenue growing and also margin expansion in the year of 2016 compared to 2015. But considering this dynamic, the net revenue of the K-12 business in the third quarter was 31% lower year-over-year and the gross income was about -- also lower as it was the operating result and the margins impacted basically all these numbers by the new calendar of revenues which is different than the last year.

Going to slide 13, we can see the variation in corporate and marketing expenses. Well, starting with the corporate expenses, we saw a 5.2% ratio of net revenue, down almost 70 basis points, reflecting the ongoing capture of synergy gains related to the merger and also the filling of the corporate workforce and the cost reductions obtained by the strategic source process. Sales and marketing expenses as a ratio of net revenue also fell, mainly to the anticipation of marketing campaigns to the first half of this year as mentioned increased this quarter.

And to finalize the presentation, let's comment on the EBITDA and net income evolution, starting on slide 14. The adjusted EBITDA was BRL532 million, growing 10%, as I mentioned before, and in the nine years, the adjusted EBITDA was BRL1.8 billion, growing 11%, expanding the margin by almost 340 basis points. The performance was due to the company's efforts both in the top line evolution, but also in the ongoing capture of efficiency by maintaining austerity in terms of cost and expense.

It's also good to remember that the EBITDA is adjusted by non-recurring items, which in the quarter totaled for BRL48 million in expenses related most with costs associated to reduce in-package classrooms and also the Estacio's transactions about basically consulting firms involved with that transaction and finally the restructuring in the units in the on-campus business, which promoted closing of eight different campuses during that year.

On the other hand, we had a capital gain from Uniasselvi divestments, which had a positive impact for non-recurring items of $7 million. In the year-to-date, the total non-recurring expenses achieved BRL132 million.

In slide 15, we analyze the net income, here not only adjusted by non-recurring items, but also by the amortization of intangible assets related to the acquisitions. We reached BRL452 million [ph] with a net margin of 37%, up 4 percentage points than what we saw last year. In the year-to-date, net income was BRL1.5 billion with the net margin expanding 425 basis points.

So that concludes this part of the presentation. I'll now invite our CFO, Frederico Abreu, to continue the presentation. Thank you.

Frederico Brito e Abreu {BIO 16674822 <GO>}

Thank you, Carlos. Good morning, everyone. So on the next pages, I'll show you five topics mainly. The first is PDA, so our provision for doubtful accounts; the second is accounts receivable; the third, average receivable term; the fourth, CapEx; and the fifth topic, the free cash flow and our cash and debt position.

So starting with the first three topics PDA, accounts receivable and average receivable term -- and before getting into the numbers, I would like to basically convey some messages. The first is that when we see the three main indicators for provisioning, for delinquency and accounts receivable, we can see that once again in this quarter we remain with a very robust situation and again this is the reflects of our conservative approach to what regards accounts receivable.

So when we look at indicator one, we have today a high coverage ratio for accounts receivable. This coverage ratio was already high in the first semester and we've increased once again in this quarter our coverage ratio.

The second, when we see the level of our PDA, it was in line with our expectations and it reflects an increase quarter-over-quarter that we decided to conduct this year to reflect worst macroeconomic condition. And what we are doing is we are anticipating a potential future loss in terms of delinquency. This increase is marginal and once again in this quarter, we are increasing the PDAs both on on-campus and on distance learning.

And the third, when we look at the average receivable terms, it remained stable with a slight increase year-over-year and with a slight decrease compared to the previous quarter.

So now getting into the numbers, I will invite you to look at page 17, where we can see PDA. So starting with the on-campus post-secondary business in green in page 17, we are including -- and including all portfolios of post-secondary business, meaning out-of-pocket, FIES and PEP. We can see an increase in our PDA to 9% and this increase to 9% compared to the previous year, where we had 4.4%, is pretty much related to PEP. PEP has a 50% provision and PEP is gaining importance in our accounts receivable.

So on the right hand side of the green bars, you can see only the out-of-pocket students. And when we look only at out-of-pocket students excluding PEP and excluding FIES, you can see that the level of PDA was 7.2%. This is an increase year-over-year and it's an increase of about 30 basis points compared to the previous quarter.

This increase is in line with the previous quarter and basically aims to better reflect the expectations for delinquency in light of the deterioration of our macroeconomic scenario. Bear in mind that we still have a high coverage ratio in our accounts receivable and the decision to increase PDA is in line with our policy of observing historical cycles and reinforces our conservative approach to provisioning.

So in other words, we do not wait for the loss in accounts receivable to occur. We try to anticipate -- based on our statistical analysis, we try to anticipate the potential loss and therefore we conduct small increases quarter-over-quarter to avoid that we have a surprise in the future and we will have to have a write-down in the future in one time, okay.

So in relation to PEPs, we continue provisioning basically with the same provisioning rate of 50% and we will only adjust this 50% once we have statistical information that shows us that 50% does not reflect the loss. So far, we do not have any indicator that the loss of PEP is different from 50% and therefore we are considering the same 50%.

And in the same -- the distance learning is the same exact approach that we are explaining in on-campus. We are provisioning 7.8%, which is a slight increase compared to the previous quarter and was an increase also compared to previous years.

And finally, looking at primary and secondary, we provisioned 0.8%, which is down from the previous quarter, but it's pretty much marginal and is in line with our expectation. So I want to emphasize before moving to the next page that we are maintaining the same conservative practices for provisioning and we are recognizing revenue from our students only when they pay or in the case of FIES, only when they renew their contracts. We are continuing to be conservative on revenue recognition and we will continue to be conservative on PDA.

Now, moving to page 18, you can see the balance of accounts receivable. We have a total of BRL1.7 billion in accounts receivable, net accounts receivable. BRL1.4 billion is related to on-campus, BRL210 million related to distance learning and BRL26 million related to primary and secondary business.

And I want to emphasize that this balance is 7% lower than in the previous quarter. From this BRL1.7 billion, about BRL1 billion or 60% is related to FIES. And on FIES, as we've said in recent quarters, the payment flow was normalized in 2016 and in August, we've received 25% of the amount that was due in 2015. We've received about BRL183 million in August and we will still receive 25% of this balance in 2017 and the final 50% of the balance that is due in 2018.

So moving now to page 19, you can see the average receivable term. Starting with the on-campus in green, we have a 17-day increase in our consolidated average term from a year ago and this is mainly explained by the changes in FIES that were introduced by Normative Rule Number 23.

So looking at one analysis down, we look at only at ex-FIES students and here we include out-of-pocket and PEP students. We see an increase of 36 days compared to last year and only one day if we compare to the previous quarter.

Looking at the third analysis, we look only at FIES and here we see an increase of 13 days compared to last year, but a reduction of 14 days when we compare to the second quarter mainly because of the payment of the first installment that was related to Normative Rule Number 23.

And finally looking at only paying students, so excluding FIES and excluding PEP students, you can see a small increase year-over-year of eight days. But when we look at the previous quarter, you can also see a decrease of eight days.

And looking at distance learning, the average term was 69 days. This is an increase of eight days compared to last year and a small reduction of one day compared to the previous quarter. And here, I want to emphasize that this increase in our average receivable term both on on-campus and on distance learning compared to last year is not a concern for us -- is not a concern and is basically the result of a tradeoff that we tried to optimize semester after semester.

When we conduct the renegotiations of delinquency students, when they are trying to renew their semesters, we have a tradeoff, which is we can be aggressive and not renew any student that is -- that has a debt. And with this, we would have a huge dropout and when the student dropouts the capacity of him to pay is very small or we have flexibility in this renewal.

We are doing on the second approach. We provide flexibility for students that have good rating and we have intelligence internally to assess, which students have good rating and for these students we prefer to provide a longer negotiation period and make sure that he renews and then his capacity to pay his debt is better. So we have an increase in our average receivable term, but we do not put at risk our PDA. So this is a strategy that we are using over the last year and we are very comfortable with it.

And looking at the average receivable term for primary and secondary business, we have 57 days, which is down one day from one year ago and basically this reflects the weaker sales in the period with the anticipation of sales that Carlos mentioned on his presentation. And we have a decrease also of 24 days compared to the previous quarter mainly due to seasonality.

So moving now to page 21, we can look at capital expenditures. We've invested a total of BRL92.1 million in the quarter, which is basically 7.4% [ph] of our net revenues. The largest portion of this investment was allocated to projects involving content and system development, software licenses and also some expansions and improvements in some existing units.

If we include special projects and greenfields, total CapEx in the quarter was BRL109.6 million, which is 9% of our net revenues. And if we look at the total investments on the nine months of the year, we have a total investment of BRL295.3 million, which is 7.6% of our net revenue and therefore is in line with our guidance for the year, which is about 8% of our net revenues.

And here, I want to reinforce that despite our budget austerity, we are being able to execute all strategic investments and this includes new academic programs, greenfields and new distance learning centers.

Moving to page 22, we can see our net debt position. We end the quarter with BRL1.2 billion in cash. If we consider only financial debt, we have a net cash position positive in BRL518 million. If we include all of other long and short-term obligations, we have a net cash position positive in BRL290 million, which is very positive. So our cash is higher than our debt in BRL290 million.

And if we add all of our accounts receivables that we consider them to be very liquid and certain, which includes the remaining balance to be paid on FIES related to Normative Rule Number 23 and if we include the second part of the payment of Uniasselvi, which will be paid between 2018 and 2022 and bringing them to adjust the present value, we would have a net cash position of BRL1.3 billion in the quarter. So this is very strong and reinforces the strength, the solidity of our balance sheet.

And now moving to page 24, you can see our cash generation in the period. This is one of the main highlights of our performance. So despite not having received still any payment on FIES related to the second semester of the year, we were able to generate a very strong and consistent free cash flow.

Looking first at operating cash flow before CapEx, we've generated BRL561 million. Looking at the free cash flow from operations after CapEx, it was positive in BRL465 million. And after all projects, special projects and the greenfield, we've generated BRL452 million. And this represents an EBITDA to cash of 92.9%, is very strong and much higher than the cash generation from last year.

And finally looking at the free cash flow, so discounting all the debt payments and the dividends, we've generated BRL246 million, which is also very strong and contributed to our increase in our cash position.

And so I'll end my part of the presentation and I'll pass the call back to Rodrigo.

Rodrigo Calvo Galindo {BIO 17238232 <GO>}

Thank you, Freddie. Let's go now to the last part of today's presentation for my closing remarks please. Looking to the numbers for students recruiting and retention, in the first semester of 2017, the process had already begun and the signs today that's positive. It is still too early to project performance in the semester, but with around 25% of the cycle concluded the figures are very encouraging.

I should also note that we have approved the distribution of dividends of BRL122 million based on the net income obtained in the first semester and also corresponding to the pro forma adjusted net income obtained in the third quarter of 2016. With this, we maintain the same dividend distribution rate of 35% of distributable net income.

Just to update on the Estacio's transaction, as I mentioned in the second quarter call, the shareholders of both Kroton and Estacio approved the business combination in the extraordinary shareholders meetings held on August 15, which allowed us to present the act of concentration to the antitrust agency, CADE, on August 31.

Until receiving approval forecast from CADE, we continue to operate as separated companies without any interference in the management of both companies. What we can do during this period is to plan the future integration and we are doing this through a dedicated green [ph] team, which is being mitigated by a major consulting firm.

We are highly confident and increasingly optimistic on the value that the combined operations could generate whether through the capture of synergies or to the capacity for investment and quality innovation we will be able to do together. The more we know about the company, more confident we are about the potential synergies in this transaction.

Lastly, I would like to highlight the awards we received at sixth place among the 100 most innovative companies in the use of technology and first place in the ranking within the educational sector awarded by IT Midia. This is study performed in partnership with EWC to award the use of technology in benefit of innovation, one of the Kroton's greatest focus.

In addition, we were named Company of the Year in quality of services as the Best Company for Consumers in 2016 Award organized by Epoca Negocios magazine and the site Reclame Aqui. 327 companies from all sectors divided in 85 categories participated and Kroton was ranked first. This is a clear sign that all the efforts and investments to improve the experience of our students in our campuses and distance learning centers is being noticed and valued.

Despite the external difficulty, 2016 will be a very, very good year for the company and we are also optimistic about 2017 since we still have several efficient drivers to be captured in the company. Now, we believe that the economic recovery will be slow and gradual. We are highly confident that 2017 will be another excellent year for Kroton.

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

(Operator Instructions) Our first question comes from Rodrigo Gastim from BTG Pactual. You may proceed.

Q - Rodrigo Gastim {BIO 19694950 <GO>}

Yes, good morning, everyone. Thanks for taking my question. Today, the one number concern of most investors is to rely on top line growth going forward. So I just like to take this chance to understand a little bit more how you are doing at this price and the student base growth equation? In other words, if you could share with us, number one, what's your view on overall market growth going forward and if you're already starting to see a rebound in student confidence levels to start taking up post-secondary course?

And number two, your pricing policy for both segments? In other words, is it fair to assume that onsite prices could consistently grow close to inflation going forward and this affording [ph] prices maybe a little bit below even the competitive landscape? So I just like to hear your thoughts on this matter. Thanks very much.

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

Okay, thank you, Rodrigo. Regarding the -- talking -- and I'll start to answer this question and starting my comment and then Frederico could complete it. So about the strategy of -- and the relation between price and growth, the strategy that we decided to implement since the beginning of this year is to incentivize the use of the PEP, our financial solution, instead of giving discounts and scholarships.

When we announced three weeks ago, the intake total results, we saw an increase, an important increase in the number of students that are using PEP, around 36% of new intake on the on-campus business came through PEP. And we said at this time that we will see an increase, an important increase in the average tuition because of this strategy. And why? Because we change scholarships and discounts for PEP because PEP students don't have access of any discount and any scholarships.

So we saw this in this quarter. The average ticket in the on-campus increased 16%. And when we analyzed and separated all the new intake student tuition, the increase was much, much higher than that. So we believe this is the right strategy. This is what we are pursuing and we will continue to offer PEP and increase student ticket with less discounts and less scholarships.

The trend for the tickets going forward we believe is at least with inflation -- we are able to increase prices at least with inflation. We had some opportunities above inflation, like, for example, increase the participation of engineering headquarters that could improve the average tuition. In the distance learning, the trend is more or less the same, increase the tuition with inflation. And the opportunities above inflation are exactly the same, more participation of premium distance learning courses like engineering and nursing that have higher tickets than the other ones. So this is our best guess about what will happen about price.

About growth, the perspective that we have is that we will have a slower, a very small growth going forward in the industry. But we believe we are prepared to increase our market share organically. How will you know? We have a lot of organic projects in place in the company. We have the greenfield projects, that means 100 greenfields in the next five years.

One greenfield is already implemented in the second semester of 2016. Two will be implemented this semester, the first semester of 2017. We have two more in the final process to be approved by Ministry of Education and there is a chance to be implemented in the first semester of 2017. And we have more 47 projects that are being run by Ministry of Education and in some time between the first and second semester of 2017 or 2018 will be approved. So we are very optimistic with the greenfield projects and the results are starting to being perceived.

Beside this, we have the on-campus project -- I'm sorry, the distance learning projects. We already implemented 232 new distance learning centers this year and we have more 240 distance learning centers in process to be approved. Besides the distance learning and greenfield projects, we have new courses.

In the actual units, we have around 500 new courses in the actual units being approved by Ministry of Education. And we have the premium distance learning courses; that means more courses with higher tickets in distance learning. So we are very optimistic with the opportunities that we have in our operation to grow organically. So that's the perspective of about growth and for program fee.

Q - Rodrigo Gastim {BIO 19694950 <GO>}

Yes, that's excellent, Rodrigo. Thanks very much. Just a quick follow-up here. Maybe too early to say at this point because, as you said, we have just 25% of this summer intake cycle of 2017 complete so far. But is it possible to say that we're already starting to see this rebounding in students' confidence levels? In other words, have you started to see that talking to the students and talking to the demand for taking a new post-secondary course? Is it possible to say anything on this matter at this point?

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

How you mentioned -- it's early to say what will happen in 2017. We have until now only 25% of the cycle completed, but until now we are very, very confident. And we have an important signal about a perspective that is in the -- we have this year 9.2 million students NA [ph] and we did a very strong actions in the NA to capture leads and it was the best action that we had in the history of the company.

So we got a lot of potential students in the NA program in the two days that NA was developed. So the cycles are very positive. If it will represent a rebound or a new trend of growth going forward, it's early to say, but the first impressions are very positive. In our intake process, we are much, much better than our daily targets. So until now that perspective is positive.

Q - Rodrigo Gastim {BIO 19694950 <GO>}

Yes, that's very good. Thanks again, Rodrigo.

Operator

(Operator Instructions) Our next question comes from Marcelo Santos from JP Morgan.

Q - Marcelo Santos {BIO 20444938 <GO>}

Good afternoon. Thanks for taking the question. Actually, two questions on the regulatory front. The first is, if you could share with us any update on the FIES Turbo discussions with the Ministry of Education. And the second would be, if you think there's a possibility that the 20% limit of discipline usage in the campus situation might be increased or has been given due to some market participants? Those are the questions.

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

Hello, Marcelo. It's Galindo speaking. I will answer your second question and then I will ask Frederico to comment about FIES. So we heard some discussions in Ministry of Education about the increase from 20% to 30% the digital discipline in the on-campus courses. We have not been concrete until now. But as it is, we are prepared to offer this increase of a percentage of digital discipline with quality (inaudible). The content that we offer for digital disciplines and for on-campus disciplines, they are completely the same, exactly the same based in the KLS 2.0. So if we have this opportunity, we will enjoy this opportunity. We will use this opportunity.

And the fact is, we are now in 15%, so we still have space to achieve 20%. If this space increases for 30%, our opportunity will be bigger. So that's the situation. But we don't have anything in concrete in the Ministry of Education, but we heard speculations about this possibility and we are following to see if it will become a reality.

So Frederico can answer the question about FIES.

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

Hi Marcelo. So I'll provide you the information I can provide in outside, I don't want to disclose any type of information that is not public yet. So what I can tell you about FIES is a couple of things. First, we are treating FIES Turbo as an upside and we do not -- as you saw from the recent numbers in new enrollments, we are not depending on FIES as we were in the past. So the recent enrollment process, only 9% of FIES -- of our students were related to FIES, okay. So the first important message is, we are not dependent on FIES to grow. And if FIES Turbo will be implemented, we are treating it as an upside.

The second thing is, we are working closely with the Ministry of Education through ABRISE [ph]. ABRISE is an association that is composed by six companies. We are one of the six companies. And we are working closely with the Ministry of Education and the treasury as well over the last nine weeks in the development of what we consider to be changes that should be implemented on FIES to guarantee some things.

The first is to make the program more sustainable and the second is to make the program more inclusive, okay? So making sure that there is sustainability in terms of the finance and the fiscal impacts of FIES for the future. And with that, you try to include more students in the program without increasing the budget and without increasing the spending on the program. So this is the tradeoff we are trying to optimize, lower cost per student and therefore to increase the number of students.

The changes we will probably have, they will impact the student, so make the student more responsible and try to bring more efficient collection mechanism. We are discussing different solutions on this front, so how to make sure that the student is more responsible, how to make sure that we have better processes and mechanisms to minimize delinquency. There are many potential adjustments that we can do. We've looked at different countries all over the world and we've learned a lot about all the financing programs in other parts of the world like the US, UK, Australia.

So we have a lot of other examples that maybe one of the adjustments to be implemented. There might be maybe adjustments also in the condition of the program that we are discussing with the government. But I cannot disclose you right now what types of conditions. So the main message is that we are discussing it with the Ministry of

Education, we are discussing it with treasury and the discussions and the meetings are flowing really well.

So we see a high level of engagement of both the Ministry of Education and the treasury and the feedback we have is that we should have eventually already some changes already for 2017. Again, I cannot anticipate. This is the feedback we've had. So we are positive, but we are treating it as an upside and we are contributing as an institution as much as we can and so far the discussions are very, very positive on that front.

Q - Marcelo Santos {BIO 20444938 <GO>}

Thank you for the good color.

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

All right.

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 all for participation in this call and our IR area are available for further information. Thank you.

Operator

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