Q1 2016 Earnings Call

Company Participants

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

Other Participants

- Bruno Giardino, 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 First Quarter 2016 Earnings Conference Call. Today, we have with us Mr. Rodrigo Galindo, Kroton's CEO.

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 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 with slide show, may be accessed through Kroton Educacional Investor Relations website at www.kroton.com.br/ir by clicking on the banner 1Q16 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's corporate law and Generally Accepted Accounting Principles, Brazilian 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's management and on information currently available to the company. They involve risks, uncertainties and assumption, because they relate to the 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 [ph] 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. Galindo, you may begin your conference.

Rodrigo Calvo Galindo {BIO 17238232 <GO>}

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

Of course, you all know how Brazil's political and economic crisis have impacted all sectors of economy including education. But it's during times like this that companies show their competitive advantages. We believe there are things that we have control and things over which we have no control. We can control our efficiency, our cost, our expenses, we can control our sales efficiency, the quality of our services, and that's what we've done. We've been working out things that we can control to help mitigate the effect of the crisis and its working. The results of the first quarter of 2016 shows its working.

During today's presentation, you will see the good results in student admission and retention; our adequate pricing policy, our effective management in costs and expenses; and consequently, our margin expansion. So let's go straight for these results.

Let's start on slide four, which show the performance of Kroton's margins in the last six years, which once again reinforce the company's capacity to reinvent itself and capture efficient gains on a daily basis. The main lines of the results posted very positive performances even during this more challenging economic scenario.

The EBITDA margin expanding from 22.4 percentage points in first quarter of 2010 to 47.8% in first quarter of 2016, comparing the last year with this year, the increase of margin is around 500 basis points, a very strong increase of margins.

On the chart here on the right, you can see the net margin expanding from 35.4% to 39.9% this quarter, increasing 450 basis point. This margin expansion was achieved through the capture of efficient gains in costs and expenses, but while always guaranteeing the creation of future value and guaranteeing the quality of our academic services. And we will take more in deep look of all these factors on the coming slides.

I will now invite our IRO, Carlos Lazar, to continue the presentation.

Carlos Alberto Bolina Lazar {BIO 17238206 <GO>}

Well, thank you, Rodrigo. Starting now from slide five, you can see the main impacts that the educational sector can suffer in the adverse economic scenario, which are on the student base, the dropout rate and the delinquency. On the student base, we were able to keep the number of students stable in relation to the first quarter of last year, thanks to the performance of our admission and re-enrollment processes, which we just recently announced to the market. On dropouts, although the numbers in the quarter show a slight increase in both on-campus and distance learning segments, the dropout rate in the quarter is in line with the level of the past period, showing that this indicator is under control.

Another important indicator is delinquency, which has also remained stable in the distance learning segment and increased slightly in the on-campus segment, we did increase in the later due to the company adoption of a conservative practice to reflect its expectations for delinquency given, of course, the continued deterioration of the macro scenario.

These indicators leave us even more confident that even in scenarios of economic instability we are taking advantage of internal opportunities to capture efficiency gain, which is significantly mitigating the effects of the crisis.

Let us turn to slide six, where I will comment also in the other point very important to analyze in this scenario, which is the average net ticket evolution. As we did in the third quarter of last year, we present here two analysis of the average ticket in the quarter.

First, we show the effective average ticket, and second, we also conduct an adjustment to exclude the one-off sales actions carried out during the recruiting process that impacts only the revenue in the first quarter. These actions involve offering discounts or exemptions in enrollment fees, which are a one-off and granted at certain units and only to new students during the admission process. Basically, it means that there is no impacts on subsequent quarters for these specific students.

We believe the second analysis normalizes the average tickets to permit a more adequate comparison over the long term. Analyzing the normalized level, average ticket in the on-campus segment which excludes the effects from the one-off sales, the average ticket increased 12.6% year-over-year and 6.6% against fourth quarter last year.

The chart on the right shows the same analysis for the distance learning segment, which the normalized average ticket is declining 1.5% in the quarter, which is basically explained here by the weaker result of the LFG business due to the restructuring of the Kroton portfolio and also by the change in the mix of new enrollments. Compared to the previous quarter, the normalized average ticket in distance learning remained stable.

So the general outlook for the average ticket in the on-campus segment is to be quite flat over the year and for the distance learning segment is to increase in the second semester in comparison with the second semester of last year. The company believes that it has found a good point in the volume price equation for maximizing its results.

Well, let's change the page now and doing the part of when we are going to talk about the performance of the businesses of the company. We decided to improve the analysis in these both businesses, specifically the on-campus and distance learning, to use the pro forma data, which excludes the results of the Uniasselvi in the first quarter of this year, that is impacted by two months and also in the first quarter of last year, which is impacted in the three months.

Considering that, the slide eight, we can see the financial performance of our on-campus post-secondary business, and here the net revenue grew 5% year-over-year, driven mainly to the student base evolution over the year and also by the higher average ticket, as already discussed, which more than offsetted the lower result from Pronatec.

As a matter of fact, when we exclude the Pronatec impact in both periods, we see the net revenue growing by 7%. So gross income was BRL648 million, growing 12% year-over-year with gross margin expanding a strong 4.8 percentage points, driven by the ongoing capital efficiency gains at units, which includes the initial impacts from the new academic model and the implementation of the operations research software since the second semester last year. Operating income before marketing expenses increased 22% year-over-year with operating margin of 58.3%.

Turning to slide nine, you can see the performance of the DL segment, which includes also here the undergraduates, which is the most important operation to have, but also the LFG and also the unregulated programs. Remember that in this business, as in the on-campus, we also exclude the Uniasselvi impact in both periods.

Net revenue from DL business was BRL256 million, down 3% year-over-year. As in the previous semester, we emphasize that although they are in the admission process at the start of the year, the performance of the out-of-pocket students and the re-enrollment in the DL business was positive. Revenue was affected by the lower average ticket of the undergraduate students and also by the lower revenue from LFG.

Gross income in this segment grew 1% in the period with gross margin of 87.1% or 3.2 percentage points higher than last year, which is explained by the efforts to reduce our payroll cost and also all the efficiency gains arising from the expansion in the student base obtained during last year. The operating results of DL before marketing expenses was stable year-over-year, but the margin expanded 2.4 percentage points to 74%.

Turning to slide 10, we can also see the performance of the primary and secondary education in the first quarter when net revenue fell 16% year-over-year mainly due to the efficiency gains in the operation, which led to the anticipation of teaching material collections for the first semester of this year to the fourth semester of last year.

In fact, we expect the segment's revenue in the whole of this year to grow in relation of this -- to grow over '15 basically for the same reason as we will probably going to see by the end of this year.

Another highlight is that despite the low revenue, this segment recorded expansions in both gross and operating margins. Starting from the gross income in the quarter, we recorded BRL35.4 million and the gross margin of 64.5% expanding 1.3 percentage points year-over-year, reflecting the lower cost in the quarter. In the same way, the operating result was BRL30.2 million with operating margin of 54.9% expanding almost 200 basis points.

Now on slide 11, we can see the corporate and selling & marketing expenses. Starting from the corporate expenses, we recorded BRL66.5 million or 5.2% of net revenue, increasing only 0.3 percentage points from the same period of last year, so but lagging the inflationary periods, which demonstrates our increase in efficiency in both payroll and expenses. These increases already includes the impact from the new stock options plan approved before. And also it is important to mention that once again we reorganized our administrative structure with some additional terminations and layoffs that occurred in April. So that should reduce even more the personnel expenses already in the second quarter. Selling & marketing expenses, in the other hand, as a ratio of net revenue increased 1.1 percentage point, reflecting here the more intense commercial activities during the student recruiting process, where we admitted a lot of out-of-pocket payers and also the fact that the anticipation of expenses related to the admission process, but not the one that we conducted now, but the one that we are conducting regarding the second semester of the year.

As a result, we expect these expenses as a ratio of net revenue to return over the course of the year to a level close with the one that we recorded in 2015, which -- and so reflecting the entire process to optimize the cost with agencies and media portfolio since -- that we launched since last year.

Well, going to slide 12, where you can see the adjusted EBITDA in the quarter from the corporate's perspective and also the pro forma basis excluding Uniasselvi impact. From the corporate, first, the adjusted EBITDA was BRL607 million, increasing 10%, and the EBITDA margin expanded 500 basis points achieving 47.8%. Excluding the results for Uniasselvi, the pro forma EBITDA was BRL582 million increasing 15% year-over-year with adjusted EBITDA expanding 5.5 percentage points.

And now the last slide of my part, the slide 13, you can see the performance of the adjusted net income, where we also have the corporate perspective and also the pro forma basis. Here, it is worth to note that the adjustments include not only the non-recurring items considering the EBITDA adjustment, but also the amortization of intangible assets and lastly the taxes paid on the Uniasselvi sale.

From the corporate perspective, adjusted net income was BRL506 million with net margin of almost 40%, expanding 4.5 percentage points in the -- against last year. And also in the pro forma basis, the adjusted net income was BRL491 million and the margin here expanded also more than 500 basis point to 40%.

Thank you. I now invite our CFO, Frederico Abreu to continue the presentation.

Frederico Brito E Abreu {BIO 16674822 <GO>}

Thank you, Carlos. Good afternoon, everyone. So I invite you to page 15 and on the next pages we will see working capital, CapEx, net debt and free cash flow. Our main message is on working capital, you're going to see stability; on CapEx, you're going to see stability and CapEx under control, so investments also under control; on net debt, you're going to see almost zero net debt; and on free cash flow, you're going to see a negative operational free cash flow that I will explain later the reasons and a positive free cash flow after financing activities.

So on page 15, we present the PDAs. And just before getting to the numbers, I want to reinforce some important messages. One, is the tripod of indicators that we use for provisioning of delinquency. They are stable and they continue very robust. The first indicator is the company's level of consolidated provisioning. You can see that the consolidated level of provisioning is stable and is stable in each of the segments except for on-campus out-of-pocket students that we made a slight increase. And I will explain a bit later why we made this increase.

And I also want to emphasize that we are maintaining our very conservative provisioning policy, 60% provisioning for PEP students. We are continuing the same level of provisioning in the previous quarters. On the second indicator that is very important to understand this efficiency of provisioning is the coverage ratio of our accounts receivable. We continue with a high level of coverage ratio in our balance sheet. And the third indicator is the average receivable term. You can see on the next slide that it's stable despite the increase in FIES and PEP.

So the strong combination of these three indicators, the PDA, the coverage ratio and the average receivable term, makes us very comfortable about the level and the sufficiency of our provisioning and the adequacy of our provisioning policy.

So on slide 15, we start with the first indicator, which is PDA. Starting on on-campus, you can see a slight decrease of 0.3 percentage points on campus students. If we look only at out-of-pocket students, so paying students on the right hand side, the green bar, you can see a slight increase of 6.5% to 6.7%, 0.2 percentage points. And here there are mainly three reasons why we decided to increase the level of provisioning.

First, a slight increase in attrition in dropout rate that you saw in the beginning of the presentation and this is an important leading indicator of potential delinquency in the future. The second, the on-time payment rate for on-campus out-of-pocket students decreased in the last few months. So fewer number of students are paying on time and this is probably the result of the deterioration of the country's economic scenario. And third, the average amount of debt per capita per student also increased slightly. Because of all of this, we decided to increase slightly our PDA level.

In distance learning, you can see stability. Here, our provisioning, the statistics of our provisioning are stable, therefore, we are keeping the PDA. And third, if you look at primary and secondary education, on the right hand side of the page, you can see a slight decrease of 0.5 percentage point. So in our opinion, it's marginal and pretty much show stability also on this segment.

So I want to emphasize two things. The first that despite a more challenging macro scenario, we are managing to keep our provisioning level stable and this is mainly due to some things. One, our conservative practices for provisioning since 2010; second, our conservative practices in revenue recognition; and third, we are capturing several efficiency gains and synergies with Anhanguera on collection and prevention.

And finally, we are monitoring every day our operational indicators on payments and collection, and if we -- if there's a sign that there's a deterioration on the collection, we will, of course, increase the PDA levels to reflect a potential deterioration in the future.

So moving to page 16, you can see accounts receivable, net accounts receivable. Our total net accounts receivables by the end of the quarter was 1.9 billion, 1.7 billion is related to on-campus, 194 million related to distance learning and 44 -- 49 million related to primary and secondary. Pretty much all the increase from last year and from the previous quarter is related to two things. The first related to FIES.

We've explained over the last quarters the effect -- the negative effect of Normative Rule number 23. And the second effect of the increase is related to PEP, which is our own financing product. If you exclude those two effects and if you look at paying students both on-campus, distance learning in primary and secondary, you can see stability in terms of net accounts receivable, which is very important information.

And regarding FIES, I want to emphasize here that the first quarter registered a very low level of repurchases and this should be normalized on the second quarter, where we should receive a significant amounts in repurchases, and therefore, the accounts receivable of FIES should start decreasing starting on the second quarter of 2016.

Moving to page 17, you can see the performance of our average receivable terms in each of the businesses. Here the main message is the increase in the average receivable term comes from two sources, FIES, as I explained, and PEP. So if you look at the total on-campus average receivable term, you can see an increase of 64 days.

If you look at only ex-FIES students, both PEP and paying students, you can see 14 days increase. And if you exclude our PEP students, you can see a decrease in out-of-pocket students, seven days decrease in out-of-pocket students. This is a very important information. So despite the increase in our PDA level for out-of-pocket students, we can see a seven-day decrease in our average receivable terms of these students.

Moving to distance learning, you can see here a two-day increase. It's marginal and this increase in two days is related to LFG. If you exclude LFG, you can see stability of 57 days year-on-year, so also distance learning under control. And on primary and secondary, you can see a slight decrease of two days, this is marginal, but also again stability in our average receivable term.

So in summary moving -- before moving to CapEx, just to summarize, PDA is stable despite a slight increase in out-of-pocket, average receivable term stable, despite FIES and PEP and our coverage ratio in our balance sheet still at a very high level. So we are very comfortable despite all the situation, the macroeconomic deterioration. We are very comfortable again that we have sufficiency in terms of PDA.

Moving now to page 19 and looking at the investments, our CapEx. On the left hand side, you can see the recurring CapEx. You can see BRL61.8 million in investments. If we adopt our special projects that are more long-term projects, you can see 73.2 million, this is 5.8% of our net revenues, is lower than what we've invested last year. This is mainly seasonal. We expect over the next three quarters to increase the level of investments and to end 2016 at a level of investment as a percentage of net revenue similar to 2015 at around 8% of net revenues, is an accurate information on the guidance.

So we are not -- we are doing all strategic investments that we need to do. We are doing all the investments that we need to do in our units. And what we have here is a seasonal effect, a delay in terms of CapEx and we should converge to the levels of last year of 8% of net revenues.

Moving to page 20, we can see net debt. We end the quarter with BRL574 million in cash. And if we deduct all debt; financial debt, non-financial debt, and if we add also our accounts receivable, our long-term accounts receivable from the sale of Uniasselvi, we end up the period with 13 million of net debt, it's pretty much zero net debt.

And if we add up also our accounts receivable from FIES that are pending and are related to Normative Rule number 23, we are talking about BRL728 million of FIES, we would end up with an impact, a net cash position of more than BRL700 million. This is a very, very strong information and a very strong performance in a scenario that is adverse, and therefore, our net debt position is again very, very solid.

Moving to page 22, we can see cash generation. Our operational cash flow before CapEx was 9.1 million, which is much lower compared to last year. After CapEx, our free cash flow is minus 39 million. And here the main reason for such a low free cash flow from operations is FIES. As you know, there was a delay in the purchases of FIES in this quarter. We were negatively impacted and we will compensate this negative effects already on the second quarter. I want to share with you that we've already repurchased 566 million in May and we will repurchase again in -- sorry, in April and in May we will repurchase 336 million. So over the period we should have an inflow of around 900 million, part of it was the delay from first to the second quarter. Therefore, we expect in this semester that this level of free cash flow from operations return to the EBITDA, to cash levels that we had in 2014, and until the end of the year, we should have a very strong free cash flow from operation despite the negative effects in the first quarter.

And finally, the free cash flow, the net free cash flow was 171 million positive. This already has the positive effect of the sale of Uniasselvi, BRL400 million that we've received in the -- by the end of February, and the negative effect of the free cash flow from operations and also the payment of dividend from 2015. Okay?

So this ends up the presentation of the free cash flow and I will pass the call back over to Rodrigo.

Rodrigo Calvo Galindo {BIO 17238232 <GO>}

Thank you, Frederico Brito. On slide 24, we present our guidance for 2016. In the first column, you can see the actual results in 2015 excluding three months of Uniasselvi results. In the second column, we show the guidance for 2016 also excluding Uniasselvi effect in January and February, which means that the data is completely comparable.

Our expectation is to deliver growth across all lines, revenue, EBITDA, EBITDA margin, net income and net margin. Net revenue should reach BRL5 billion with 1.4% more than 2015. EBITDA should reach BRL2.2 billion, growing 5.9% on 2015. EBITDA margin should reach 43.5%, a very strong margin for 2016, expanding 180 basis points from 2015. Even considering the adverse macroeconomic scenario, we are assuming expanding up 180 basis point in EBITDA margin. And net income should reach BRL1.8 billion, growing 8% in 2015. The CapEx, the projected CapEx is 80% [ph] of net revenue, almost flat with the number of 2015.

Since we have concluded the student admission process for the first semester of 2016, which is the most important of the year, we have -- we are very, very confident that we will net our guidance. Also importantly, these results are sustainable. We are conservative in recognition of students, we are conservative in recognition of revenues and also conservative in our provisioning policies, especially for new products such as PEP. We believe this conservative stance reinforce our confidence that the company will keep generating value in the long term.

Let's go to the last part of today's presentation in slide 25 for my closing remarks, please. We have now in the company more than 238 ongoing products including the long-term growth products such as 500 new courses in the actual unit and 100 refills. A highlight is the recent inauguration of the first greenfield product in Grande do Sul, a city in Brazil. In all, we will inaugurate 100 greenfield products over five years, of which 43 of them are already pending approval at the ministry of education.

In the distance learning segment, we are expanding our request for new accreditations to 177 new centers, besides the 232 new distance learning centers already implemented in 2016. So we already implemented 232 new distance learning centers in 2016 and we have more 177 distance learning centers pending approval from Ministry of Education. The second comment that I want to reinforce is that the company is completely optimized in terms of budget and cost and expense structure. We believe that and even more comfortable on meeting our guidance for the year.

Another important point is that we had already launched the admission and re-enrollment process for the second semester and we are optimistic that we will achieve the targets we have set. We are also making very good progresses on developing our long-term private financial product to be launched in 2017, which will feature differentiated conditions and third-party funding. So the most important thing is we will use third-party funding for a part of our launched programs in 2017 and the products guaranteed is going very well.

Lastly, I want to announce the distribution of dividend of BRL199 million, which represents 35% of net income available for distribution, which means an increase in the payout even with the adverse macroeconomic scenario. In closing, I want to take this opportunity to emphasize once again our excellent capacity to adapt. We continue to show that the company is capable of generating value in the short and long term by overcoming adversities and delivering high quality education on a large scale.

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

Ladies and gentlemen, we will now initiate the question-and-answer session. (Operator Instructions) Our first question comes from Mr. Rodrigo Gastim from BTG Pactual. Mr. Rodrigo you have the floor.

Q - Rodrigo Gastim {BIO 19694950 <GO>}

Yeah. Thanks. Good afternoon, everyone. Thanks for taking my questions. I just like to better understand here what kind of measures you are taking to control receivable days? I mean, excluding FIES and PEP, it improved seven days year-on-year, why we see a clear pressure in this line when we analyze the results not only from other companies in the sector, but also companies from other industries? So what are the measures or new measures behind this improvement?

And I know, it's hard to say as it's usually depend on the macro environment, but do you expect the deterioration in this receivable line going forward? That's my question. Thanks very much.

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

Hi, Rodrigo, it's Frederico. There are several things. I'll try to give you the main reasons why we are being able to maintain our average receivable term in the year, I am going to exclude FIES and PEP, okay, because FIES is a completely different dynamic and PEP, it's a financing product and therefore has also its own dynamic.

So talking about out-of-pocket students and talking about face-to-face and distance learning, there are some important things, okay. The first, we are very conservative in terms of revenue recognition and this is very important, because we do not recognize the revenue of a student that is not on the classroom and did not pay for his first installment, at least. And this is true for a freshmen and this is true in the renewal.

The second thing, as you've seen from the last quarter, we are also conservative, let's call it this way, in our provisioning level. So if you look at our accounts receivable, if you look at our balance sheet, our coverage ratio is high and is stable -- and it's not high and stable now; it's high and stable over the last three years.

The third thing that I understand is helping us control the average receivable term. We are capturing some benefits from the merger with Anhanguera, but also some efficiency gain independent on the merger in terms of collection. There's dozens of actions that we've implemented and some others that we are in the process to implement over the last two years. We've presented some of them in our Kroton Day. So there's a lot of efforts in terms of efficiency in collection. There were a lot of things to be learned and this includes changing our collection companies, internalizing collection for active students, tools in IT to better control and to help preventing delinquency. So there's several things that we do in terms of efficiency.

And fourth, and also very important, we are doing a very strong work together with marketing in the renewals. You've heard about the Permanence Project, and over the last quarters what we are doing together with marketing, we are being very careful in terms of renewal. So we do not renew old students that want to renew. We do not provide, let's say, renewal conditions but with better payment conditions for delinquency students on the renewal for old students.

We score old students, we score our veteran students and we give rates to the student and the worst rates we do not renew. You can this in our increasing attrition. So the other -- the flip side of not increasing the average receivable term, that the negative thing is you may have, yes, an increasing attrition and you saw 1 percentage point in increasing attrition. So it's a trade-off. We think that today we have a good balance between a stable attrition, a good PDA level, a good coverage ratio and a stable average receivable term and pretty much, and this is true also for a face-to-face and distance learning. Okay?

Operator

(Operator Instructions) Our next question comes from Bruno Giardino from Santander. Mr. Bruno, you have the floor.

Q - Bruno Giardino {BIO 15974970 <GO>}

Good afternoon, everyone. You have a significant pipeline of new openings, programming for the next years and you just got a new campus in the city of Joao Pessoa. So I was just wondering what should -- what will be the strategy of the company to enter in these regions. For instance, in the city of Joao Pessoa we have strong competitors like Estacio, CIEE and others. What is the general strategy of the company we have in place to gain, to grab market share in this new city?

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

Hi, Bruno. It's Rodrigo speaking. Thanks for the question. Actually, we have an area -- a marketing intelligence area here in the company that helps us to understand the potential areas to expansion. We can't disclose the strategies behind our decision. So that strategic information for us, we can't disclose.

Q - Bruno Giardino {BIO 15974970 <GO>}

Okay. But should we assume that the company will be more aggressive in prices than it has been so far?

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

Okay, so I will comment generally the things that we can comment about the strategy. We have some cities that we decided to enter like Joao Pessoa, for example, that we are competitor. But we are -- in this specific city, we are competitor with a very strong brand because our partnership in this city is with Pitagoras College, that is the one of the most recognized college in the city.

So in that city, besides we are a challenger, a new player, we do have a very strong brand. So we can't, for example -- we don't need, for example, charge lowest prices, because we already have a strong brand. It's completely different in a new city, where we don't have a strong brand. So the brand decision and the strategic decision is defined city by city considering the conditions of the greenfield in that specific city.

There are cities that we have big and very important K-12 colleges like our partnerships, very good infrastructure and a very strong brand, Pitagoras, in the city is one thing, is one strategy. In other cities with small sizes to high competition and we don't have a very good infrastructure or a very good brand in that city, we are challenging and in that specific city we charge less.

Actually, all these strategies are related by our pricing methodologies. How we comment before in other opportunities, in other events, we have a pricing methodology that considering the strongness of the brand and the market share and the NPS of the brand in that city to deciding the price that we charge. We use the same methodology to deciding our strategy in the greenfields.

But we are very optimistic with the opportunities with the greenfield, with all the long-term projects that we have. Just to reinforce, we have 100 greenfields, 43 already in process to be approved by the Ministry of Education. We already implemented 233 -- I'm sorry, 232 distance learning centers, new distance learning centers in 2016. We already have 177 distance learning centers which is in process to be approved by Ministry of Education. And we will work [ph] more than these 177 in the next semesters.

So, and we do have 500 courses in process to be approved in the actual units, most of them in nursing [ph] and engineering, so a novel portfolio. So we are working a lot to guarantee organic growth. And besides this we still have M&As, but we don't depend of M&A to growing into a fresh, new markets, okay.

Q - Bruno Giardino {BIO 15974970 <GO>}

Understood. Thank you.

Operator

(Operator Instructions) We have a new question which comes from Rodrigo Gastim from BTG Pactual. Mr. Gastim you have the floor.

Q - Rodrigo Gastim {BIO 19694950 <GO>}

Yeah. Thanks for taking one more question. I just want to get from you an update on how the operational research and new academic model tools have been working so far and how much more you believe it is possible to extract from this going forward? That's it. Thanks very much guys.

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

Hi, Rodrigo, It's Galindo speaking. So we start implementation of the KLS 2.0 in the second semester of 2015 and we implemented that time for the students in the first and second semester. In the first semester of 2016, we expand for first, second and third semester and now in the second semester of 2016 students that are in first, second, third and fourth semester are using the KLS 2.0. So that means we are more or less in half of the process to full implementation of KLS 2.0.

The operational research, the operational survey software is already implemented for all the company and for all semesters, but for students from the first to fourth semester, the opportunity to optimize classes are higher than the opportunity from the status [ph] -- to do at the last semester because of its -- the academic model.

So we still have opportunities to increase efficiency in both Kroton and Anhanguera brands. It is very difficult to announce any perspective about how big could be this opportunity, but we are optimistic that we still have opportunities to gain market share -- I'm sorry, to gain efficiency in with these two.

We are making all investments to guarantee the quality. And the best thing is the KLS 2.0 at same time that is much more efficient in the economic and financial point of view, is much more efficient in the quality in the academic point of view. We are receiving a very good feedback from our students, professors and coordinators about the quality of the contents developed in the KLS 2.0. So we are very excited with the opportunity to see all our students using the KLS 2.0, because we will see more efficiency in the professors' payroll and we will see more quality when we have full implementation.

Q - Rodrigo Gastim {BIO 19694950 <GO>}

That's excellent. Thanks very much, Rodrigo.

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>}

Hi, Peres. I would like to thank you everybody to participating of this conference and our IR area is available for further information. Thank you.

Operator

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