Q4 2014 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

- Javier Martinez, Analyst
- Marcelo Ganem, Analyst
- Marcio Osako, Analyst
- Maria Tereza Azevedo, Analyst
- Unidentified Participant
- Vera Rossi, 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's Fourth Quarter 2014 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's remarks are completed, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instruction) Also today's live webcast, both audio and sideshow, may be accessed through Kroton Educacional's Investor Relations website at www.kroton.com.br/ir, by clicking on the banner 4Q14 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, BR GAAP, which now conforms with the 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 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'll turn the conference over to CEO, Mr. Rodrigo Galindo, who will begin the presentation. Mr. Rodrigo, you may begin your conference.

Rodrigo Calvo Galindo {BIO 17238232 <GO>}

Good morning everyone and welcome to the quarterly earnings conference call of Kroton Educacional for the fourth quarter of 2014. With me today is our IRO, Carlos Lazar and our CFO, Frederico Abreu.

I'd like to start today's presentation on slide three, commenting the results delivered in 2014, in relation to the guidance given by the company, soon after its merger with Anhanguera, it was in August last year. Like the guidance the numbers on this slide are managerial and all of them are based in the results of Anhanguera in the 12 months of the year.

As previous year we ended 2014 with all results better than expected, mainly due to operational efficiency gains in all of our business. We posted net revenue of BRL4.8 billion, which surpassed by BRL100 million of our guidance of a BRL4.7 billion. We did achieve -- our key achievement was made possible by the (inaudible) our enrollment and re-enrollment process during the year. Our adjusted EBITDA was BRL1.7 billion, 13.5 percentage points represent of both guidance with EBITDA margin of 35.3%.

The net revenue, I'm sorry, adjusted net income in the year was BRL1.3 billion reaching our guidance by BRL198 million and the net margin was 27.3 or 3.3 percentage points above guidance. Total investment in maintenance and in special products corresponded to 9.9% of net revenue, in line with our guidance of 10%. (inaudible) very strong and confirm this sources of our strategy, capture of the synergies from the mergers with Anhanguera as well the efficiency gains in all our operations.

So let's go straight to our presentation, for that, I will now invite our IRO, Carlos Lazar, to start the presentation. Carlos, you may start.

Carlos Alberto Bolina Lazar {BIO 17238206 <GO>}

Thank you. So, let's start on slide five with our actual consolidated financial performance in the year, so in other words, considering the results of Anhanguera only as of July 2014, the difference than the figures that was mentioned by Rodrigo before. So on this basis, net revenue was BRL3.8 billion, 87% higher than the 2013, driven mainly by the expansion in our student base resulting for Anhanguera merger and by the success of our new enrollment and re-enrollment processes, which generated strong growth in both On-campus and Distance Learning basis.

Adjusted EBITDA was BRL1.5 billion growing 100% over 2013 with the strong adjusted EBTIDA margin of 38.6%, up 2.5 percentage points year-over-year. This strong operating financial performance also made it possible to achieve adjusted net income of BRL1.2 billion with net margin of 32.2%. Cash generation was also strong with cash flow after CapEx of 1.3 billion, for an EBITDA to cash conversion of 92.4% and cash flow after CapEx of about BRL1 billion, for also a strong conversion of 71.1%. During the presentation, we will try to show how these figures represent the strong growth observed this year, hence boost [ph] Kroton in a completely new level of performance.

Turning to slide six, we will start the analysis of our financial performance in the quarter by segment. Here you can see our net revenue, gross income and operating results for the On-campus business. Consider graduate [ph] the language courses, the undergraduate in the vocational educational operations like the Pronatec in the numbers.

Net revenue grew 164% year-over-year, driven mainly by the student growth, as I mentioned before, enrollment and re-enrollment impact and also by the Anhanguera merger. Gross income was BRL574 million with gross margin of being up 5.2 percentage point year-over-year, due to the capture of efficiency and quality gains besides the economy of scales in our operation.

Operating income before marketing expenses included 181% year-over-year with operating margin of 46.2% or 3 percentage points higher, also due to our control of operating expenses. It is important to note that the business segment we saw (inaudible) the improvement in the numbers in (inaudible) that we hold including Anhanguera that improves the performance.

Now on slide seven, you can see the performance of the Distance Learning segment which also here includes the undergraduate, besides the non-regulated courses and also the Prep [ph] courses under the brand LFG. Here, the net revenue was BRL289.5 million, growing 89% year-over-year, which just like the On-campus business was driven by the student base growth generated by our recruiting processes and also by the incorporation of Anhanguera.

Gross income grew 78% year-over-year with gross margin of 74.9%, which fell 4.7 percentage points, due to the consolidation of the Anhanguera figures. Here, we still see many opportunities to capture efficiency gains enter in even increase margins, the main one is the migration of the academic model from two weeks -- from two days before Anhanguera meeting to one day meeting only, which is a process that began in 2013 and should be concluding with the next two years.

Well, the DL operating income before marketing expense grew 65% year-over-year, with margin of 55.2%, or 8 percentage points lower, due to the reasons for the variation in the gross income. Well, despite the lower margin, as in the case of the On-campus segment, we also observe a better performance at all brands (inaudible) on a standalone basis.

On slide eight, we can see the financial performance of the Primary and Secondary business during the fourth quarter. Here, the net revenue post strong growth of 63%

year-over-year to BRL36.8 million, due to the anticipation of the timetable for book collection sales for the first semester of 2015, we anticipated this sales in order to reposition the flow of book collections, which allows sales of collections from 2015 be made on 2014. Also as a consequence, we had the recognition of these revenues during the fourth quarter. Let me mention also here that these kind of new agenda for sales and recognition of revenues should continue and should be repeated over the next years.

The gross income in the quarter was BRL16.7 million with gross margin of 45.4% or 3.5 percentage points higher than last year. The operating result was positive in quarter at BRL8.7 million, with the stronger operating margin of 23.7% reversing the negative results of the same period last year.

Jumping to slide nine, we can see the corporate and marketing expenses. Starting with the corporate expenses, we reached BRL95.6 million or 7.8 % of the net revenue, which was 0.9 percentage points higher than year-over-year. Mainly here the reason is basically the increase in G&A expenses as a result of the expansion in the headcount with incorporation of Anhanguera operations and also the increase -- the larger centralization of services in corporate structures that we are -- that we held over the next quarter.

The selling and marketing expenses, as a ratio of net revenue increase of just 1 percentage point, also year-over-year unaudited [ph], Anhanguera operation we start and we have higher marketing expense, which also presents some opportunity that are being captured within the integration process.

Moving to slide 10, we show the EBITDA and the adjusted EBITDA here in the quarter was BRL400 million increasing 131% year-over-year, while EBITDA margin post a strong improvement to 32.5%. Note that EBITDA adjusted by non-recurring items of BRL43.8 million in the quarter, which are basically related to expenses with Anhanguera merger, such as a consultancies IT [ph] and a strategic project. In the year, the adjusted EBITDA was BRL1.5 billion which is strong margin of 38.6%, once again surpassing the guidance as mentioned earlier.

Well, now on slide 11, we can see the performance of the net income in the quarter and year. So in the fourth quarter it was BRL335 million with adjusted net margin of 27.3%, just a note here, the net income adjustments include not only the non-recurring items that I mentioned before, but also the amortization of intangible assets from the acquisition, especially from the merger of Anhanguera. In the year, net income grew 109% to BRL1.2 billion, with adjusted net margin increasing 3.3 percentage points to 32.2%.

Well that concludes the financial analysis and now I invite Frederico Brito, to continue the presentation.

Frederico Brito e Abreu {BIO 16674822 <GO>}

Thank you, Carlos. Good morning everyone. So, moving to page 13 we can see working capital on this page and on the next four slides we will analyze working capital, the provision for doubtful accounts, accounts receivable and average receivable term. And before -- I want to emphasize that as you know the quarters in the previous quarters all the analysis here they take into account the pro forma FIES accounts receivable, which is basically in this quarter assuming that the FIES repurchase of 164 million that was scheduled to be initially paid in December and that was paid in January, it would actually occurred in December. So once again in the fourth quarter, we have a change in the schedule (inaudible) and what we are doing on a pro forma is adjusting that scheduled to ensure comparatively (inaudible) to last year.

So the main message that we can see on working capital in all analysis that we present is a positive evolution, so we can see a reduction in working capital measures in number of days and this important to explain the evolution of EBITDA to cash. So you can see that in this quarter, once again we have a strong cash generation and one of the reasons is the positive evolution of working capital.

So on slide 13, basically we can see a reduction in five days from third quarter to fourth quarter, so from 16 days to 11 days, this is a consistent improvement over the year, is not the one-time jump, so we have a consistent evolution over the last four quarters. And this is mainly the result of intense collection effort restrictive re-negotiation term with our students when they are a renegotiation -- when they are renegotiation to re-enroll from one semester to the other and also an increase in the average payment term throughout important renegotiations with some of our suppliers. So we see the result of our structured initiatives that we are conducting since last year and the impact is translated here on this page.

Looking ahead in 2015, as all of you know, some (inaudible) rules number 23 and number two, will change the behavior of our accounts receivable for 2015, in FIES, we will expect an increase in accounts receivable of FIES in 2015. You will see later on the presentation and basically this is the result of a change from 12 to 8 repurchases in 2015. So we will receive less for repurchases of FIES in 2015 and the consequence is an increase in the accounts receivable that we will see in 2015.

So moving to page (Technical difficulty) can see here the PDA, I want to emphasize that PDA is also lead us using the same exact methodology since 2010 and again, Anhanguera is already since the third quarter on the same methodology and it's based basically on a statistical analysis of historical building data and we are using exactly the same methodology over the last five years.

So, if we look on the On-campus business on the left hand side, PDA in the fourth quarter was 2.6%, which is down from 3.7% last year and this is mainly due to a higher share of FIES students in our base. You recall that FIES has the lower PDA and if we isolate the non-FIES student on the right hand side, you can see a stability in the provisioning for the non-FIES On-campus student at 6.5%. So a decrease in PDA in face-to-face basically driven by the mix of FIES, isolating the FIES effect, we have a stability in the PDA from this quarter to last quarter.

The increase over last year, if you look last year it was 6.2%, this year it was 6.5%, basically this increase is a consequence of the incorporation of Anhanguera, the PDA level for

Anhanguera are still higher than the PDAs level for Kroton and therefore this increase is mainly due to the incorporation of Anhanguera.

If you look at the Distance Learning segment on the middle of the page, we can see 7.6% of PDA, which is stable over the last quarter, an increase over last year, and again this is the consequence of the incorporation of Anhanguera and the incorporation of LFG, which is the unregulated courses of Anhanguera. We as a managerial, we look at unit-by-unit, brand-by-brand, we can see a stability over last year, brand-by-brand, but on the mix in Anhanguera PDA is higher therefore, the total PDA is higher.

And last on the right hand side the provisioning for the primary and secondary education, fell by 1.1 percentage points lower than compared to last year and this is mainly due to some reason that I want to emphasize, keep in mind that and if you recall in the third quarter of 2014, we had an anticipation of sales from third quarter to the second quarter basically because of the World Cup.

And on third quarter, because of that anticipation, we've decided to increase PDA and when we run fourth quarter that increase in PDA was not necessary we've collected most of what we provision, therefore, we decided to lower the PDA on the fourth quarter and if you compare year-over-year, so if you compare full 2014 with full 2013, the average level of PDA over the year is stable over last year, despite the seasonality over the year in 2014.

Moving to page 15, you can see the accounts receivable, the balances, we have a total of BRL743 million in accounts receivable, BRL524 million in On-campus, BRL178 million on Distance Learning and BRL40 million in primary and secondary. If you look on a pro forma adjusting for FIES repurchases, accounts receivable would have been 579 million, and most of the increase over last year on these balances are related to the incorporation of Anhanguera.

On the next page, as you can see better on page 16, you can see better how these accounts receivable translate into average receivables term and this is a better measure to understand our cash generation. So what you can see here is in most cases a decreases, a reduction in our average receivable term, which is good news, we are being able to collect and to receive more proportionally that's what we received last year.

So looking, first on the On-campus, we present four analysis, the first is the consolidated On-campus average receivables term, you can see a reduction of eight days, year-over-year or 12 days over last quarter. If we isolate the non-FIES students we have analysis number two and three. If you look at second analysis, we see a reduction on the average receivable term of three day, of two day, sorry. And if you look at the third analysis, we can see an increase in six days.

So ex-FIES receivable term on the third analysis show an increase in six days. And why we this? The first as mentioned before, Anhanguera has higher PDA and higher receivables term, so on the average of receivable term was impacted by Anhanguera corporation and a better analysis is not looking at last year, because this year we have Anhanguera, last year we didn't have. So if we look third quarter compared to fourth quarter, we have an increase of only one day, which is positive given the seasonality and last year, we had an increase also of one day. So we are exactly the same behavior of increasing the accounts receivable ex-FIES as we have last year from third quarter to fourth quarter this year.

And last looking at the four analysis, we isolate the accounts receivable of FIES, we have an average receivable term of 24 days, which is an important reduction of 12 days over last year, these are pro forma numbers of FIES, if we look at the real numbers, not the pro forma, this 24 days would be 51 days.

And now, looking at the Distance Learning business, we have an average term of 54 days, this is an increase of nine days over last year and basically two reasons contributed to this increase. The first the merger with Anhanguera again, if we isolate the accounts receivable of Anhanguera, the receivable term also on Distance Learning is higher than compared to Unopar and Uniasselvi. And second and less relevant this quarter and as presented in other quarters, we see an convergence in terms of dealing and renegotiation practices we've seen On-campus and Distance Learning and it's normal that the average receivable term of Distance Learning converged to the levels of On-campus, and this is what happening over the last quarters.

And finally, the primary and secondary business, we have a reduction in five days over previous quarter. And this is natural given the seasonality of the business between the third and the fourth quarter of the year. The increase over the same quarter of 2013 was basically due to a higher volume of book collection sales for the first semester of 2015. We usually process most of these sales in January 2015, we were able to anticipate this sale, we were more efficient in terms of delivering our collections to our school and therefore, we are able to anticipate more than what we usually are, if we compare to last year.

So moving now to page 18, we can look at CapEx. We can basically see here as presented in our quarters, we always divide CapEx into two main groups. The first is the CapEx, which includes recurring an expansion CapEx to support our short-term growth and this sets a time horizon of about one to two years. And the second, what we call special project is the CapEx to support our medium-term growth, which has the longer-term horizon of about two years.

Kroton's CapEx totaled 106.2 million in the fourth quarter, which is above 8.6% of net revenue in the period. If you look at the year, CapEx was 295 million or 7.8% of net revenue both -- above of these level below the 10% that we usually provide to the market. If we compound the special project, which consist mainly on projects to expand units to keep student base well. Kroton invested 34.7 million in the quarter in this special project, in the year if we look total CapEx recurring expansion in special project, our CapEx was 385.7 million, which is 10.2% of our net revenues.

Moving to page 19, we can see company's debt. We have a strong cash flow generation in the period, but you can see that the level of cash is almost in line with last year. There were two effect, why we've maintain our level of cash despite the strong cash flow generation. The first, you remember that we've distribute extraordinary dividends related to the merger 483 million related to Kroton and 53 million related to Anhanguera.

And the second, prepaid liabilities that were not attractive in terms of financial conditions that were old liabilities, one was bounce [ph] of 476 debenture, we prepaid 171.5 and the second was the debt in Euros, we (inaudible) and we prepaid 123 million related to this euro related debt. So this prepayments were very positive considering the present value and we already see the positive impact in savings in financial expenses.

So as a result, we ended the fourth quarter with net debt of BRL490 million, which have today healthier conditions than what they have in previous quarter. If we have that all the other short and long-term obligations, we end with BRL802.5 million or a bit less than 0.5 times EBITDA with a very healthy level of leverage we have today.

Moving to page 21, you can see here the cash generation, so again a very strong cash generation -- operational cash flow generation part of it was explained by EBITDA also a positive evolution on working capital and finally on our budget in terms of CapEx saw a very positive cash flow generation. If we look at cash flow generation before CapEx a total of BRL392.3 million, which is a 110% of EBITDA to cash, if we discount the recurring CapEx, cash flow was BRL290.3 million, which is 81% EBITDA to cash, a very strong EBITDA to cash conversion. And if we consider all investments including special project, cash flow generation was BRL277.4 million which is a 78% EBITDA to cash flow. So, a very strong cash flow generation.

Now, I'll pass the call over to Rodrigo. Thank you.

Rodrigo Calvo Galindo {BIO 17238232 <GO>}

Thank you, Frederico. On the slide 23, I'd like to comment on the recent regulatory changes involving the government FIES' student financial program [ph] FIES. As we know, in late of 2014, the government changed the rules for FIES and the most important changes are: First, the rule 21, which define that students who graduate at 2010 and who scored below 450 points on the National (inaudible) ENEM are no longer eligible for FIES. The second change, it was the rule 23, which is changed substantially the scheduled for payment of FIES certificates to institution with more than 20,000 contract in FIES program.

On this administrative rule, the 23, after weeks of negotiation with Ministry of Education, we had an agreement with Ministry of Education and new administrative rule was issued is the rule 2/2015. And these new regulamentation define that the rule 23 would take effect only in 2015. So in 2016, we came back to 2014 situation, to the normal situation.

In addition of the administrative rule, two new changes in the industry were introduced by Ministry of Education. The first one, it was a price -- cap price of 6.41% that means that FIES program is able to finance only 6.41 above last semester tuition. And the second change is a cap, in the member of new FIES contracts.

In the next two slides, we'll show the actions adopted by the company to mitigate this impacts of each regulatory measure. Now I will pass to Carlos Lazar, to explain the actions that we are implementing to mitigate the impact of FIES changes in 2015.

Carlos Alberto Bolina Lazar {BIO 17238206 <GO>}

Well, so we starting with slide 24. Let's describe the actions adopted by the company to minimize the impacts of the rule 21 that establish the minimum performance requirements on the ENEM exam. Well, we know there's a large part of our existing student based performance are both minimum score regarding (inaudible) for contracting financing. And considering those, not eligible, we know that most are in the score range between 400 and 450 points, which means that with a slight efforts, these students could achieve the minimum score and so in light, they considering that we are planning to open our Adaptive Learning platform to the high schools in the series that we have operation. So this going to be free for schools and so the students going to be able to improve their performance on ENEM. In addition to this platform, we will be offering to the students not eligible for FIES, this possibility of contracting individual payment loans plans that will be discussed more in details in a couple of slides. But basically this (inaudible) that measure with consistent in our bridge payment for the installments for this first year.

Well, jumping through slide 25, let's comment on the impact of the rule 23. Here, we expect an increase in the average receivables term in 2015 from around 58 days to about 142 days. This increase was doubly [ph] fall and return to the normal level more in about four years to once again reach the average term of the 58 days. So, bear in mind also that we have a very comfortable balance sheet position to enable us in terms of this working scenario in the receivables term during this year as Frederico highlighted before.

Now, on slide 26, represent the situation regarding the price increase cap of 6.41%. And here it's important to remember that more situations were represent completing the compliance with the school tuition, which determine the criteria conditions and rules for any price increases. These amount have been made public since December 2012 and the non-FIES students paid their tuition payments, their tuitions in January, February, March, already considering this increase, which is a reasonable and legal. Some associations and (inaudible) as we've probably are seeing on the press filed some lawsuits against the MEC decision and the courts rule at the end of the cap on last March 17.

So the box on the fifth year tuition, we've move it and the contracts of the upper classmen and freshmen are being sign it based on the 50 provision [ph] amounts, considering so the increased proposed. Upper classmen who has already signed it's contracts and R&D contract (inaudible) were also covered by this rule, so which means that all the students are renewing their contracts with the effective defined by the institutions and according again with the law.

Finally, let's move to slide 27, performance on the volume cap. Despite most formal situation from Ministry of Education via on rule or any normative act [ph] we are deducting some limits on the volumes of new FIES contracts for freshmen, it's only for only for freshmen. As of this movements, we already have approximately above 33,000 new contracts with this patents [ph] of contracted or in the contracting funnel and considering that this leader designation the contracting funnel meaning in an advancement phase of the process, but not effectively contracted at this time.

Note also that this figure of 33,000 students represents more than 40% of the contracted signed last year. So and here it's also important to mention that since we have many problems at various units that are still receivable of 33,000 students we will spend to increase to the end of the process on April 3.

On this slide, we also show some mitigation plans for the volume caps on the freshmen, in other words, how to -- we're planning to recruit students without being able to obtain the FIES financing directly. For Kroton solutions were structured two different products, one as a Bridge loan, as a bridge payment plan to service the students in merger during this year. And also I structure individual financial problems that is being a historic.

On the next slide, slide 28. We'll be able to see in more details spot tails of this two products. For freshmen, in the first semester of 2015, we're unable to obtain FIES financing whether due to the ENEM score or develop Cap we are offering a very attractive product that we should -- which we call here in the left side the bridge payment plan.

Well, this is basically a loans for students until they are able to obtain this FIES or any kind of order financing available on the market. The product here is already, the bridge loan is already operational. So we already started to offer this project to our students, we will use for this one, our own funding but it's important to know that the definition of the -- points so breakeven for opening classes did not consider this student. So in other words, this is an incremental revenue that helps to improve even more the profitability for the class, which had already expected our let's say policies in terms of the minimal return acceptable. This means also that these students that we receive via this bridge plan, we promote of more profitable class in consequently a better performance for the segment. Well, the bridge payment plan is for the first and second semester (Technical difficulty) interest and maybe (Technical difficulty) first and second class.

During the first year, the student base actions, did it action I'm talking all about the more structured plan that will belong to only for this meeting and for this plan it's a more long-term loan, which will be offered in the future in the incoming freshman in the first semester of 2016. The teams were adopted -- who adopted [ph] for the bridge payment plant in the first and second semester of 2015 and unable to get FIES after this plan. (inaudible) will be available in the first semester of 2016 and the general rules such as terms financing conditions, interest rate et cetera have been normalized, should be closer to the market as soon as possible.

We believe that these solutions present can significantly reduce feedbacks from the (inaudible) losses on FIES regulatory indicators and promote a more sustainable growth for the company from now on.

Now I would like to pass the call back over to Rodrigo for him to conclude the presentation.

Rodrigo Calvo Galindo {BIO 17238232 <GO>}

So let's go to slide 29, just to present the status of the numbers of the intake process of 2015 and the base of students that we are starting for 2015, first semester of 2015. Let's start with the On-campus business. The intake process even considering all of the changes on FIES, we are expecting to achieve minus 5% to 0%. So we have the possibility in that case to make the new intakes for 2015, is stable comparing to 2014. That's the very good results considering all the changes in the impact that the new FIES -- the changes of the ruling [ph] FIES dropped for the institution.

In the base of student that consider the in-intake process and the re-enrollment process, we are expecting stability that means we will see in the On-campus business, the same number of students in the first semester of this year that we have in first semester of 2014. In the Distance Learning business, the in-take process, we are expecting grow between 4% and 8% and base of students growing 5% to 7%. So a good level of growth is expected by -- for the Distance Learning business.

And the consolidated numbers that considering On-campus and Distance Learning this intake process will grow -- we expect to grow -- that will grow between 1% and 5% and total base of students intake and re-enrollment growing from 3% to 5%. So we are happy with this numbers, we believe that we have the year with very good numbers considering the scenario and all the changes that we see all the instability in the system of FIES. So even considering all of this changes, we are able to deliver between 3% and 5% of growing in base of students comparing the first semester of 2015 and first semester of 2014.

I have three final messages; the first one is about the budget of the company. Crossing [ph] in the last year, it was very rigid in the control cost is an expanses and be sure that we are doing all things that are needs to guarantee the profitability even considering a new scenario of last revenues that was our (inaudible) expectations. So, we are making all the changes in the operational structure to guarantee the profitability of our business.

The second message is about the integration. The integration process between Kroton and Anhanguera, we are really comfortable with the integration process, we are capturing all the synergies exactly how we would plan in the beginning. Actually, we are so confident that we are anticipating some of the FIES [ph] integration, for example the academic integration. We are expecting in the beginning that the academic integration we start between two or three years after the -- start of the integration, but we already started six months ago and we'll delivered two years before the original schedule.

So it means that we are really, really comfortable in this integration process. Actually we conducting 29 integration process and this one is -- the one that we are more comfortable and more secure that we've delivered all the benefits that we expect in the beginning.

And the third message is about the perspective of growing going forward. In 2015, there is a difficult year because of all these changes that happened in FIES, we will grow between 3% and 5% base of student, so we are really optimistic that we had good opportunities to continue growing going forward in the long term. So that's our perception in the mood [ph] of company here.

And once again, I want like to thank you for participating 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) The first question comes from Marcelo Ganem of Oceana. Please go ahead.

Q - Marcelo Ganem {BIO 18357812 <GO>}

Good afternoon, everybody. I have a quick question regarding the enrollment process for the on-site students. You mentioned that you were expecting that you recover part of your FIES enrollment and I just -- I am figuring out that you'd have still have a big increase in the ex-FIES enrollment, so that the enrollment could be flat year-over-year, as making a growth around 35% the in the ex-FIES enrollment. Is that right or am I missing something?

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

Hello, Marcelo, this is Rodrigo speaking. So about the new enrollments for the On-campus business, yes, we will see a reduction of a total contract on FIES and the (inaudible) the part that are not eligible for FIES, because of the cap, a part of this students will gain thing by the non-FIES students and a part of this students will gain through our financial program that we are offering for our student. So there are two ways to capture bake visit student.

And the second part, Frederico Abreu will answer for you.

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

Hi, Marcelo, just to provide more information, we have some questions related to FIES, how many FIES students we will capture. And to make it clear, last year, we had 120,000 FIES contracts, 120,000. And what we expect is 1/3 to be captured in first semester. So this means 40,000 students in first semester. Our target of FIES student in the first semester was about 80,000. So this means that we should have about 50% of what we expected to have in the first semester, we've expected to have 80,000, we are now projecting 40,000, which is a third of the total number of students of last year.

The difference which is 40,000, we expect to bring 15,000 with our financing and the other we are expecting them to allow, so they will not be enrolled. So this is what computes on this base. Sem students will pay per unit, 40,000 students of FIES which is about 50% of what we've expected to capture without the restrictions and 15,000 additional students we are now own financing, these represent the percentage point of growth that we have here.

Q - Marcelo Ganem {BIO 18357812 <GO>}

Okay, thank you.

Operator

The next question comes from (inaudible) Matterhorn Investment. Please go ahead.

Q - Unidentified Participant

Hi. So I had a question about your On-campus revenues. In your earnings report, it says that the FIES net revenues were 608 million, which I think corresponds to about 67% of total net revenues, and yet FIES students only account for about 58% of total On-campus students, where does that difference come from, were it's the net revenue shares for On-campus FIES students bigger than the share for students? Thank you.

A - Carlos Alberto Bolina Lazar {BIO 17238206 <GO>}

Hi, Paul, thank you for your question. Well, basically the difference between the exposure to number of FIES students and also compared to the level of revenues from -- the total revenues from the onsite business is because the average tickets of the FIES student is higher than the non-FIES student. But, let me just highlight that there is not a difference between the price that we charge from the non-FIES student or the FIES student. The different there is that, the FIES student normally choose a high end courses, a more expensive courses for them to do their studies. So, that costs is difference between the level of students in terms of the base and the level of revenues in terms of the total revenues of the on-site business. Is that clear for you?

Q - Unidentified Participant

Yes, that's clear. Is there are any other in terms of deductions from gross revenues due to taxes also impact that at all or is it simply just the FIES students applying for more expensive courses?

A - Carlos Alberto Bolina Lazar {BIO 17238206 <GO>}

No, it's basically the difference in terms of the mix between the two groups. And there are some other but mostly the biggest impact by far is the mix.

Q - Unidentified Participant

Okay, great. Thank you.

A - Carlos Alberto Bolina Lazar {BIO 17238206 <GO>}

Thank you.

Operator

(Operator Instructions) And we have a question from Javier Martinez from Morgan Stanley. Please go ahead.

Q - Javier Martinez {BIO 15226046 <GO>}

Thank you. Carlos just to, I know the problem is still is not defined. But are you willing or able or probably going to be taking credit risk in your books or not? Are you going to be doing credit as far as (inaudible) to provide the money or its going to be an automatic money for whoever needs the money?

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

Hi, hello, Javier its Frederico. so let's divide the short-term product with a long-term product. The short-term product what we are calling (inaudible) element that which have no interest. It's specific on one very important points, we are talking about marginal students. Okay. So when we decide to open our classes, we did not take into account this students. So we have two options, either we do not have the student or we offer them some type of help that we are calling as a bridge loan. So they have -- we have these additional, these incremental students.

In the short-term products we are putting any restriction in terms of credit scoring. Again because these are marginal students. If we do not offer these products we will lose the student because the class room is already running, it's better to have seen on Board then not having.

What we are adapting is that after 12 months a part of this students will either go to FIES or we will take our long-term financing or will decide to pay. So this is the strategy on the short term.

If you look at the long-term product, it's completely different. On the long-term product we are talking on a financing closures with traditional financing where we will look eligibility, we will have credit scoring on these students we will review the concept semester by semester based on these performance in academic performance and so on.

So we will have rule to make sure that our capital exposure is better allocated and we will all finance the student that will enter in our credit scoring mechanism. But for the short term, we are not using that funnel for the reasons that I mentioned. Is that clear Javier?

Q - Javier Martinez {BIO 15226046 <GO>}

Yeah, thank you. Now on the long-term one. What is that, so if you are going to look at this scoring, why don't you just let third party to take that risk and to do that business and you focus in your business and financial company does that because I can understand the logic, If you are going to be not doing credit scoring or you're going to be doing a likely this scoring, but if you are going to be fundamentals in that what is, why not to -- this.

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

It's a great question. So we do not have an answer. One of the options that we are looking for the long-term product is a partnership with a bank, we had a partnership with the financing company. We are not, we will consider that when we assess which partnership we will look. So you're right, one of the options is to partner with someone, but keep in mind one very important thing that interest between a bank and the educational company are not always alike. We as an educational company, we have an interest to bring the student on Board, even we do not charging interest, because for us, the operational margin is to (inaudible) is positive.

If we partner with the bank or with the third party, there is more looking at the financial risk of the student, the incentive of the third-party is to looking at the risk of students. So one of the things that we break into account is, to understand it, there'll be one-off a conflict of interest, and if we find that there may be a conflict of interest one of the reasons select and to have our credits are internally is to minimize the conflict of interest.

Q - Javier Martinez {BIO 15226046 <GO>}

Understood, thank you very much.

Operator

The next question comes from Vera Rossi of Goldman Sachs. Please go ahead.

Q - Vera Rossi {BIO 1540531 <GO>}

Thank you. Could you provide the student growth after 2015, so 2016 beyond and also potentially EBITDA and EBITDA margins for the forward years? Thank you.

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

Hello, Vera, Rodrigo speaking. Right now, we are not providing this information's, we are analyzing this study if we'll do this in the first quarter results of 2015 that will happen in May, we analyze and if you do this, probably we'll gives more color about the long-term perspective in terms of students and in terms of margins. But we are not providing this information now.

Q - Vera Rossi {BIO 1540531 <GO>}

But you've mention in your opening remarks that some of the synergies have been anticipated or some of the goals of the merger have anticipated for 2015?

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

Some of the goals of the anticipation and not necessarily that we'll -- with this we'll anticipate the capture of synergies (inaudible) What we are anticipating from now is the academic decisions. So we will have, what we will see is the better quality swing. We are better level of quality quickly, but not necessarily more synergies or more quick synergies. So we keep the same level of synergies, the same amount of synergies and the same time of capture that we announced it before.

Q - Vera Rossi {BIO 1540531 <GO>}

Okay, thank you.

Operator

The next question comes from Maria Azevedo of UBS. Please go ahead.

Q - Maria Tereza Azevedo {BIO 16178885 <GO>}

Hi, I just like to know with the favorite (inaudible), you do see a favorable outlook in the pricing strategy of some Anhanguera markets, do you see the opportunity to raise prices of organization in such market? Thank you.

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

Thank you Tereza for the question. So, what we expect about the price power and the price flexibility that we have going forward, it will depend the decision of Ministry of Education about the cap of prices. From now, the cap of price of 6.41 is not working, the prices are in the same level of that we can finance -- investing method, but, of course, we know that a part of the power prices came from (Technical difficulty) reflects credit, it could be purely [ph] credit or a private credit, if you have less credit the price power is lower.

So what we are doing is, we are creating conditions for increase the credit level with the private solutions like we are providing, like we announced today. So, in a short answer for your question, we believe that, yes a part of the price power that we have we should lose, but the strategy is to deliver more quality in the Anhanguera operations and charge more prices will remain.

What happened is probably, the space of increase of prices that we will have is a little bit lower than before, but the strategy keeps the same and we are not talking about just charge more prices. We talk about giving more quality, giving more perception quality and then charge more prices for more quality. So, that's our strategy and we keep this measure going forward.

Q - Maria Tereza Azevedo {BIO 16178885 <GO>}

Perfect, thank you very much.

Operator

(Operator Instructions) And we have a follow-up from Marcelo Ganem of Oceana. Please go ahead.

Q - Marcelo Ganem {BIO 18357812 <GO>}

Thank you for taking the other second question. I want to know if you were expect any impact on the average ticket for the onsite students as the share of FIES students should diminish over time and those students as you mentioned, they have a higher average ticket because they choose usually more expensive course?

Operator

I'm sorry, just a moment please. The speaker line was disconnected and we'll have to get them reconnected. So please hold for just a moment.

Q - Marcelo Ganem {BIO 18357812 <GO>}

Okay. Thank you.

A - Carlos Alberto Bolina Lazar {BIO 17238206 <GO>}

Are you there?

Q - Marcelo Ganem {BIO 18357812 <GO>}

Yes, I am.

A - Carlos Alberto Bolina Lazar {BIO 17238206 <GO>}

Okay. So we are still, we continue connected. Can you please repeat the question?

Q - Marcelo Ganem {BIO 18357812 <GO>}

Okay. Question is do you expect any impact on the average ticket for the onsite students since the share of FIES students would probably diminish over time. And those students, as you mentioned, they usually choose like more expensive courses?

A - Carlos Alberto Bolina Lazar {BIO 17238206 <GO>}

Well, thank you for the question Marcelo. Yes, we can expect some decrease on the price on the average price, because of the mix, but that's not going to be maybe only our focus on the high-end, but something in the midway. In a FIES there is as Rodrigo answered in the question before. There is also the upside of better positions than what the pricing that continues to be valid on the Anhanguera side of the business, what does is? We are also opening several different courses to better shape the mix all around our portfolio that also could lead to maybe not an important reduction, so it could be leads to maintenance of the level of the fixed price that we have today or even an upside from that.

We also consider that we are going to continue to be able to raise prices (Technical difficult) in our costs. So this is something that we can say to you at this time.

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

And as Carlos said, just to compliment one thing that the students that we financed they will come exactly with the same price, okay, so we are not planning any type of discounts to the students that we've financed. They will have the same price as they would have, if they would have go to FIES, they couldn't be eligible to FIES, they will have our financing with the same exact price they would have -- if they would have taken the FIES, okay?

Q - Marcelo Ganem {BIO 18357812 <GO>}

Okay very clear. If you allow me a follow up on my previous question. So, you mentioned that out of the 80,000 students that you would have enrolled through FIES on the first semester of last year, 40,000 would that still come through FIES and 15,000 would come through your financing scheme? So you would still be missing around 25,000 students. So to see if I understood that correctly, these 25,000 students they would be -- they would come as paying students. So they would represent around a 35% growth on the base of the non-FIES students that you enrolled on the first semester of last year. Is that right?

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

Hi, Marcelo, it's Frederico, no. We -- let's be clear. The 40,000 FIES, the 15,000 financing and the remaining 25,000, we are assuming here that we will lose them. So we will not have those students in-house, we will lose them. They will not either have FIES or decide to have our financing. That sort to be (inaudible) numbers, the different to get to the total number of students is paying students and Pronatec [ph] students.

Q - Marcelo Ganem {BIO 18357812 <GO>}

Right. But then the number of paying students would have to grow quite a lot, right?

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

Actually, Marcelo that's why we are seeing a reduction of growth in 2015 against 2014. Our original expectations were not growing from minus 5 to 0. This student that we are losing is pushing us into a situation. So you are right, when we say -- you say that this 25,000 student that will not be able to capture because of FIES, because of the restriction on FIES represents around 30% of the total students that we previews, we are thinking that we will be able to bring to the company.

So trying to resume [ph]. 80,000 students was our previous expectation, 40,000 game through FIES, 15,000 came through (inaudible) to our loans product, that means the 25 we will lose and this 25 represent around 30% of the original target for FIES.

Q - Marcelo Ganem {BIO 18357812 <GO>}

Okay. Thank you, Rodrigo.

Operator

The next question comes from Marcio Osako of Safra. Please go ahead.

Q - Marcio Osako {BIO 6748109 <GO>}

Hi, good afternoon. I have two questions. The first one you mentioned that you're offering the special financing only 40 students that could not get the FIES, right? And that you expect to have around 10,000 to 15,000 students in this on special loan? And could you tell us how many students try to get the FIES? And yeah, this is my first question.

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

Okay, Marcio, this is Rodrigo speaking. 80,000 student is the total amount of student that was eligible for FIES, that was the (inaudible) FIES of our target. But we have more than using in the total potential FIES student that we call it as PMA-FIES [ph] that means finding on FIES contract. So 40,000 new contract FIES, and the different that is more than 40,000 students, because we have more than 80,000 potential students through contract FIES, is the total eligible for our loan program. So it's more than 40,000 students. We didn't disclose it yet, this information, this number, but it is higher than 40,000 students.

Q - Marcio Osako {BIO 6748109 <GO>}

Okay, thank you. And my second question, is there any reason for the enrollment base, the evolution we are seeing in the first half and for the On-campus, that you mentioned that we expect a flat figure in the first last year. Is there any reason for these evolution be different in the second half? It's my second question. Thank you.

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

No, we do not expect. So we can assume more or less the same type of evolution. If we assume that we'll have the same type of cap in terms of volume of FIES and if we assume that we'll have the same type of penetration in terms of the students that come with our own financing.

Q - Marcio Osako {BIO 6748109 <GO>}

Okay, perfect. Thank you.

Operator

And next we have a follow-up from Vera Rossi of Goldman Sachs. Please go ahead.

Q - Vera Rossi {BIO 1540531 <GO>}

Thank you. I just have a follow-up question on my margins question. So with this slowdown of the student growth, what are the initiatives that the company is taking to maintain the consistent margin expansion we have seen in the last few years? Thank you.

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

Yeah, Vera, Rodrigo speaking. The first and most important initiative is to be really, really in the opening for new classes. The most important driver of profitability in our business is the classroom, because we paid professor that is our main cost, class by class. So how much more classes we open, more cost we have. So we are really rigid in this process.

I would mention before, for example, just to clarify and give you an example than how rigid we are. We didn't consider any student with partial amount with our loan product. We didn't consider any students in this situation in the breakeven for new classes, that means that this, the students are came for their loan problems that we are offering, is incremental and you increase the margin.

The other initiatives are our (inaudible) control costs and we are doing reduction of employee's, reduction of costs, reduction in expenses and reduction in CapEx. And we are doing this is for really responsible way. We are not putting in risk the quality and we are not putting risk the growth product in the medium long-term.

Q - Vera Rossi {BIO 1540531 <GO>}

Okay. So, if even with the slowdown in student growth, we could potentially see margins flat or going up in 2015 in your On-campus business?

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

I mentioned before, we didn't give any guidance about the margins, but yes, conceptually that's the trend that we should assume.

Q - Vera Rossi {BIO 1540531 <GO>}

Okay, thank you.

Operator

This concludes the question-and-answer session. At this time, I would like to turn the call back to Mr. Rodrigo Galindo for any closing remarks.

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

Thanks. I'd like to thank you everybody for participating on this call and our IR area is available for further questions. Thank you and good afternoon.

Operator

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