Y 2011 Earnings Call

Company Participants

- Corporate Participant
- Eduardo Alcalay, Chief Executive Officer
- Rogério Frota Melzi, Chief Financial and Investor Relations Officer

Other Participants

- Analyst
- Bruno Giardino
- JC Santos

Presentation

Operator

Good day ladies and gentlemen. Thank you for standing by and welcome to Estacio Conference Call Fourth Quarter and Year of 2011 Results. This event is also be broadcast simultaneously on the internet via web cast, which can be accessed from the company's IR website www.estacioparticipacoes.com.br/ir together with the respective presentation and the earnings release.

We would like to inform during the company's presentation all participants only be able to listen to the call. We will then begin the Q&A session when further instructions will be given. [Operator Instructions] This conference call contain forward-looking statements that are subject to risks and uncertainties that could cause the company's actual result to differ materially from those in the forward-looking statements.

Such statements speak only as of the date they are made and the company is under no obligation to update them in the light of new information. I would now turn the conference over to Mr. Eduardo Alcalay, CEO

Mr. Eduardo, you may proceed.

Eduardo Alcalay {BIO 1817259 <GO>}

Okay thank you and good morning, everyone and welcome to the conference call for Estácio's results for the year and the fourth quarter of 2011. As usual I'll begin today's presentation with the highlights for the period and then hand it over to Rogério Melzi, our CFO, who will comment in further detail our results. After that,we will go straight into the Q&A session. Let's start with slide number two on our presentation which is available on our website.

2011 was a really a special year for us. Our organic on-campus student base resumed its growth trend. We continued to see the outstanding growth of our distant learning business already with 40,000 student and we had our first acquisitions in this new phase of expansion.

First performance rewards and confirm the foundation of the Philosophy of pursuing organic growth through quality differentiation and financial discipline and 2011 onwards adding acquisitions to that generates further scale and increases our geographic presence to our current platform in a synergetic way with attractive returns on investment capital. Those who follow us for a long time know our long term vision and investment philosophy, which is based on an organizational structure with the centralization of processes in our shares service center, the implementation of our management and compensation system oriented by excellence in execution focused on result and their --, and the development and establishment of our new academic model and investment of R$40 million over four years

The benefits of this hard work undergone in 2008, 2009 and 2010 were reaped in 2011 with the resumption of organic growth, improved levels of operational efficiency, and the consolidation of the new organization culture generating growth with profitability in a sustainable way for the long run.

Another landmark in 2011 came from the recognition of our work that has been done to develop a different innovative product and service in Ibope carried out by Ibope-Inteligência Institute. It starts with text-book materials bundled in -- appeared as a relevant differentiating factor for Estácio in the opinion of student,students from our competitors and prospect students.

This confirms the strength of our business and academic model, which has in the textbook material its most tangible differentiating aspect in the moment of the enrollment decision by students. The launch of the tablets in 2011, which brings the digital configuration to our academic model makes it even more evident that Estácio has been positioning itself one step ahead in terms of providing a distinct education service based on quality and innovation.

Launched in 2009, our distant learning operation already has more than 39,000 student reflecting successful strategy and the quality of our product. We operate 52 distant learning centers which are located in our campuses across 17 Brazilian states. Our distant learning model brings a series of advantages there are unmatched in the domestic market. The content most of it delivered through a modern online platform and the requirement that students visit the centers only to figure exams provide modern students with all the convenience they need with out any loss of quality or academic performance.

The completion convergence between the on campus and the business learning curricular gives us a series of synergies such as content generation and utilization of the same professors and tutors in both modality. Given the excellence coverage provided by Estácio network using our own campuses as distance learning centers means that the students visiting our distance learning centers have access to a full fledged university with complete library, PC labs, infrastructure and tutors enabling them to use the on campus infrastructure and vice-verse and which serves to underline the concept of convenience and quality. In the past three admission cycles we grow significantly and outpaced growth without resorting to discounts or promotion campaigns settings consecutive records, while adjusting prices for inflation. All these means discipline and sustainable growth.

Our distance learning business which stated from zero at the end of 2008 already has approximately 10% share of new enrolled students in Brazil growing to become one of largest players in the country and ready generating attractive returns over the approximate R$40 million invested in the business.

2011 was also a year marked by the return to acquisitions and acceleration of organic growth. We have acquired four companies integrating them to our network and obtaining excellent returns from the integration of processes and systems for both the shared service center and our academic model.

We also build two new campuses during the year one in-Rio de Janerio and another in São Paulo and invested in three new campuses that should start operating in 2012.

Another important rough driver was the entry into a new market. Courses for civil service exams through the acquisition of Academia do Concurso leveraging it's strong credit and leading brand in the on campus course segment in -- we will expand Academia do Concurso nationwide through a non line platform product offering.

In 2011 we could finally make use of the three basic element that sustain any successful company in the long term. People, products and processors. With this elements in place, the results came as a natural consequence and more importantly in a sustainable way for the future.

In the context moving to slide number three, we can see that our net revenues was what 13% up on 2010 totaling R1.14 billion thanks to the 5.7% growth of our organic on campus undergraduate student base under the same shops concept, the 50.4% growth of our distance learning operation, the acquisitions that added around 10,000 students besides Academia do Concurso, which contributed worth around R$6 million to net revenue starting at the second quarter of 2011. Our EBITDA totaled R$140 million, a 32% increase on previous year. Our EBITDA margin was 12.2%. 1.7 percentage point higher than 2010 already without segregation of non recurring items whatsoever.

And as we said at this time we disclose only one EBITDA. Note that this margin was adversely effected by Academia do Concurso whose first year of operation was effected by severe adjustment. If we excluded Academia do Concurso result margin expansion would have been 2 percentage point in line with the over all expectation. Net income full year was R$70 million, 13% lower than 2010 especially to a lower financial result and the non repetition of the one time positive effect on income tax that occurred in 2010. Rogério Melzi will give more details further in the presentation about that. I'll now turn to Rogerio which will give the details on our results.

Rogério Frota Melzi

Thank you, Alcalay. Good morning, everyone. Always good to be with you sharing our results.

We will now move to slide number four where we present the student base, which is 14.3% higher than in 2010 and 9.5% in the same sharp concept as Alcalay explained when we exclude the units that were acquired over the year. Please note growth on campus base which ended the year with over 200,000 students enrolled including the 10,000 students that came from the acquisition of Atual, FAL and FATERN made during the year. Excluding these acquisitions, they undergraduate student base totaled a 180,000 students and considering the 3000 insurance that left our base after the sale of our third unit as announced in third quarter of 2011. We present a same sharp organic growth of 5.7% over 2010, reinforcing the trend to large organic growth after three consecutive cycles of record high enrollments.

And as Alcalay mentioned, proving that our investment in quality and differentiation had real potential to generate statutory results. Our distance learning student base at the end of the year was small-term students, 60% higher than 2010 reflecting the great results from this 2011 intake processes and consolidating the expressive growth of the distance learning during the year.

Moving on to slide number five, we can see that our net operating revenue was 13% higher than in 2010 and 16.6% than in the fourth quarter of 2010 which is in line with the organic growth of the student base, as well as with the increase on the average tickets. The on campus average tickets in 2011 stood at R436, which is an increase of 3.7% of the same period of 2010, reflecting our success in applying the inflationary adjustments to our accretions, -- by a growing perception of quality among our students. The distance learning average tickets in 2011 also came with an increase of 3.7% over the previous year adding up to R173 and this also reflects the growing perception of quality of overall students we tell over to raise our tickets without sacrificing our student base.

On slide number six now, we will comment on cash costs, that reached a 2.9 percentage points margin gain on the quarter and a 1.9 percentage point gain during the year, mainly due to the rejection in personnel costs, rentals and our cash expenses which more than offset the right -- increase in taxable costs and labor taxes. It is important to highlight that a significant gain from personnel, three percentage points gain on the quarter and 2.3 percentage points over the year is related to the implementation of the academic module and to the very much improved academic planning process.

As we have been saying, for a few cycles, I would like to say there is no miracle about that -- it's just about execution and discipline. As for the gains filing rentals, they reflect more efficient building occupancy that arises from the growth of this student base and also from better academic planning activities.

Moving on now to slide number seven, we present the selling, general and administrative expenses. In 2011, G&A expenses registered a margin gain of 0.4 percentage points, mainly due to the 0.6 percentage points for -- salaries and payroll charges. These gains reflect the operating leverage that covers growth in revenues due to our very scalable fixed revenue structure and also due to the -- such as the metrics budgeting and what we call here the routine management and it offset the increase of R5.9 million in -- expenses caused very much by R4.3 million of expenses related to M&A activities particularly consulting legal expenses and so forth. We used to call this no recurring expenses. We don't do that anymore and also up R1.6 million in collection services due to -- also doing the year aiming to recover that in a more efficient way.

On the quarter G&A expenses were 2.6 percentage points worse in relation to the same time in 2010, mainly due to the higher provision for variable compensation problems in the personnel line which in 2011 included 340 employees against 225 employees in 2010. This has a lot to do with our culture of merit and also, due to a larger bonus pool on account of the high results verified in the period. Beside that there was an adjustment in the third-party services line, they are very much -- and our release by the way, which impacted the fourth quarter of 2010, but maybe year results comparable which is as I said, you can see in our release.

Selling expenses corresponded to 9.9% of net revenue in 2011, reducing generating a margin reduction by 0.5 percentage points, compared to the previous year, and you have the pretty much balance sheet of 0.6 percentage points increase in the ratio of provisions for -- to net revenue, reflecting the

scenario of delinquency during the year, which was naturally captured over the year by our straightforward and transparent provision criteria.

The increase in the provision was higher in the fourth quarter 2011 of 1.9 percentage points of fourth quarter 2010, when the delinquency in the first half of the year completed 180 days and was fully provisioned according to our policy for maintaining the health of our receivables, as shown in the aging table that you see are as follow.

Slide number now talk about our accounts receivable. As you can see this net numbers a receivables were - when we exclude provisions for -- and also exclude -- receivables, this is the number we usually provide to you. This numbers stood at 65 days at the end of 2011. The company continues -- negotiation policies in an effort to -- receivables.

Keeping the amount of renegotiation receivable stable in 2011.

Now -- line increase at 84 million during the year, up which 22 million came from acquired units. It is also worth noting, the increase in FIES receivable which adjusted for R$50 million to R$36 million during the year, as we ended 2011 with 15,000 -- of financing systems.

The slide number nine now, we want to highlight that from now in line with our transparency and disclosure guidelines, we will publish the calculation of the average days receivables for the FIES -- as well as the calculation of the average days of gross receivables, which includes FIES and uses also gross accounts receivable without discounting the PDA, and this is because this indicator has a direct impact in our working capital and therefore in our company's cash generation capacity. And this is the reason this is going to be the top -- federal actions to improve our cash flow over 2011.

FIES accounts receivable stood at R$36.5 million, a R$21.2 million increase over 2010. In addition to the credits in accounts receivable, the balance sheet includes an additional R$16.7 million that were already converted into certificates and are waiting to be used for tax payment or buybacks. While average receivable days for FIES has been decline, as you can see -- thanks to our growing efforts to improve the FIES receivables management.

The table also shows that the average collection time is still much higher than that of our current tuitions. Although these credits present no delinquency risk, the increase impacts our working capital and therefore, we are dedicated to shorten as much as possible this specific collection period, besides seeking to direct this financing instrument, as far as possible, to students with history or tendency of having difficulties to make their payments.

In the other table you can see our gross average receivable days is new --. And this is naturally great that the days receivables that we usually show because of -- excluding PDA -- we are considering FIES

receivables all together.

The increase from 75 to 101 days during the year is directly tied to the increase in receivables, which has a direct impact in working capital and cash generation, which explains in a large extent the change in our cash position in 2011. It is in this context that we are working very hard with the entire organization and management to reverse the strategy, in effort to ensure a more favorable cycle already in 2012.

Now on slide number 10. We remain firm in our credit policies aiming not to allow our student base to growth at the cost of unfavorable credit negotiations for the company, which may jeopardize the future solvency of these receivables. In this context, the aging profile of our receivables did not change significantly from 2010, except for a 4 percentage points increase in the not yet due line, explained by the following factors: the increase of R$ 5 million in agreement with companies and public sector entities, the increase in the renegotiation of overdue amount of R8 million, but always in line with our very strict policies. In addition, accounts receivable from the acquired companies of R8 million over the fourth quarter, an increase of R5 million in credit cards receivables on account of the recent campaigns to include this risk free payment methods.

Looking at the table in the bottom of the slide, the figure, as always lowered up the box and -- renegotiation policies. Only 11% of total receivables come from renegotiations with the students, and beside that the percentage of receivables little bit more than 60 days represents only 42% of all agreements. Therefore only 4.6% of our accounts receivables, meaning that we have a very, very healthy, fourth quarter receivables in our company.

On the slide number 11, we will comment on the quarter and year results of the units acquired by Estácio since the beginning of 2011. We'd like to do it in a separate ways to provide that same shops concept that Alcalay mentioned in the beginning. As we can see the acquired companies once again performed generally well. Our acquisition in Atual, FAL and FATERN registered positive margins in the year and in the fourth quarter '11, particularly stocks of FATERN, which recorded EBITDA margins of 36% and 46% respectively. Both the units are already benefiting from the implementation of needled -- together with our -- exhibition campus in which -- and capturing synergies and economies of scale thereby increasing their margins.

Slide 12, one of the most advanced stage of integration posted an EBITDA margin of 22.6% in 2011 and 1.2% in the fourth quarter, reflecting the excellent performance of the new units in its first year with Estácio, well above projections in the budget and business plan that support that acquisition. On. I've got an -- on the other hand -- a number of adjustments to fit with Estácio and it continues to talk to us its platform for distance learning courses and preparing itself to market platform of no regulated course that will contribute to revenue generations thereby increasing its margins and expanding growth prospects.

Moving now to slide 12, we can see that our EBITDA total R26.8 million in the fourth quarter of 2011, up 24.1% on fourth quarter 2010 with an EBITDA margin of 9.1% up, 0.5 percentage point strong fourth quarter income,which is lower than the annual increase pretty much because of the provision of the variable compensation problem as we described it previously.

Under the same short concept, fourth quarter '11 EBITDA was R23.8 million and EBITDA margin totaled 8.5% which demonstrates we were capable of integrating the three acquired companies with success without sacrificing the consolidated margins. EBITDA came through a R140.5 million in 2011 up 32% year-over-year followed by an EBITDA margin of 12.2%, which is up 170 bps over the previous year mainly due to better management of personnel cost and expenses, which offset the step up of the IRSS, our labor tax, as well as our rate expected increase in taxable material and marketing expense. Excluding Academia do Concurso, this is very important which underwent through severe one-time adjustments during the year EBITDA margin would have improved by 200 basis points which is very much aligned to general expectations.

Please note that the values never consider any kind of non-recruiting expenses as part of the idea that we should have only EBITDA at its --. Under the same short concept, 2011 EBITDA was R133.6 million, up 26% over 2010 with an EBITDA margin of 12.1%. Our challenge for 2012 is to consolidate the chance and the new model for Academia do Concurso so that is also grows in higher rate and then it contributes to our consolidated margin.

Net income in fourth quarter '11 totaled R2.4 million versus R21.80 million in fourth quarter 2010. This 89% decrease in net income is due to the impact of R13 million on income tax and social contributionalized -- financial results and the 2.8 million increase in depreciation and amortization due to higher CapEx over the year. In 2011, net income totaled up R70.2 million, a decrease of 13% from the previous year which more at the year.

The next slide, slide number 13, which will go now. While we present a slide that clearly showed the effects that -- in net income in comparison with 2010. The decrease of about R10 million in spite of R34 million increase in EBITDA is primarily due to the impact of 13 million of income tax to the lower financial results and due to the 9.4 million increase in the depreciation and amortization. Also note that the sale of our Paraguay operation also represent on accounting loss of 2.2 million, which also results in net income in the figures.

It is important to note that in 2011 financial results interest and overdue operations because this goes into the operational results, was a net of R5.6 million due to a drop in income from financial investments targeted by the results in volume of cash, after the series of acquisitions at the beginning of the year, and also due to the increase in financial expenses on the other hand over the year, with the beginning of payments of -- which were practically no existence in 2010.

The impact on income tax line is due to the non-recurrence of the one-time gain of R13 million registered in fourth quarter 2010 when this fair income tax and social contribution assets were recorded as a result of the recognition of potential future tax -- arising from provisions for asset retirement and also for contingencies in compliance with the accounting rules related to the adoption of the IFRS that happened in 2011 as such in 2010 --. In 2011 on the other hand, the company recorded additional income tax in the amount of R1.8 million, that are related to the fiscal amortization of goodwill arising from companies incorporated by -- one of our companies. It is worth noting that this movement do not affect the company's cash position, nor do they represent any kind of strength for future net income.

Slide number 14 presents our cash flow for fourth quarter '11, starting by the small box on the top right of the slide. We see that the working capital increase of R48 million together with the maintenance CapEx of R14.6 million, ended up consuming more than R26.8 million EBITDA generated in the period. The working capital increase is mainly the result of the increase of R22 million in accounts receivable and also this repayment of year-end salary benefits and vacation to employees in the amount of R34 million.

Please note that at the end of the year, we have 36.5 million receivables last year which have not been converted into certificates by the time, but we will certainly benefit -- cash flow during 2012 since they do not post any kind of -- risk. We can see on the larger side, the negative operating cash flow, the discretionary CapEx pretty much the new academic model expansion in windfiled projects and the projects to replace our IT sector. First, -- the other assets and liabilities very much escrow deposits carry forward, grades and so forth, consumed -- of the R195 million raised for the stats as far as the bond issuance. It is important to note that at the end of the year we also have R16.7 million worth of certificates issued by CS, which though, not include the cash and cash equivalents in our reports, but fully used to pay taxes or sold at auction in January.

Moving on to slide 15, we see our cash flow for the year. Starting the small box again, that showed the operational cash flow. We can see that EBITDA totaled of R140.5 and that was very much consumed by the working capital increase and by the maintenance CapEx leading to a negative operating cash flow of R15 million. The working capital changes explained mainly by the increase in accounts receivable in the amount of R87 million, of which R36 million comes from FIES and R22 million come from acquisitions. Also explained by the increase of R11 million in advanced payments to suppliers, that's kind of a strategy towards the year and also by the decrease in issuance received in excess, in the amount of R10 million due to the end of discounts given for the anticipated payments of such --.

During the year, discretionary CapEx, very much in academic module, replacement of computers, IT product and investments and acquisitions expenses and we -- felt together with the payment of dividends, stock buybacks, the impacts of escrow deposits and carry forward credits consumed part of the R245 million in the loans taken during the year leaving the cash position practically stable in comparison with the previous year.

Again, important to note that at the end of the year, we have 16.7 million worth of -- which can be used for tax payment or buybacks and way use it over January. This added to the R36.5 million we see as receivables means that by the end of the year, we had roughly R63 million related to the -- and therefore with no risk, that we are waiting to be turning it in to cash year as.

As explained in the previous sections, our cash flow severally impacted by an increase in the average days receivables of students without financing. As a result of the increase in delinquency in the first semester. Also by the increase in the number of PI students, because the average day receivables for -- is higher than Estácio's. Due to the increase in the company's discretionary regiments expansion acquisitions -- and modernization of the computer infrastructure and also the higher volume escrow deposits and freezing orders in 2011.

Furthermore, financial revenues -- we made acquisitions, maintained an actually stock buyback program throughout the year and also pay dividends which is good, all of which resulted in cash consumption beyond the business operating capabilities. For 2012, we are working with different expectations. Dave and I -- receivables including CS and trying to improve cash flow in each one of the lines that impacts our results besides second alternative such as divestment and also the removal of either freezing orders to enable a healthier cash generation. At the same time, we will continue to adopt management practice that -- strengthening our cash position but as a cash target for the entire company also the great door adoptions -- as a performance metric for the institution.

Talking about EVA, moving to slide 16, I'd like to reinforce our commitment and discipline to create value to our shareholders and it was very -- such a commitment that at the end of 2011, we started carrying out the project to adopt the EVA methodology at this fashion. The EVA methodology takes into account the capital employed in our activities, particularly working capital in fixed assets and seeks to measure our capability to generate return on asset capital to which it is assigned and average --.

In 2011, we presented a private -- up to R22 million, which is always good but the EVA is good when it gets to zero because that means that at that point, return on invested capital equals weighted average cost of capital. Therefore, rewarding our shareholders. R22 positive million, positive means that we were capable to generate therefore a return on invested capital with -- and a return on invested capital of 18.2% which is higher than our worth of 14.8%. This is always calculated by stands towards company which is standard consulting, absolute leg -- in EVA calculation. That means that despite the cash consumption caused by the increase in receivables and modern factors previously mentioned, as such it was able to generate the results and more than compensated investment of such a capital and its operations which directly reflects our ability to do more with less, therefore, creating real value to our shareholders.

And I'll pass the call back over to Alcalay, who will finish our presentation.

Eduardo Alcalay {BIO 1817259 <GO>}

Okay. Thanks Melzi and let's now move to slide number seven, where we will now talk about Estácio's outlook for 2012. Firstly, I would like to emphasize that we plan to continue with this process of discipline and sustainable growth since we have absolute faith in the thesis of investing in quality and differentiation to attract and retain students, making use of our scalable model and increase efficiency to boost EBITDA and EBITDA margin. In this context, our on campus enrollments for the first half of 2012 has been doing exceptionally well up to now running at 26% higher by the same period of 2011. So, at this same day in 2011, now we are running 26% higher in enrollments for the first half of 2012. Remember that this process is still ongoing and we expect to finish it with a year-over-year growth of approximately 20%. So, we expect on campus enrollment growth of 20% approximately in 2012 compared to 2011.

Consequently, and remember that we have entire second semester enrollment process ahead of us which is very relevant here at Estácio. We are optimistic about the growth of our on campus students base in the year as a whole and we expect to come to somewhere between 5% and 7% of total on-campus students base for the year of 2012, compared to last year. It is worth mentioning that this growth space should be in line with the average expansion of -- sorry, with the expansion of the average base of students which is the figure that should be used to calculate the evolution of revenues. So, again we expect to grow average base of students between 5% and 7% in the on campus programs in 2012.

As for the distance learning business, enrollment has been even better running today at 45% above the same period of last year and we believe we will close the period for the first half of enrollment process at a rate a 45% higher than last year. So, that will also fuel the expansion of our base of students throughout 2011 which will, in our estimate, will grow between 40% and 50% year-over-year in an average base of students base. So, significant and very aggressive growth on both the on campus and the distance learning business. And I think we regard that to the success of our product offering differentiation of our products and the efficacy of our operations and commercial efforts out there.

Given that scenario and considering all other business drivers, we believe in a strong performance for 2012, and we are looking at up to 150 basis points gain in EBITDA margin in 2012 compared to 2011 always without any segregation of the non-recurring items whatsoever and as well, on a same-store sale concept. At the same time, we believe the benefits from our initiatives to improve cash flow as Rogério underlined here, will become apparent throughout the year so that the success in expending our EBITDA will flow straight into operational cash flow, which is a very key parameter and a very key performance criterion of the company for 2012.

So, with that, I would like to go into the Q&A session. Thanks.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the Q&A session. [Operator Instructions]. Our first question comes from JC Santos of BTG Pactual.

Q - JC Santos

Good morning, everybody. A quick question on the margin expansion trajectory over the next several years. I know you don't have a specific guidance for that, especially when you're talking on a nearly basis. This is a process to reach a target margin of correct me, if I am wrong 20% by 2014. In the Portuguese call, you sort of mentioned something around 250 basis points for 2012 as a reasonable number for us to work here on our models, not if we guided once again, just making some backing, you have calculations for -- 12.2% margin that we got this year, up to 20% we have 780 bps that would mean around 260 per year which is roughly in line with this 250 that you commented on the Portuguese call. However, I was sort of expecting that this margin expansion would be a little bit more, how can say aggressive in the beginning of this process. So may be, getting a little bit more than the regular number in the beginning of that. So having a little bit of a better performance in 2012, not to mention that the admission cycle has been very, very strong which is a -- surprise here from your comments. So I was just wondering if that isn't sort of a potential here for us to get like an even higher sort of margin expansion in the shorter-term, maybe I mean I don't want to get like any specific guidance from you guys. But at least on a qualitatively speaking, if we could expect some sort of acceleration here? Thank you.

A - Rogério Frota Melzi

JC, this is Melzi. Thanks for your question. You made some good points during your questions. Let me reinforce those points. First, yes it's our guidance series, the general guidelines so you can use in your modules, very important point.

Second is not exact. It's always approximately, okay. So when you say 250, it could be little more, a little bit less than that.

Third, yes we keep talking about this 20%. We believe that by 2014, we should be able to operate close to 20% of EBITDA margin without any kind of non-recurring expenses. That is fair. That's what we like to say usually.

Fourth yes, you are right about your projection for the coming years. We will need roughly 260 basis points year-after-year in order to get that, which is aligned to what we just said about getting 250 basis points this year. Having said that, because this is a overall plan, but having said that, the one, say the biggest reason that eventually this is going to come a little bit more in the future instead of heavenly bigger increase for margin expansion now, is because of distance learning. I mean distance learning is a very important driver in our margin expansion as it gets more and more important, more relevant in our mix, because it has a healthier margin. It is obviously their -- that it will contribute more eventually in 2013 and 2014, okay. So distance learning will probably help us to keep this margin expense a little bit more fled than you made eventually --.

In 2012 however, obviously, there is a lot of organic growth going on. And the how successful we may be at the end of this intake process, and also what we'll have -- what will happen in the second half of the year as eventually we could be able to deliver a little bit more than that, but it wouldn't be very responsible for us to talk about any kind beyond what we can imagine at this point in time. So we are right above that. It could happen we hope. It will happen in the second semester.

A - Eduardo Alcalay {BIO 1817259 <GO>}

And another if I may add, specifically on the 2012 sort of a perspective that 250 basis points already anticipating some of the discussion that we may have, with a view for all the next coming months, that above 250 basis points margin gain is expected to be more tailed towards the second half of the year and that is because of the dynamics of the seasonality of our business and specifically the compared some quarter-over-quarter of the performance and the fact that we had a more, a cycle more driven towards the second half of the year when we compared gains in margins -- at 250 basis points play and it's important that one would expect that to see more driven towards the second half of the year. So, we can discuss that with you in further details on with our IR people and with your financial analysts.

Q - JC Santos

Sure guys. Thank you very much. Just second one and they -- last question, on the receivables, improvement the company seems pretty concerned with the steady deterioration in terms of days of revenues and you've mentioned that several times during the call. I was just wondering if you could give us a little bit more of a glimpse on how do you expect with all the projects that we have internally running at this point and it's big focus on the company for -- et cetera. How can that evolve throughout the year considering that it have sort of a tail impact in the beginning of the year, it's still from the additional level of NPL's let say. So how the evolution and improvement can happen throughout the year and what are the final outcomes that you expect to reach by the end of 2012 or what the reasonable level for 2013 and almost? Thank you.

A - Eduardo Alcalay {BIO 1817259 <GO>}

From a modeling standpoint JC, I would very much keep it stable and not the CS one, but -- you as I would keep it stable on 60 days to 65 days. Our first goal here is to stop increasing that number. I think we are a narrow way to that. We have entered in the second semester we maybe able to bring this number down. But again just starting our process here, it is something related to coach or coach -- of professors of our back office guys and the units are, it's going to take a while. I am sure you get there, but I believe that in the first half of the year we should at least remain stable. As for this year, there maybe something good coming especially if we are able to work on that 36.5 million I already mentioned, that's the -- that came from 2011 to 2012. We are going to work very hard with Brasilia and the Ministry in order to get this -- as soon as possible into our cash flow. So we may have something kind of positive trend in the --. I would say it's more likely that it happens in he second quarter not in the first quarter yet --. We are still work it on renewing the -- for all this -- quarantine. But for the -- base of receivables I would keep stable for a while and then eventually with those stock reducing -- day or two in the second semester otherwise.

A - Corporate Participant

Yeah I think its right Joe. Anyway it's sort of a marginal reduction just for the fact of not expanding any more it will have a relevant impact on cash consumption relatively speaking to 2011, which besides growth of the base the relevant increase of the everyday the receivable that was the big assumption of working capital. So we by stabilizing that or even reducing a little bit marginally, we will have a accessible positive working capital performance and that is what absolutely now the entire organization is focused on and committed to -- which because that is the very, very important piece of our performance. All of us the executive committee and all of our campus managers, we now have focus on that. We now have part of our metrics and performance metrics and variable compensation schemes eyed to that indicator.

Q - JC Santos

--. Thank you very much.

Operator

Your next question comes from Bruno Giardino of Santander.

Q - Bruno Giardino {BIO 15974970 <GO>}

Hi. Good morning, everyone. My first question is on the intake process, could you tell us how is the participation of -- shouldn't seem to this -- into their -- putting to -- base? And why the campus is set to decrease to 20% from 26% now, is it the kind of easy comp or it's a kind of -- last year I don't know, could you please clarify this subject to me please?

A - Corporate Participant

-- participation -- in new enrollments is about I don't know around 20 something percent of the total new enrollments. And why do we foresee going from the current 26 to the current 20. Specifically because right now we -- this year compared to last year, we foresee to finish the enrollment process a little bit earlier than last year. So compared on a full scale on a full basis we may sort of comparatively, we will loose some growth because we will close enrollment process earlier than last year, which went up until end of March beginning of April, we will not, we tent not to do that now and why is that is because we think that by doing that we can work much better in the academic planning. We can work much better even in the performance and academic performance of those students driving in a better academic performance, better retention metrics throughout the semester and so forth. So that's why we have that in mind, and that's why we think and again there is a piece of conservatism here as well, that we are running at 26. We foresee going to around 20 when the process closes.

Q - Bruno Giardino {BIO 15974970 <GO>}

Understood. And my second question related to the margin expansion. I presume that the book of margin expansion comes form gross margin gains and I was wondering if you are trying, I don't know if you are foreseeing some decrease in moderating expenses thus far G&A expenses as well in order to help you -- guidance of 250 basis?

A - Eduardo Alcalay {BIO 1817259 <GO>}

Yes. A big contribution coming from cards level but going forward, we expect a relevant contribution for G&A specific would be does with the organic growth running well right now. We're going to have a good contribution from that operational leverage again predominantly fixed cost days on our G&A level, right? We don't expect any reduction in the marketing expenses because we tend to keep our marketing budget and so forth relative to revenues on a constant base as they are right now.

A - Corporate Participant

- and the idea is always that you gain more and more efficiency in G&A, we give some money back to marketing and product on its flow directly to the bottom-line, but the concept is that to make a lot of stays in G&A which is good money and put this good money into marketing and also into EBITDA. So, G&A should fall as a -- of net revenues marketing should remain stable.

Q - Bruno Giardino {BIO 15974970 <GO>}

Okay, that clear. Thank you.

Operator

The next question comes from Scott Hendrison of Comen.

Q - Analyst

Hey, guys. Two quick questions and probably like to go one-by-one. Given that 2012 seems like is a big turning point, which student days is benefiting from the confluence of less graduating students, lower attrition having the impacting much higher. Do you think your revenue guidance is more conservative and it's been in the past. Do you have a lot more conviction in this number now, than you have in the past?

A - Corporate Participant

Well, our revenues guidance is our revenue guidance, because we stand by it, and we think that is the right indication that we give. So, our I will add no further comments to that. We give the his guidance and we feel so comfortable about that.

Q - Analyst

Got you. Element was mathematically it makes it, especially it looks especially you're going to achieve this year. And then the second point is that moving down I guess the income statement since labor cost pressured are less pressured now rather than the shared service center in quite fine tuned, I am just trying to understand why the margin benefited more coming later than sooner, I would seem to me like it should come throughout the year.

A - Corporate Participant

As -- first a little bit on your first question, regarding -- I think when you come to you and give any kind of guideline it need to be relatively comfortable that you may achieve that obviously all of the work here will be go up and beyond that number, but again it's the lot of stuff going on now and I still have a lot of intakes, but we have three intake process for distance learning for example. So, we going to be careful, when we talk about in our projections here.

As for the seasonality, the two big points marketing expenses, they usually more concentrate in the first semester of the year, because the first intake process is way have you and then the second so we're trying to spend more marketing money over the first semester. And second, if you think of the way we are growing our student base. If you compare first semester 2012 with first semester 2011 and do the same thing the second semester.

You should expect a high year growth in the second semester because a base is now growing, so it's a mathematical effect probably we're going to see a bigger - of increase in the student base, in the second semester -- and that will help us to get more dilution and the piece of the margin expansion that comes from dilution will be more favoring the second semester, we can do that in a better way in a separate call, but it's pretty much that the idea, okay?

Q - Analyst

yeah, I understand, from the marketing perspective, I guess what I was talking about with more relative to the year-over-year and not absolute which makes sense in the second part, addresses both. So, anyway congrats on the good intake and that's it for me. Thank you.

A - Corporate Participant

Thank you.

Operator

The next question comes from -- Gandhi of --

Q - Analyst

Yes. Hi. Thanks for taking my question. I was trying to better understand your expansion plans, next year you said you have planned to open three campuses on -- you said at least one of them is going to be in real. Just want to understand considering your strength you already have in Rio de Janeiro, why are you considering this as part of your strategy to open another campus in --?

A - Eduardo Alcalay {BIO 1817259 <GO>}

Well, to be even stronger, the demand, Rio is a very big metropolitan area and there is further demand and we have our Brent franchise. There is further students to be attractive and I think that that is the best return on invested capital that we can make because in any greenfield, you have to wait sometime for the ramp up of the student base in metropolitan area where we have a very strong brand recognition. That is a little bit faster and that is why a profit like that has such good -- and that is why we are going that direction.

A - Rogério Frota Melzi

Also, we have a lot of freedom in Rio because we have our university here. So it's very quick for us to open new campuses here. So over 2012, yes, we should see three new campuses in the state of Rio and starting 2013, we should see other campuses all across the country because...

Q - Analyst

Got it. However, you have campuses in Rio right now, university in Rio, which is not fully utilized and correct me if I'm wrong. So I am wondering could the utilization just be increasing and the existing universities as opposed to adding more Universities in Rio de Janeiro?

A - Eduardo Alcalay {BIO 1817259 <GO>}

Yeah, but again, bear in mind and if you've been in Rio, you've been able to realize a little bit how public transportation works here and how sensitive to convenient locations student may be. So, we even though we have -- we may have a campus in the South zone of the city which is not fully occupied. That idle space doesn't fit a group of students that be and want to study in the North zone of the city. So that's why there is opportunity, there is demand for example on the North zone of the city and that is why it is a good management decision in our belief to add a little bit more of capacity in different region of the city even though we may have some idle capacity in others.

A - Rogério Frota Melzi

Also we are opening two new campus in other cities in -- and just one of the three being in the city of Rio de Janeiro. By the way, the city of Rio de Janeiro is kind of burning again that we sell this thing about the next game is another chaos. So there is a lot of things going on here. New investments, companies to here. So it's a good question.

A - Eduardo Alcalay {BIO 1817259 <GO>}

And again we are talking about a metropolitan area of what about 15 million people with very unfortunate we have to say, but we are very sufficient public transportation system. So convinced of location is absolutely key and again, with our brand recognition, I tell you, a real is the best and easiest a place to invest because it simply likes we deal and yes, they will come.

Q - Analyst

Yeah, yeah. Now I agree. I think the Rio and I kind of have the same way. Just one follow-up question. So the new campus that you are planning to open is that going to be open in a zone where you currently don't have campuses, or where is it going to be open and is there like -- what is the proximity of the next campus of -- around?

A - Eduardo Alcalay {BIO 1817259 <GO>}

Well, it isn't as long where we don't have a point of preference right now. In a macro zone if I may, if I may call it this way, we -- we don't have a point of presence right now, one of them in -- and other two is in CDs which enable the Rio which is -- space and that operates.

Q - Analyst

Okay. Got it. Okay, that's helpful. And my next question is regarding the PDA trend. I recognized you have the most conservative of your peers. I was wondering how you expect this PDA trend to continue through 2012?

A - Rogério Frota Melzi

Kind of on the same level as percentage of net revenues. Eventually 20 basis points or 30 basis points higher. So we shouldn't go beyond 5% of net revenues. And this is -- we have lot of stuff here as you saw. But we know it's going to take a while until we get results and also we have some kind of carryover for 2011 to 2012. So, this year we ended up 4.7% of net revenues. It should go -- it should be between 4.7% to 5% in 2012.

Q - Analyst

Okay. Got it. Great. Thank you so much.

A - Rogério Frota Melzi

Welcome.

Operator

The next question comes from Kojo Hanaki of -- Capital.

Q - Analyst

Good morning, guys.

A - Rogério Frota Melzi

Morning.

Q - Analyst

I have two questions for Eduardo and two questions for Rogério. Eduardo I just want to ask real quick over the last five years your highest acquisition price per student was about 6,500 that was for -- and for the recent acquisitions you guys are now since February 6, I think it came out to about 9,900 per students. How comfortable are you with that price? And where do you see that price going forward for future acquisitions? And number two for you CS only 6% of -- for this student base however seems to be it had -- in terms of receivable days and everything else like that. Do you guys have to keep them rolling --?

A - Eduardo Alcalay {BIO 1817259 <GO>}

Good question. I'll leave -- the first question of acquisition cost per student Kojo, how comfortable are we on the last acquisition announced which is almost close to 10,000 head per student. I said you we are very much comfortable and let us tell you why, just today we just disclosed the back up and support material of -- or supporting the acquisition that is going to be approved in our shareholders meeting in the beginning of April and that material is already available in our website for shareholders and so forth. And if you go for that material there you are going to find how and why we are pretty much comfortable with that acquisition and that brings us to the thought which is the we always say that we look or we don't look pretty much to -- per student as a indication for the quality or lack of quality or effectiveness of an acquisition.

We look at turnover related returns, we look obviously at EBITDA generation capability and so forth. And it's obvious that if you buy a higher average ticket property and if that higher average ticket property provides you with a better margin or for any reason what so ever the integration of -- property we will drive a higher EBITDA and cash flow generation. It will carry more -- for the 10th or number of students so that's why less investment and less we look at enterprise value per student in any acquisition that we do.

And we look at -- and that's why I cannot and I don't know where this trend is going to be because as you have seen we bought companies at 4.5 thousand -- per student in 2011. Then we bought the company at 6.6 thousand -- per student, we bought 9.9 thousand per student that does not represent a trend. That is just the outcome of different specific economics of each of those acquisitions and recent integration dynamics and resulting profitability of those properties and that is what has driven prices. So with that let's jump to the --.

-- very good of CS. Yes it's is kind of a habit and we sort of new anticipated that in the beginning and this is the reason I mean we never as eager when it came to -- FIES. Some of our competitors where because we wanted to give our service more time to learn to work with that. So, it's kind of we have many goals, we are yet trying to motivate our students to get into a FIES but -- or to say it in a more natural way let just let it happen. Having said that, we do not have to have FIES, but we want to have FIES. We just need to make it work better, so that our two major things that we are doing here in order to improve FIES. The first is work with the Ministry of Education in order to improve the process, because if we can't get say to whatever from 180 days to 103 and 110 I think to the 100 days we will be in good shape to run this FIES problem. When it's going to happen over the coming quarters or so. But it is taking a while.

And the second driver is to avoid what we call the -- action we have been working around sort of the good pace to involve into FIES we would much well have the potential bad phase or even if students that would not come to the university if FIES didn't exist. So, we're trying to direct FIES students who eventually would take 150 to 100 to pay us as an average. So in that situation if we're able to do those two things improve the days of receivable of our work -- and the direct FIES students who would at some point give problems towards in terms of payment FIES does not product right. It is something that actually change the way this business is growing, but it has to be done in a responsible way.

Q - Analyst

Fair enough Rogério. Thank you. And just one last question for you. When you guys came here approximately two years ago, back in 2010 the EBITDA margin number that I have always looked at was 12% to 12.5% for 2010. And in fact -- five year -- CFO -- actually mentioned that you guys will expand EBITDA margin from 12% in 2010 to 20% which was 800 basis points. All of a sudden when I looked at the 4Q, 2011 presentation at the back of it your EBITDA margin for 2010 was 10.5%. So I'm trying to reconcile the 10.5% to the 12.5% for 2010 that I have always used. I knew there were re-class that you guys have done, but can you just show us a bridge on a quarterly basis that guides you back to 10.5%?

A - Rogério Frota Melzi

Kojo let me as far as for that -- but we are more than ready and available and open to clarify your notes, your prior presentations and analytical material out of that -- we have some other guys wanting to talk about the -- specifically of our recent results again. We are more than open to better explain and discuss with you in more specific terms those kinds of doubts and prior analysis that you have in your hands, okay.

Q - Analyst

Okay. Sounds good. Eduardo, thank you very much, Rogério, thank you. I appreciate it.

A - Rogério Frota Melzi

Welcome.

Operator

[Operator Instructions]. The next comes from Marcus -- of JDP.

Q - Analyst

Hi. Good morning, everyone. On an intake growth how much intake growth is already given. I mean comparing the actual intake so far in the first quarter of '12 over the total intakes in the first quarter '11? And my second question is what was the amount of bonus payments in the first quarter '11 and first quarter '10? Thank you.

A - Corporate Participant

Marcus this is -- as of today if you compare what we already have with what we had last year for on campus, for the full cycle, for the complete cycle of intake of first quarter last year it's pretty much the same. Mainly that we are 5% or 2% below last year, mainly that we don't have one or two days we are going we are going to be in the same position as we are at the end of the intake process last year. So we are in pretty good shape everything that comes from -- we will go. As for business money, we already have a little bit of hope last year top of -- 5% to 10% above last year.. But we keep growing because the process is not done yet this while ago explained. As while the cost of -- was about --.

Q - Analyst

Yes how much was the amount?

A - Corporate Participant

I'm not sure. I mean we don't have that right now. You can call us afterwards that we can open this number to you. But I would say it should be something between 2 million or 3 million comparing year with year. And again this is because we are not just the last year's folks are making 2 million as well it's because we went from 220 people upto 340 people that kind of our way to go, -- mark people here making variable compensation and getting happy when the numbers come because then everybody gets happy investors, ourselves, shareholders and employees as well that's the thing. But if you ask --...

Q - Analyst

--. Thank you.

Operator

[Operator Instructions]. And there seem to be no further questions. I would like to turn the floor over to Mr. Eduardo Alcalay for his final remark.

A - Eduardo Alcalay {BIO 1817259 <GO>}

Okay, everybody thank you very much for being with us here today on our conference call.