

Q4 2011 Earnings Call

Company Participants

- Carlos Lazar, IRO
- Federico Abreu, CFO
- Rodrigo Galindo, CEO
- Unidentified Speaker, Unknown

Other Participants

- Javier Martinez, Analyst
- Unidentified Participant, 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 2011 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 presentations. After the Company's remarks are completed there will be a question-and-answer session, at that time further instructions will be given. (Operator Instructions).

Also, today's live webcast, both audio and slideshow, may be accessed through Kroton Educacional's investor relations website at www.kroton.com.br/ir by clicking on the banner 4Q11 webcast. The following presentation is also available to download on the webcast platform.

The following information is available in Brazilian reals in accordance with Brazilian corporate law and generally accepted accounting principles BR GAAP, which now conforms with International Financial Reporting Standards, IFRS, except where otherwise indicated.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Kroton'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 the Company and could cause results to differ materially from those expressed in such forward-looking statements.

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

Rodrigo Galindo {BIO 17238232 <GO>}

Hello and welcome to the earnings results conference call of Kroton Educacional for the Fourth Quarter and the year of 2011. Today we have with us our IR officer, Carlos Lazar, the Financial VP, Federico Abreu, the Operations VP, Igor Lima. And the Distance Learning VP, Rui Fava.

I'd like to move our presentation now to slide three, commenting on the main highlights during this period. 2011 was a year of a major transformation at Kroton. We began the year with about 85,000 students. And by March 2012 we had surpassed 320,000 post-secondary students. We took an important strategic step forward through the acquisition of Unopar, entering the distance learning -- entering the distance learning market as leaders in the segment.

Regarding some financial results, we delivered EBITDA of BRL105 million, surpassing the guidance of BRL100 million present to the market. If we take into account Unopar's results in December, the EBITDA was even higher at BRL111 million.

Now we will analyze the main highlights in the students base. We reached the milestone of 323,000 students for post-secondary education. Of this total, more than 300,000 are undergraduate students. Students' new enrollment set a record. We grew 39% over the First Quarter of 2011. We never had so many new students or experience such sharp growth in the intake process.

What is interesting is that this increase was very large in undergraduate distance learning. But was even larger for in-class or face-to-face undergraduate courses. We grew 37% in distance learning and 43% in the in-class or face-to-face students.

In terms of in-class students, we -- if we consider just the organic growth in same units or same stores, the increase was about 38%. In-class and distance learning reenrollments were also very good. And the growth was 15%. With a record of new students and retention, Kroton's student base grew by 23%. For face-to-face students FIES were the big driver of growth. In March, 33% of the student base at Kroton had signed up with FIES and 43% of new students had contracted the FIES program.

With regard to acquisition conducted throughout 2011 before face-to-face teaching units acquired already are integrated and operating at profitability levels equivalent to the other Kroton units. The acquisition of Unopar was the major factor of 2011. The integration is moving a very structured manner and is expect to be concluded in December 2012.

With regard to financial results, we saw an excellent performance both in absolute terms, as well as gaining margins. Net revenues grew by 18.4% during the quarter. And 11.3% on the year. The EBITDA obtained in 2011 totaled BRL105 million, which was 66% higher than in 2010. We went from 9.8% EBITDA margin for -- to 14.4% in 2011, almost 5 percentage point gain in margin.

And finally, net income, which was up 355% over 2010, achieved more than BRL52 million in 2011. Kroton's results only reaffirm the fact that the Company has been developing continually and in a manner consistent to the performance of its operations. And this has been reflected in the financial performance.

Now let's continue with the presentation, beginning with the analysis of operation information. I'd like now to invite our Investor Relations Officer, Carlos Lazar, to present our operating performance.

Carlos Lazar {BIO 17238206 <GO>}

Well, thank you, Rodrigo. In slide five, we can start the presentation of the operating performance. And we can see the evolution of the number of students between the Third Quarter 2011 and Fourth Quarter 2011, meaning this time December 31st of last year. We started from a base of about 100,000 students between undergraduate and graduate students.

Historically, the Fourth Quarter is the weakest of the year because of seasonal factors. But due to the acquisition of FIES and Unopar, the base of students grew by 152% when compared to the Third Quarter number. However, as the main highlight of our student base, I would like to detail the new enrollments carried out at the beginning of 2012 in the next slides.

So in slide six, we present the new enrollments and the reenrollments of Unopar distance learnings students at the beginning of 2012. So only Unopar's distance learning students. The numbers are quite positive and exceed the target established by the management, both our new students as well for reenrollment. In the left hand chart up above we can see the intake of new students or freshmen.

And so in 2011 we recruited about 56,000 students during -- the first period of 2012. It was 77,000 in 2011. So an increase of 37% year-over-year. It is important to note that there are no distance learning centers opened during this period, no new distance learning centers opened during this period. That is this growth occurred based on the same number of centers as in 2011.

The chart on the right displays distance learning reenrollments. So in 2011 there were 99,200 reenrollments. And in 2012 there were 115,100 reenrollments, representing a growth of 16%. With the record new enrollments and retention achieved, Unopar's student base grew about 24%.

In the following slide we show the growth of the in-class students at Unopar. We had 16% growth in the intake of new students. Reenrollments were practically stable as a result of Unopar's in-class student base increased by 6%.

Going forward, in slide eight, we are able to see Unopar's consolidated figures, including distance learning and in-class students. The freshman class grew by 36%. And the upper classmen rose 15%. As a result, the overall student base was up 23%.

These excellent results in terms of intakes and retainment of Unopar's students are a reflection of the implementation of around 20 commercial actions in a very fast manner, such as the implementation of our conversion rule for our enrollees, a daily sales follow-up, among other. Not yet implemented are Unopar's variable composition policy for recruiting students. But we understand there are still opportunities to grow in the upcoming centers -- semesters, sorry.

Now going to slide nine, we can see the numbers for Kroton standalone figures for the in-class location sector. Intakes during the First Quarter of 2012 for Kroton's in-class was very, very positive. We saw 47% growth in freshmen entrants. Even excluding the four small [ph] acquisitions that we made in 2011, this growth would be around 38.1%.

In the chart to the right, we see that the number of reenrollments increased 15% compared to the same period of 2012. As a result, the total growth in undergraduate standalone student base presented a growth of 23% over the same period of 2011, also exceeding the Company's projections.

In slide 10, we see the consolidated behavior of the in-class location, taking in consideration both Kroton and Unopar's in-class operations. The evolution is very much in line with what was presented in the previous slides, because nearly 90% of the students in the class -- in the in-class location segment came from Kroton. Therefore, the overall in-class student base grew 21% compared to the same period of last year.

Going forward to slide 11, we can analyze and we can see the total amount of the consolidated students between Kroton and Unopar. For new undergraduate students, we are presenting 39% growth. For veteran students, the growth was 15%. As a result, this student base grew 23%, reaching a total of 303,000 undergraduate students.

Going to the slide 12, we have a summary box with the total student -- total student base. We reached, as I mentioned, 303,000 undergraduate students, of which 111,000 represents in-class education and 192,000 in distance learning education. Adding to this almost 20,000 graduate students, Kroton reached a total of 323,000 post-secondary education students.

What is most important in that is the new enrollments have been accompanied by a supply of quality services, both in in-class as well in distance learning. And make us secure that this growth is consistent in both the short and long term. Regarding in-class courses, we believe that the good part of the growth in the freshman class is a result of the growth of the FIES program in Brazil.

On the next slide, we will analyze the results of the FIES. So, on slide 13, we can see here that we reached 36,869 students with FIES contracts, an increase of 80% over the second semester of -- by the end of the first semester of 2011. This means that with 33% of our undergraduate base represents FIES students. With regard to freshmen, 43% of the entering students in the First Quarter had contract FIES.

If you analyze the chart on the right, we see the strong growth of FIES semester-over-semester, going from 5% of the total freshmen in the second semester of 2010 to 43% in this semester. In our analysis, the excellent performance that we have achieved with FIES is related to two combined factors.

The first is the execution of the objective conversion actions with the students using FIES, which have been implementing since -- we have been implementing since 2010. And the second is the high eligibility of our student base for obtaining the FIES financing. In March, 92.5% of Kroton student base and 99.7% of Unopar's base were eligible for FIES.

It is also important to note that this high levels of eligibility demonstrated the quality of our programs because only courses that have been awarded with such shattered grade [ph] by the Minister of Education are eligible for FIES funds. One important change in the operating environment of FIES was implementation of monthly repurchase of FIES credits on the part of the government.

Just in the first three months of the year, we received BRL27 million from these repurchase, positively impacting our receivables and our cash flow, to be commented later in the presentation. This factor is a clear demonstration of the concern of the government in improving FIES operational aspects, considering that today FIES is already one of the main tools of the federal government to increase penetration of post-secondary in Brazil. And also is one of our strategy to continue growing our base.

In the next slide, number 14, we are highlighting the acquisitions that we have carried out during the course of 2011. There were four units in the cities of Sao Luis, Imperatriz, Ponta Grossa and Sorriso. And all of them have now been fully integrated and operating using the Kroton academic model and within the Kroton systems and process. The four integration process were concluded in less than 90 days, which is our targets for merging the small and midsize institutions.

The operating margins of this three institutions acquired were about 17.8% in the Fourth Quarter 2011. And 19.4% -- sorry, 18.4% in 2011. A performance level that is similar to Kroton's post-secondary educational institutions.

Now in slide 15 we are presenting a summary of Unopar integration process. We began integration immediately after the announcement -- the announcement on December 15 of 2011. And we established 15 fronts involving 89 different projects. All of the projects are strictly monitored by Unopar's integrations officer through project management methodology. The Roland Berger consulting company was hired to help in the management of the integration projects.

As we can see in the integration timetable, we divided the process into four distinct phase. The first phase began in December and had two main objects. First, to ensure the stability of the operation. And second, the implementation of commercial actions to expand the student base. Both of these targets were fully reached.

The operation is entirely stable and the matrix management system was implemented without any noise. Regarding the new enrollments and retention of students, the number of Unopar students clear demonstrates that the targets were achieved.

In April we entered the second phase of this integration process. And in this second phase has two main objects. And the one -- the first one is the optimization of the organizational structure, including integration of Semaris [ph], such as distance learning and graduate education. And the second one is the development of the revenue upside of projects, including the optimization of new centers and implementation of new projects and services related to the distance learning segment.

In the case of the integration of distance learning, both for undergrad and graduate education, the Company decided to merge its distance learning structure using the Unopar's platform. This means that Kroton's entire distance learning undergrad and graduate platform management have been fully merged with Unopar. We will maintain two brands. But the management, the production platform and distribution of content and technological platforms to be used will be by Unopar.

As a result, we will guarantee the capture of important synergies as well as make use of Unopar's distance learning knowhow. Therefore, the distance learning projects of Kroton will be -- will continue to be developed. However, it will use Unopar's platform, as I mentioned. Other internal restructuring operations at Unopar should be conducted during the second phase of integration, which will guarantee the capture of administrative expenses synergies.

The second targeting of this second phase is the development of revenue upside projects at Unopar. As we widely disclosed after the acquisition of Unopar, we have a series of opportunities that can guarantee higher revenues. In summary, this projects call for an increase in the distribution network of distance learning, projects and services.

There is an increase in the number of active distance learning centers, along with the creation of new products. Today we distribue only undergrad courses, intermediary graduate courses. The revenue upside points for distance learnings call for intensified the supply of this kind of courses.

The fourth and last integration phase consist of complete merging of processes and systems. Today, with the three months of integration, the management of all the areas already has been integrated and is conducted using a matrix format by the company's corporate [ph] areas. However, the process and systems are (inaudible), one for Kroton, another for -- another for Unopar. The integration -- this phase of the integration is scheduled to finish by December.

So this nearly four months of integration activities with Unopar have giving us a full measure of comfort and safety in being able to state that Unopar is an exceptional asset with high margins and high generation of cash. And superior growth potential.

I'll kindly ask you to Federico Abreu, our CFO, to start the presentation of the financial performance now. Thank you.

Federico Abreu

Thank you, Carlos. Good afternoon. So, before starting the explanation about our financial results, I would you -- to remind you about two things about this presentation and the results of the Fourth Quarter and the full year 2011. The first is that we are not taking into account the effect of Unopar during the month of December. And the second, we are taking into account January and February 2010 full yearly results.

So now on slide 17, we present the evolution of the Company's quarterly net revenues, which increased 18% in Fourth Quarter '11 when compared to the same period in 2010. Regarding post-secondary education, net revenues were up 18% compared to the Fourth Quarter of 2010, mainly due to the growth in the number of students over the same period and an increase in the average monthly ticket.

The average post-secondary education ticket reached BRL548, which was stable compared to the Third Quarter of '11. And similarly, the average graduate education ticket was BRL208.

For primary and secondary education, net revenues increased 21% compared to Fourth Quarter 2010 as a result of the growth in the student base and also an increase in the average ticket between the two periods. The average tickets in the year for basic education, primary and secondary was BRL375 per year, which was 7.3% higher than in 2010.

If we move now to slide 18, we present net revenues for the year, which show an increase of 11% in comparison to 2010. This increase was mainly driven by an increase in 11% in post-secondary education, in addition to a growth of 13% in the secondary education.

Moving now to slide 19, we have the costs of products and services for the quarter and the year. The chart on the left shows the quarterly analysis. We can see an improvement in the ratio between total cost and net revenues during Fourth Quarter '11 compared to the same period in 2010.

Post-secondary education costs compared to net revenues had an improvement over the same period last year where these costs recovered for 63.8% of net revenues, an improvement of 2.2 percentage points over the same period. And this is mainly the result of the rollouts of our new academic model for all students at Kroton.

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In primary and secondary education, we can see an increase in costs in Fourth Quarter '11 of 5% when compared to the same quarter in 2010. And 30.1% for 2011. The deterioration, both in absolute number as well as in the relative number, reflects the new strategic position adopted since Fourth Quarter 2010 to increase the level and the number of services provided to schools. This effect has already been mentioned in previous discussions of results in the previous quarters.

Now moving to slide 20, we show the evolution of consolidated gross profit for the Company that totaled BRL53.2 million during the Fourth Quarter and BRL258.3 million in 2011. For the year, our gross margin reached 36.2%, which is 2.2 percentage points higher than in 2010.

On slide 21 we show gross profit according to each segment of the Company. During Fourth Quarter '11, post-secondary education showed an increase of margins in comparison with the same quarter last year, with a growth of 0.9 percentage points. During the year, this increase was more significant reaching 27% and a margin of 4.2 percentage points higher in comparison with 2010, again as a result of all operational improvements that were implemented at Kroton in the last months.

Finally, in the K to 12 segment, in absolute terms for 2011 gross profit remained practically unchanged when compared to 2010. Nevertheless, gross margin declined from 53% to 46.1%. And this decline has been identified and discussed in previous quarters and is the result of our new strategic position in increasing the level of services provided to our associated schools.

Now moving to slide 22, operating expenses include general and administrative expenses and expenses with sales and marketing. During the Fourth Quarter, operating expenses represented 20.4% of net revenues, which is a decline of 1.9 percentage points in comparison with the same period in 2010. For the year, this reduction was more significant, reducing from 21.4% in 2010 to 19.3% in 2011, which is a decline of 2.1 percentage points.

If you look at sales, marketing and expenses, they fell from 7% of net revenues in 2010 to 5.6% in 2011, a gain of 1.4 percentage points. There's an important message here, which is despite this reduction. And you saw on the results in the new students the excellent numbers in both new enrollments and retention showing a 23% growth in the students, basically show that our commercial activities were effective despite the declining percentage of net revenues.

Now moving to slide 23, we show the nonrecurring items for the quarter. We show each of these items in detail in line with our high level of transparency. Nonrecurring events that affected the Fourth Quarter totaled BRL8 million and were basically as follows.

The first penalty of BRL447,000 related to the discontinuation of a rental agreement in our Rio de Janeiro unit in the city of Belo Horizonte. The contract was terminated and the unit closed and the students were transferred to nearby units. This action is part of the

strategy defined in 2010 of concentrating operations in the city of Belo Horizonte in a smaller number of campuses and therefore increasing our margins.

Secondly, the sale of our operation in Rio de Janeiro that generated a noncash impact of BRL5.4 million during the Fourth Quarter. And finally, BRL2.2 million in costs related to M&A, which basically include due diligence costs and the expenses related to the integration of FIES and Unopar.

For the year, our nonrecurring events amounted BRL14.2 million, 61.3% below 2010. If we compare this cost in percentage of net revenues, nonrecurring events represented 2% in 2011 compared with 5.7% in 2010, showing a clear decline in the relevance of this cost in our results. In 2012 we expect nonrecurring events to reach approximately BRL15 million. And this cost will be mainly related to the integration of Unopar. And the most part of it should be reported already in the First Quarter of 2012.

Moving to slide 24, we show our EBITDA and our EBITDA margin. The Company's EBITDA during the Fourth Quarter was BRL12.6 million, with an EBITDA margin of 7.1%, which is 4.4 percentage points higher than the margin for the Fourth Quarter 2010. During 2011, EBITDA totaled BRL105 million, an increase of 66% in comparison with 2010 and an increase in EBITDA margin of 4.9 percentage points.

It is important to mention this EBITDA of BRL105 million exceeds the guidance presented to the market by 5%. The initial guidance was BRL100 million. Taking into account the results of Unopar for the month of December, the EBITDA of the Company with Unopar was BRL111.1 million, 11% over our guidance. This point is important because of two main reasons.

The first, it shows the high level of control over the budget established by the management. And secondly, it shows the improvement in both operating and financial performance as a result of all the initiatives implemented in the Company that so far have taken effects.

On slide 25, we can see that the net profits for the Fourth Quarter '11 was BRL1.5 million, which is a significant improvement compared to our net loss of BRL7.3 million occurred in the same period of the previous year. If we analyze 2011, we've achieved a significant improvement, posting growth of 355%, reaching BRL52.3 million in net profit, an increase in net margin of 5.5 percentage points, reaching 7.3% of net revenues in 2011. Again, this clearly shows that the Company is on the right path to continuing increasing our levels of performance.

Moving to slide 26, we can see the CapEx. Here we show the investments of the Company during the quarter and for the year. Kroton invested BRL12.7 million in Fourth Quarter '11, allocated as follows. BRL5.7 million in content development, systems and software, BRL3.2 million in expansion and improvements, BRL1.9 million in the laboratory equipments. And BRL1.8 million in computer equipment and library.

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For the year, CapEx represented around 6.4% of net revenues, with the target established by the Company. It is important to point out that this level of 6.4% includes both maintenance and all CapEx needed to support company's organic growth. Only acquisitions are not included. This means that the CapEx of 6.4% of net revenues was sufficient to support growth of 23% in the student base.

I would like to mention that for the analysis of cash and debt, on slide 27, we are considering the impact related to the payment of the first installments of Unopar acquisition. This means that we ended the year with a cash balance of BRL138.5 million after the BRL100 million used for Unopar payments. In December 2011 we also raised BRL550 million in debt through a CCB that was later converted into a debenture in the exact same amount, which is showed on the long term loans. This debenture has a seven-year term, with two years principle grace at a cost of CDI plus 2% per year.

It is important to note that the capital structure of the Company was recently strengthened with a capital increase in March 2012, where BRL597 million were raised in cash, some of which was used to pay the second installment of the acquisition of Unopar of BRL260 million. Finally important to mention, the three capital market transactions carried out over the last 12 months, a follow-on in June 2011 and the debenture in January 2012 and a capital increase in March 2012, totaled BRL1.5 billion, which showed the high level of confidence investors and the market in general have in Kroton.

If we move now to slide 29, in the next three slides we will show the evolution and performance of our PDA, the provision for doubtful accounts in the accounts receivable. Our forecast model for loss provisions is based on the historical performance of debt collections -- debt collection by harvests. This means we analyze the accounts receivable by group of maturity from zero to 30 days, 30 days to 60 days, et cetera, during the course of a 360-day cycle.

These curves are monitored monthly and the provision is adjusted according to the recovery turns we identify for each one of these periods. The amount of the provision constituents -- constituted covers the entire receivable cycle from the month of billing up to 360 days. The amounts overdue by 360 days are fully written off from our assets.

As can be seen on chart 29 on the left, our consolidated PDA was BRL7.3 million during Fourth Quarter '11, representing 4.1% of that net revenues greater than the 3.5% presented in the Fourth Quarter 2010.

If we now move to slide 30, we can see this analysis by segment. For post-secondary education, we reported 4.3% in Fourth Quarter '11 and 4.9% in 2011. For both periods, this reduction in comparison to the same period in 2010 is reflected by an increase in the share of FIES in our accounts receivable. It is important to note that even with a substantially lower risk, Kroton set aside relatively low -- set aside relatively high provisions for eventual losses related to FIES.

Considering that Kroton's responsibility is 15% of any possible future losses, we assume that future losses in the FIES portfolio will be 15%, a rate approximately three times higher

than our historical losses in the portfolio of ex-FIES students. Therefore, the provisions of the FIES portfolio were 2.25%, which is basically 15% multiplied by 15%. Excluding the impact of FIES, both for PDA and for revenues, the level of provisions for post-secondary education ex-FIES was 5.6% and changed in comparison with 2010.

Finally, for primary and secondary education, the historic levels of default are significantly lower for the year. The PDA of the segment remained stable. Once again, we should point out that unlike post-secondary education, the receivables in this case do not come from students but rather from associated schools.

Moving to slide 31, we show the evolution of net accounts receivable divided between post-secondary and primary and secondary education. During Fourth Quarter '11, accounts receivable for Kroton totaled BRL236.8 million, of which BRL205.9 million come from post-secondary. And BRL31 million from primary and secondary.

If we only look at post-secondary education, there was an increase of 11% in comparison to the same period of the previous year due -- mainly due to an increase in the FIES balance, as mentioned before. Accounts receivable for FIES had an increase of 21.5% between third and Fourth Quarter 2011 due to two main reasons.

An increase in the number of students. And the blocking of a part of FIES balance stemming from the non-availability of debt clearance certificate called CND for some of Kroton's companies. The amount excluding immediately the release is approximately BRL46 million through buyback from credits by the federal government. We expect to solve this question during the Second Quarter 2012, among other things, by obtaining a bank guarantee, which was already been approved internally to cover the debts that are blocking the release of the debt certificate clearance that I just mentioned.

With regards to the average days of receivable for post-secondary education, we have prepared three analysis. The first is accounts receivable excluding receivables from FIES. We believe this is the best criteria for analyzing our accounts receivable.

In the analysis, the average increase compare to Third Quarter is because of the seasonal nature of the accounts. In relation to the same quarter in the previous year, it remained stable, which shows in addition an appropriate provision policy and that our credit recovery practices are working.

The second criteria presented excludes the effect of FIES on the receivables balance in the short term and also in revenues. The increase of 14 days reflect the rapid growth of FIES in Kroton's mix. It is important to point out that this analysis creates distortions and they are mainly related to the evolution of FIES revenues as a proportion of total revenues for Kroton.

Finally, we also look at the medium term accounts receivable that are exclusively from FIES. For an appropriate understanding, it is necessary to exclude the FIES accounts that were blocked of the failure to produce the clearance certificate I mentioned before. So with that adjustments the medium term FIES is 133 days, a significant reduction in

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comparison to the previous quarter. We believe that the average turn for FIES should converge to around 80 days when compared to the operating conditions -- when the operating conditions for the program achieve levels that are more appropriate.

To conclude, we would like to point out again that even these days of receivable for FIES are higher than that shown in ex-FIES as accounts receivable, they represent receivables with practically almost no risk of default. So, summarizing, the main conclusions of PDA in accounts receivables, I would like to make the following points.

The first, PDA ex-FIES over net revenues ex-FIES remain constant between 2010 and 2011. Second, we have adopted a relatively conservative provision policy for FIES students of 2.25% of net revenues. Third, the accounts receivable turnover for ex-FIES is stable between Fourth Quarter 2010 and Fourth Quarter 2011.

Fourth, monthly repurchases started in January 2012, as mentioned previously, were BRL27 million already purchased. And last, the aging of the portfolio of receivables continue to be stable through 2010 and 2011. So these facts show that our provisions policy as well as the Company's accounts receivable is properly managed.

Moving to slide 33, we present the operating cash flow for Kroton. The calculation starts from net profits we adjusted for all noncash effect on results. The operating cash flow also includes working capital investments, taxes and all CapEx. In operating cash flow we are not including the acquisitions and we are not also including any item related to debt or capital increase.

If we start analyzing Kroton's standalone with Unopar, we show an operating cash consumption of BRL62 million. Although during the same period Kroton increased its FIES receivables by BRL82.5 million. As an exercise, given the particularity of FIES receivables, mainly the low risk of defaults, if this balance were to be considered as cash, Kroton's operating cash flow would have been BRL20.5 million positive.

Now, if we take into account Unopar generated -- that Unopar generated a positive cash flow of nearly BRL14 million only in the months of December. And considering the increase of FIES balance as Carlos [ph] mentioned before, the Company would have generated BRL34.2 million in 2011.

I would like to emphasize one point related to the analysis we just mentioned. If we recall that BRL46 million of the FIES balance can be released in the near term when pending documentation mentioned above is obtained, we will have a positive impact on cash flow in 2011 -- in 2012 that is related with this negative impact that happened in 2011.

For 2012, we are expecting a significant evolution in Kroton's cash flow generation for three main reasons. The first is related to an expected increase in Kroton's EBITDA margins. The second is related to FIES. On the one hand, FIES has reduced the formal period of buyback from quarterly to monthly. And this buybacks have already been implemented. In addition, we are seeing an improvement in the operating processes of (inaudible).

And the last reason is related to the cash generation expected for Unopar, which will significantly change the Company's cash generation profile. This cash generation is already -- was visible in December 2011. And is already visible in the first three months of 2012.

So now I would like to turn the discussion over to Rodrigo Galindo.

Rodrigo Galindo {BIO 17238232 <GO>}

Thank you, Federico. I'd like to move to the last slide in this presentation of results to offer some final thoughts. We have had a very positive view about the deliverables made so far. Regarding margins, EBITDA margin increase 66%, from BRL63 million to BRL105 million. That means 5 percentage points of margins increase.

Net profit increased 355% from BRL11 million to BRL52 million. With regard to acquisitions, the process of integrations have been completed in the four face-to-face institutions acquired. And they are running at the same operational level that other units -- Kroton's units.

Unopar's integration process is going very well. And the clear demonstration of the initial effects of it is the excellent enrollments in Unopar. In addition, our pipeline of acquisitions continues to be highly active and we have new -- and we will have new acquisition expected for 2012.

Now, when I look to organic growth of the Company, both intakes and retention of students for 2012, have been really positive. The results was a growth of 23% of the total students base. The growth -- the grew was intense both in distance learning as well in-class segments. We reached 323,000 post-secondary students.

It is also important to point out that this growth is taking place in a highly structured form. We have an academic model that is consistent, integrated and highly quality. We also have integrated process and systems. That means, in other words, that the Company is ready to continue growing in a consistent and structured way. The results made it clear that the foundations of the Company are solid and we can expect a very positive 2012.

I'd like to thank you, everyone, for the participation. And now open the session for questions and answers. 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 Muthu Gandhi [ph] of HMC Capital.

Q - Unidentified Participant

Yes, hi. Thanks for taking the question. congratulations on a great quarter and a strong outlook for 2012. I have a few questions. Most of them are pretty short. Firstly, I'd like to understand how many days of Unopar have been included in the financials for Kroton? I know the acquisition or the announcement in December. So is it only for half of the month or are these numbers for the full month?

A - Federico Abreu

Okay. So, it's Federico Abreu. We are including the month of December of Unopar in our results. So it's 31 days.

Q - Unidentified Participant

Okay. So the full month. Okay, fine. A couple of other quick questions. When do you expect the IPR to be released versus the audited filings?

A - Unidentified Speaker

Actually, we already have all the financial statement in Portuguese released. The English version we expect to receive by 30 days from yesterday. So by the end -- before the end of April it will be available for all investors.

Q - Unidentified Participant

Got it. Got it, okay. My next question is regarding FIES and Kroton is -- when I look at your PDA, excluding FIES, just for this quarter, like 4Q 2011 versus 4Q 2010 I show it increased. And I was wondering if you can give a little bit more color on why that is and how you see the trends going forward.

A - Unidentified Speaker

Hold on one second.

Q - Unidentified Participant

Yes.

A - Federico Abreu

Okay. So, if you look at -- if you look at quarter -- Fourth Quarter 2010 to Fourth Quarter 2011, the PDA is pretty much stable. And there is basically a result of the application of our analogies by harvest. So there was no change in the methodology that we used in the two semesters. Therefore, the PDA is almost stable. If you look at Third Quarter compared to Fourth Quarter, you have seasonality effects.

Q - Unidentified Participant

I'm sorry, I was actually comparing 4Q 2010 excluding FIES, which is at 3.9% to 5.1% in 4Q 2011, excluding FIES. It's on slide 30.

A - Unidentified Speaker

Hold on one second.

Q - Unidentified Participant

Yes.

A - Federico Abreu

Okay. So, last year we were recalling here the reason. So, the provision that you see in the Fourth Quarter '11 is more representative of the provision level that we assume as a reasonable provision level for the future. In the Fourth Quarter 2010, we have provisions more in the first three quarters of 2010. And therefore in the Fourth Quarter of 2010 there was a decrease in the provision so that in the year, when you compare year against year, if you look at the provision, it was 5.7% in 2010 and 5.6% in 2011. So if you compare quarter against quarter, you have an increase. But if you compare year against year, it is stable.

Q - Unidentified Participant

Okay. Fine. So since a mix of FIES is going to continue increasing in your receivables, we kind of think there would be a continued cash track. Do you get some kind of interest on the FIES receivables, some kind of like -- so while you're waiting for this certificate to be redeemed or just generally it's just a FIES receivables to be paid out.

A - Unidentified Speaker

The answer is yes. These receivables are correct to net inflation at least this year [ph].

Q - Unidentified Participant

Okay, the inflation. Got it. Okay. And just two quick question, if I may ask. One is regarding the recovery issue of the certificates. I think you had this issue last year as well where you were waiting for some certification, which got solved. But I'm just wondering from your opinion why do you think this issue keeps recurring?

A - Unidentified Speaker

Okay. So it's exactly -- it's exactly the same issue. We are pending a certificate in the state of Mato Grosso is exactly the same thing. We expect 2011 to solve this pending issue without using any bank guarantee. But we concluded it could take longer than expected initially. So we are using the bank guarantee to solve this pending documentation.

So using the bank guarantee, you're going to give a guarantee to the debt that is in discussion and that is basically blocking the certificates. Given the bank guarantee, that certificate is released and we can participate in the next buyback.

Q - Unidentified Participant

Okay. Great. And finally, any thoughts on guidance for 2012 in terms of EBITDA or any other metrics?

A - Unidentified Speaker

Just a minute Muthu.

Q - Unidentified Participant

Yes.

A - Rodrigo Galindo {BIO 17238232 <GO>}

Muthu is Rodrigo Galindo, talking. We keep the guidance that we gave before, about BRL280 million in EBITDA. We know with this exceptional new intake process we can achieve a little bit more than this. But we still remain at the guidance that we gave in the past [ph] around BRL280 million in EBITDA.

Q - Unidentified Participant

Great. Thank you. So much for taking all my questions.

A - Rodrigo Galindo {BIO 17238232 <GO>}

Thank you.

Operator

The next question comes from Javier Martinez of Morgan Stanley.

Q - Javier Martinez {BIO 15226046 <GO>}

Yes. Thank you. So one more question on FIES receivables. What is the situation of this guarantor fund, funds regarding (inaudible). Is this working? Is because my understanding is that this potential (inaudible) you are, the risk now that you're assuming from 15% to 7%, is this going to happen or not?

A - Rodrigo Galindo {BIO 17238232 <GO>}

Javier, it is Rodrigo Galindo talking. The guarantor fund is working. Today, 82% of the students that use FIES in Kroton is without guarantor fund. And 18% are using guarantor fund. But we are -- we don't have losses yet to see how it works, the operational process by the guarantor fund. The losses will be only when the -- in a few years when the students must pay their financial that they are assuming now.

Q - Javier Martinez {BIO 15226046 <GO>}

Conceptually the -- so the concept is right, no. So your risk is lower there? So is not 15%. But around 7% or something like that, the limit liability that you may have?

A - Unidentified Speaker

Your statement is not right because the risk of the guarantor fund is 7% upfront. So we have this risk in the guarantor fund. In the other side, without cosigners, the risk is 15% for

-- of the potential losses -- of the total losses that we can have in the FIES for the non-cosigners students. Okay? So 15% of the potential losses are the risk of the Company.

If we assume, like we are assuming, a 15% loss in the non-cosigner student, we assume a provision of 2.25%. So we need -- the best comparison that we can do is to compare the level of provisions that we have to do for both -- we have to make for both kinds of FIES students. We do 2.25% for the non-cosigner students. And we do 7% for the guarantor fund students. Is that clear?

Q - Javier Martinez {BIO 15226046 <GO>}

Yes, understood. And one more also on the FIES and the seasonality impact of FIES. Is it fair to assume that the recent [ph] FIES receivables peak in the second and Fourth Quarter? Because of that's when basically they are contracted, right?

A - Unidentified Speaker

In terms of seasonality, it makes sense because typically during the semester the accounts receivable tends to increase until the end of the semester. So typically, the second and the Fourth Quarter usually have a larger amount compared to the first and the beginning of the first and the second semester.

But on the other hand, the buybacks from the government are monthly. So and they are implemented. So every month we already participate on the buybacks. Before was quarterly. So we do not expect an accumulation of these balance because it's already monthly.

A - Rodrigo Galindo {BIO 17238232 <GO>}

Javier complementing is Rodrigo Galindo speaking. Complementing the operational performance by Ministry of Education is getting better month by month. So we are expecting increasing of the operational performance. So that means more efficient in the process and then less receivables blocking [ph].

Q - Javier Martinez {BIO 15226046 <GO>}

Okay, understood. Guys, congratulations for the turnaround you're doing with this company.

A - Rodrigo Galindo {BIO 17238232 <GO>}

Thank you, Javier.

Operator

(Operator Instructions). The next question comes from Marco D'Tulio [ph] of JGP.

Q - Unidentified Participant

Hi. Could you give us some color on the intake growth by region, where it was stronger and where it was weaker? Thank you.

A - Rodrigo Galindo {BIO 17238232 <GO>}

Marco, is Rodrigo speaking. We didn't see any different perception of the number of students in regions. The increase is very, very good result. It was in all country divided in our institutions. Not that gives us -- that deserves more attention in one region, specific region. It was regular increase in our region in Brazil.

Q - Unidentified Participant

Okay, thank you.

Operator

(Operator Instructions). 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 Galindo {BIO 17238232 <GO>}

I would like to thank you, everybody. And 2011 it was a very tough year. But the results came and we are very excited with the opportunity that we have in 2012. Thank you, everybody.

Operator

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

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