Q4 2012 Earnings Call

Company Participants

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

Other Participants

- Marcelo Santos, Analyst
- Quhay August, Analyst
- Rubin Quoto, Analyst
- Unidentified Participant

Presentation

Rodrigo Calvo Galindo {BIO 17238232 <GO>}

Good morning everyone and welcome to the Quarterly Earnings Conference Call of Kroton Educacional for the Fourth Quarter of 2012. With me today are our IRO Carlos Lazar and our CFO Frederico Brito. I'd like to start today's presentation on slide three with the highlights in the period. The fourth quarter brought more excellent results for the company and ended an exceptional year.

The excellent performance in 2012 was driven by strong growth in new enrollments and re-enrollments, a scenario that has been repeating in 2013 since we managed to reach the extraordinary mark of 500,000 students in March, which leads us to expect yet another very strong year for Kroton. The financial highlights in 2012 include EBITDA of R$387 million with EBITDA margin of 27.6%, which also exceeded our guidance.

Adjusted net income reached R$268 million in the year, more than five times higher than in 2011. Besides that, cash generation was also very strong in both the quarter and the year. In the fourth quarter operational cash flow, after CapEx was R$81.5 million and in the year was R$313.5 million, representing an EBITDA to cash conversion rate of 88%. We'll provide more details on these and other indicator during the presentation. But as you can see Kroton has truly reached a new level of profitability and operational performance. So let go straight to today's presentations start with the Company's operating performance.

I will now involve our Investor Relations Officer, Carlos Lazar to continue the presentation.

Carlos Lazar {BIO 17238206 <GO>}

Thank you Rodrigo. Well, let us start the operating -- operational information analysis on slide five please. And as you can see where you can see the growth in the number of students between the third and fourth quarters. We ended the quarter with almost 410,000 students, which is stable compared to the end of September. However note that due to the seasonal impact here the student base historically contract in the fourth quarter of the year. It's -- it has some impact, but due to the normalization of pending registration information that is mostly related through FIES financing, we had approximately 4.9000 new students off which 3.5000 contracted the program during the fourth quarter, which helped us to keep the base quite stable.

Moving on to slide six. We showed the number of students with FIES. At the end of December, we had approximately 59,000 FIES students, which represent around 45% of our on-campus undergraduate student base. Another important factor here is that once again FIES is contributing positively to new enrollments; of the new students enrolled during this current admission process we had approximately 47% contracting FIES.

In our recent new -- that was the new resolution issued last week, once again, allowed students with the restrictions in credit bureaus to apply for FIES loans. This factor should be positive for Kroton, especially in the upcoming admission processes. And lastly, we continue to have a higher share of students in the base of FIES because of the eligibility of the company regarding the quality that we offer to this program. In that matter, around 97% of the students are eligible to apply for FIES in our institutions.

On the slide seven, we can see the new enrollments of undergrads for the first semester of 2013. And this is I think as a very important message because it's the most important advance for the year in the term and let's say give a very good idea how be the company performance during the year. So even before the processes were finalized as it goes through until the end of March, we can -- we already have surpassed all internal targets with for growth new enrollments about 9% in the on-campus business and 28% in the distance learning business, which will ensure total new enrollment growth of 22%. Keep in mind here that the figures for 2012 also consider pro-forma data for Uniasselvi and Unirondon, the two acquisitions that we made last year for comparison propose.

For students in the on-campus business especially, we still see some room for improvement in enrollment figures since the process will continue through the end of the month as I mentioned and also because of the new resolution about FIES that also commented before. On slide eight, we show the growth of the student base -- of the total student base they're considered the sum of -- actually here the sum of new enrollments and re-enrollment for undergrads.

As we mentioned in the previous slides, new enrollment performance was very good in the year but re-enrollment performance was also excellent. Re-enrollment totaled nearly 298,000 students and together with the new enrollment (inaudible) growth, the total undergrad base of 21% compared to the first quarter of 2012. With the on-campus student rates growing 12% from the year ago and distance learning growing about 25%. So now let's talk about the total base on slide nine. And we consider here the postsecondary students for both on-campus and distance learning.

Adding 41,000 graduate students with 459,000 undergrad students that I showed in the previous slides, we surpassed the extraordinary mark of 500,000 postsecondary students in our base. These accomplishments demonstrates the recognition that we have achieved in the various segments and motivates ourselves even more in the effort to ensure always a very good quality in terms of educational services that we give to our students.

And also given to this performance, we are certain that 2013 will be another year very, very good and positive for the company. Now starting the presentation of the financial performance. We'd like to move through slide number 11. And before beginning, I would like to remind you that all figures here is considered the results from Uniasselvi as from June 2012 and the results from Unopar as from December 2011.

I will begin my comments on the financial performance on slide 11, which shows the change in net revenue, gross income, and operating results in the on-campus postsecondary business. Net revenue in this business grew 49% from the fourth quarter of last year driving mainly by growth in student base due to both acquisitions and organic growth and by the higher average tickets.

However, even if you considered just organic growth, in other words, the same unit base, revenue growth was also very strong, reaching 30% between the fourth quarter of 2011 and 12. Meanwhile, gross income grew 34% with gross margin expanding 5.1 percentage points from the same period of last year, which is explained by the scale gains and also the vigorous control in costs that we are maintaining in the company. Along the same lines, operating income grew by 84% from the same quarter last year with operating margin reaching 18%, which also have flexed the control on operating expenses.

Moving on to slide 12, we showed performance of the different line segment. And as we being doing over the last periods, we have included the previous quarter to show the changes between the periods and here we are growing the comparison with fourth quarter of 2011, since that quarter consists only one month of Unopar, which could distorts the comparison.

Well, in any comparison, we can see that the fourth quarter represents a reduction through -- due to mainly seasonal impacts, similar to the trend observed on the on-campus business. However at any rate, the results under this line remains very, very strong and health, which underscores the importance of this business to the overall company, especially in terms of operating income that represents 58% of the total number of total figure of fourth quarter.

So moving to slide 13 now, I will comment on the few aspects of K-12 business. In the fourth quarter, we adopt certain strategic action in the business to maximize the financial and the operating performance. These measures include basically the divesting of their own school located in Sao Luis in the state of Maranhao and also the commercial repositioning approach that we did in the only remaining own school that is located in Belo Horizonte, state of Minas Gerais. This was done to better position this school as a showroom to our associated schools in this business. Kroton also adopted to reduce its exposure to the public school learning systems by not renewing some of the contracts in the fourth quarter which led to a reduction in the revenue in the periods.

So, here I should mention that the projected, the brand that we use for the public schools will be -- we'll have a very lower contribution compared to last year. So the expansion in both gross and operating margins is explained by the better control of the projection process for the teacher mentoring collections in 2012. We should also more than offset the negative revenue impacted by the factors that I just mentioned.

Well, for 2013, our expectations are very positive for this sector, the K-12 segment, especially for the head Pitagoras learning system for private schools which is where we expect the revenue growth of around 20%. The EBITDA on slide 14 notes that the adjustments here involve excluding -- we exclude the non-recurring impacts which totaled R$5.5 million in the fourth quarter and were mainly related to the Unopar and Uniasselvi integration process.

In the year, the non-recurring items totaled R$13 million but this number should decrease significantly in 2013 to around R$5 million. Adjusted EBITDA in fourth quarter 2012 reached R$72 million with margin of 19.8%. So we've done expansion of 10.3 percentage points from the same period last year and to growth were driven by the solid performance in all business that I mentioned and by the successful integration process. Well performance in the full year was also strong with adjusted EBITDA R$388 million for growth of R$249 million [ph] on 2012 and exceeding our guidance by 8% also. Ending this analysis, we have the margin; they stood at 27.6% also above the guidance expanded by 12.5 percentage points from 2011.

Net income was reliable we can see that for the quarter and for the year. And for the quarter, we reached R$38 from that margin of 10.5%. Here adjustments are not only non-recurring, but also demonstration of intangible assets for acquisitions, which had some adjustments in fourth quarter to offset difference of prior periods and following exactly the conclusion of our valuation report for evolution reports for Uniasselvi.

Well for 2013, what we expect in terms of amortization should be a stable number around R$10 million per quarter. In the year, adjusted net income grew five times and reached R$268 million with an adjusted net margin of 19.1%. Excluding all these adjustments, the net income should be -- stood at around R$202 million also presenting very significant growth compared to the R$37.4 million recorded in 2011.

Moving to slide 16, we showed evolution in Kroton's managerial analysis that exclude the effects from the results of the two acquisitions that we carried out in 2011 and '12 (inaudible) and allows to see the evolution more clearly without this contributions. As shown -- Kroton's standalone net revenue grew so 29% and after excluding the revenue from the other, all other institutions acquired, it grew about 28%. So to better understand costs and EBITDA, we had -- we created three different scenarios here for the allocation of corporate expenses. Under the scenario two and three, Kroton margin excluding Unopar and Uniasselvi reached around 21%.

So in other words it's one-year ahead of the management targets, which expected this level to be achieved only by the end of this year 2013. So this was only made possible because of the operating improvements, the gains of the positive impacts of organic growth and the rigorous control of costs and expenses.

I now invite our Chief Financial Officer Mr. Frederico Brito to continue the presentation. Thank you.

Frederico Brito {BIO 16674822 <GO>}

Thank you Carlos, good morning everyone. The next five slides slide covers the evolution and performance of our provision for doubtful accounts and accounts receivable. On slides 18 and 19, we show PDA as a percentage of net revenue for each of our businesses, which is the result of the same provisioning methodology adopted since 2010 and is based on statistical analysis of our historical data. In the post-secondary business, PDA was 4.4% in the fourth quarter of 2012, a level which is stable compared to the fourth quarter of 2011. Excluding students with FIES financing, the level of provisioning in the post-secondary segment was 6.3%.

Analyzing PDA on quarterly basis, we can see a downward trend over the course of 2012 after a more conservative start of the year. On the one hand we have a reduction from 6.5% to 5.9% between the first quarter of 2012 and the third quarter of 2012, which are comparable quarters and a reduction from 6.7% to 6.3% between second and fourth quarters of 2012. Analyzing PDA. On an annual basis and keeping in mind these combined effects of reduction over the year, the ex-FIES PDA increased from 5.7% in 2011 to 6.3% in 2012.

In the FIES portfolio, now excluding all the non-FIES students only looking at the FEIS portfolio between 2010 and 2012 Kroton acquires the provision of 2.25%, which is basically 15% over 15% expected loss all FIES revenue to cover any potential future losses on these students. Starting in 2013, we are improving our PDA methodology to adjust for the different provisioning levels between FIES students with co-signer and students secured by the guarantor funds.

So in 2013, for FIES students with co-signer represents about 60% of total base of students, provisioning will remain at 2.25% which is 15% Kroton's co-responsibility (inaudible) by an estimated loss of 15%, which is conservative. For students with guarantor funds we represent 40% of our base provisioning real correspond to 0.23% of revenues, which is 10% multiplied by 15% of responsibility multiplied by 15% of potential loss.

Okay. So for the distant learning businesses, PDA should converge to levels senior to those in on campus business. As is mentioned since the first quarter of 2012, the level of provisioning in the distant learning business reached 6.2% in the fourth quarter, which is 0.2 percentage points up from third quarter and this is basically due to seasonality. And these are level that is very close to the X-FIES on campus portfolio in the same period.

And last, the level of PDA in the primary and secondary business remains stable in the fourth quarter from the third quarter, nevertheless on an annual basis provisioning in this business increased from 1.1% in 2011 to 1.5% in 2012. Since the first quarter of 2012, the company adopted a more conservative provisioning policy due to two main reasons, the first, is a more restrictive posture adopted in the renegotiations with the associated schools and second, a reduction in the average payment terms.

Moving now to Slide 20, we analyze the evolution in accounts receivable net over the provision for doubtful accounts. And we broke down for the three different businesses. In the fourth quarter Kroton's net account receivables totaled R$259.5 million, of which R$195.5 was related to the postsecondary business, R$38 million in distance learning business and R$26 in the primary and secondary business.

The 4% increase in the postsecondary business compared to the third quarter was due to the seasonal increase in the short-term accounts receivable, which was partially compensated by an improvement in FIES accounts and a reduction also in the long-term portfolio. Regarding FIES, a highlight was the total amount of repurchases and offsetting of taxes which in 2012 generated inflows of R$408 million which strengthened the company's cash position.

All of these repurchases took place monthly as scheduled by the government throughout the year. Lastly, accounts receivable in the distance learning business totaled R$38 million and accounts receivable in the primary and secondary business totaled R$26 million. Moving to slide 21, we can see the evolution in the average receivables term in each of our businesses, it is a good metric to understand whether our collection and provisioning policies (inaudible). So a reduction is a good sign and increase is a bad sign. Despite these effects from seasonality between the quarters, we are very comfortable with evolution in our average receivables term in all the three businesses which declined over the course of the year and contributed to our improvement in cash flow generation.

Again, this is a result of our effective provisioning practices and the increased efficiency of our collections and recovery actions. In the on-campus postsecondary business, we have maintained the three analyses we have been reporting to the market. The first considers accounts receivable excluding the balance of FIES receivable. In this line, following the line in the last four quarters, we can see a reduction from third to fourth quarter of 16 days. In the second analysis, we exclude the balances of both FEIS and accounts receivable and FEIS revenues. In this analysis we see a decrease of three days in relation to the fourth quarter. So this is basically the portfolio of ex-FIES students. We have a reduction of three days.

And in the third analysis, we present only the balance of FIES. Here we see a sharp drop of 180 days from last year and 24 days from the third quarter. This performance reflects the improvement in internal operational processes and international education development fund as well. Also a complete normalization of Kroton's fact status, which allows us to fully participate in the monthly repurchases. This means we've achieved our target to one year in advance, since our targets for 2012 was 130 days and 80 days for 2013, we are today at 78 days.

In the distance learning businesses, the average term in the fourth quarter was 29 days, which is an increase from the third quarter mainly due to seasonality effects. And in the primary and secondary business the average term improved significantly decreasing by 19 days due to the more restrictive practices and re-negotiations of the payments from the schools.

Moving to slide 22, we can see the behavior of working capital in the year and this working capital is composed by the difference between current assets, excluding cash effect and current liabilities, excluding debt effects. The Company's working capital registered a significant decrease over 88% during 2012 and 186% excluding the effects from FIES receivables. This was due to the combination of intense efforts to reduce the average receivables turns for both FIES and ex-FIES and an increase in the average payment terms, which is one of the key drivers for increasing our cash generation in the period.

Moving to slide 24, we show the investments made by the Company in the fourth quarter of the year. In the quarter, we invested total of R$23.1 million in the period, which was mainly allocated to laboratory, computer and library equipment. CapEx consumed approximately 6.3% of net revenues in the year, sorry net revenue in the year and around 5.3% in the year. Also note that increasing the line of expansions already is anticipating the growth in the student base in 2013.

Growth results of planning investments in special projects, which include acquiring properties and expanding existing properties to support high growth rates in the coming years. In the year of 2012, these investments totaled R$45.4 million as a result, total investment reached R$120 million, which corresponds to 8.5% of net revenues in the period. Note that these amount is below our guidance since we're able to postpone certain investments into 2013.

Now talking about our debt position on slide 25, we ended the quarter with 219.5 million in cash and marketable securities, which were higher than in the same period of 2011, mainly due to the strong cash generation in the period in our business, which was offset by the strong M&A activity, which included the payment of the last installment of Unopar in December 2012 and the payment of the first installment of Uniasselvi acquisition in May 2012.

As a result, net debt considering only financial debt was 336 million in the fourth quarter, which represents an extremely cost of a level of leverage of less than one-time EBITDA in 2012. If we exclude the other short -- it includes the short-term and long-term liabilities related to the payment for acquisitions; mainly total net debt would be 612 million or around 1.6 times EBITDA, also very comfortable level of that.

On slide 27, we showed the company's cash generation, which was very strong in the year. The fourth quarter once again showed Kroton consistent cash generation capacity over the course of the year in all of its businesses. In the quarter, operating cash generation before CapEx was 106 million which corresponds to 159% of EBITDA. In the year, cash generation was 388 million which represents 109% of actual EBITDA in the period and compares with the negative cash generation of 2 million last year.

After recurring CapEx, cash generation in the fourth quarter was 81 million, which compares with the negative cash flow of 38 million in the fourth quarter of 2011. In the year, cash generation after CapEx was 313 million or 88% of the EBITDA in the period. If we consider in addition the CapEx that was used for special projects, cash generation was 66 million in the quarter and 268 million in the year or an EBITDA cash of 75%.

So I'll now hand to Rodrigo to continue the presentation.

Rodrigo Calvo Galindo {BIO 17238232 <GO>}

Thank you, Frederico. Let's go please to the last slide, which shows our guidance for 2013. So what do expect for 2013, another year of revenue and margin growth. And net revenue should reach 1.7 billion or 25% more than in 2012. EBITDA should reach R$500 million, growing 29% from 2012. EBITDA margin should reach 28.6%, increasing 100 basis point from 2012, and further increasing our level of transparency for the first time, we are giving the guidance for net income. Net income should reach R$352 million, growing 35% compared to 2012. CapEx should correspond to 6% of net revenue with 4% for maintenance CapEx and 2% for organic growth, in line with overall industry.

Since we are projecting for 2013 and the following year's growth rate, above industry average we expect to make investment in special projects such as acquisition of properties or the construction of buildings which could be divested in the future to return cash to the company. Note, that this guidance does not include any impacts from acquisitions that may come to be made over the course of 2013. Given the excellent new enrollment and re-enrollment process, at the start of 2013 in which we shot past the mark of 0.5 million students, we are very confident that we are -- we will be able to deliver good results, which have taken Kroton to another new level of performance.

Lastly, in the context of the capital markets, we migrated with Novo Mercado segment in December, carried out a stock split and announced payment of dividends. These results re-affirm our commitment to the capital markets in which we always seek to best governing practices and the best environment for trading in our securities. We had an excellent 2012 and are very optimistic on the results projected for 2013. However, the deliverables in 2012 and the outlook for 2013 go beyond the actual numbers.

More importantly, we were able to build strong brands that are regional leaders in their respective markets. Education quality and brand strength are attributes that are gaining greater importance in the choice made by students and we are certain that we are on the right path of delivering high quality educations and building ever more solid brand and our sustainable growth over the years is a proof of this fact.

Once again, thank you for participation today and we will now begin the question-and-answer session. Thank you.

Questions And Answers

Operator

Ladies and gentlemen we will now begin the question-and-answer session. (Operator Instructions) Our first question today comes from Thiago Macruz from Itau. Please go ahead.

Q - Unidentified Participant

Good afternoon, it's actually Victor speaking, and I have two questions. The first one, we see a trend of distance learning receivables turnover getting closer to face to face levels. Do you expect these distance learning receivables to effective reach face to face receivables turnover levels? And if yes, when will it happen?

And for the second question, on your recent request of new distance learning centers, do you have any color on max approval process? What do you see about max take on that? When do we expect the approval to become reality? Thank you.

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

Hi Victor, it's Rodrigo Galindo speaking. I will answer the second question and then Frederico will answer the first one. About the new centers in distance learning, we already issued the authorization in October of 2012; we are expecting to receive the commission, the people from Ministry of Education to analyze the conditions in second quarter.

And in our projections, we expect to be to get the approval in the end of 2013. We know it could take more time, it could take the first quarter or the second of 2014, but we still have hope that we can conclude this process until the end of 2013.

A - Frederico Brito {BIO 16674822 <GO>}

Victor, this is Frederico. On your first question, the turnover of distance learning will converge to the face-to-face. 12 months ago when we made an acquisition that was our assumption, what we are seeing today is any increase that is slower than what we expected before, so this is good news. Yes, we can see an increase in the turnover but I don't think today that we'll converge to the same level of postsecondary which is 70 days. So structurally, what we are concluding is that the turnover of distance learning is lower, it will converge but not to the same exact level of face-to-face.

Q - Unidentified Participant

Okay, thank you very much.

Operator

Our next question comes from Marcelo Santos, J.P. Morgan. Please go ahead.

Q - Marcelo Santos {BIO 20444938 <GO>}

Good afternoon, I just wanted to understand a little bit better what are your plans for the learning system segment. So, you mentioned that you're restructuring the business, focusing more on private segment. Do you intend to keep this business for long? Do you have plans to sell it? Does it make sense to have it together with higher education? Are there any similar in there? So, if you could speak a little bit more about that.

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

Hello Marcelo, this is Rodrigo speaking. Yes, we are planning to keep the K-12 business because it's a very good business. In 2012, just to have an idea, in 2012 this business delivered R$148 million in revenue and 25.5% in operating results, it's higher than postsecondary. So it's a very good business, it's growing, it's growing a little bit less than postsecondary but it's growing. So we have a very good business with high growth, with higher margins and we are not planning to sell the K-12 business. What we did in the last quarter, we decided focus the growth in the private area, so to sell learning systems to private schools.

We are not put in our efforts to sell to majors, to sell to (inaudible) area. So that's are the only chance that we have but we still like this business and we are still very confident that this business can grow in margins and in revenues, more in revenues, but there is a little bit space to grow in margins too.

Q - Marcelo Santos {BIO 20444938 <GO>}

Okay thank you very much.

Operator

(Operator Instructions) Our next question comes from Rubin Quoto from Brasil Plural. Please go ahead.

Q - Rubin Quoto

Good morning, everyone. Thanks for taking my call. My question is regarding dropout rate trends. Reenrollments in first quarter 2013 were quite strong. And I guess that FIES had a major role in reducing dropouts in the on-campus operations. But, what were the major reasons or efforts in your dropouts in distance learning? Just wanted to get a little bit more color on your thoughts in distance learning. Thank you.

A - Frederico Brito {BIO 16674822 <GO>}

Actually it's impossible for you to see at this time. How it was a dropout for sure for exactly with the figures that we disclosed because we also have the graduates there. But of course, we believe that there are some, some improvements on the dropout rates both in the distance learning and on-campus. On the distance learning, we believe that I think we got, we are much more mature in terms of commercial effectiveness in terms also of how to attract the students to keep them in our base.

So I think it's much more about commercial standards and commercial actions that we provided and I would say for both retention and also intakes in the business learning. And also to finalize, I think the FEIS playing a very important role to improve the retention in the on campus business. We are preparing a deep study about that and we will be disclosing that to market probably by the -- with the second to first quarter results and that there will be much clear how would be the impact and what we can expect for the future.

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

But this is Rodrigo speaking, just complementing. We already know that impacts on FIES are strong. We can see the impacts of FIES, but we won't disclose -- exactly the impact of FIES in dropout rate in the first quarter results at all.

Q - Rubin Quoto

Sounds great thank you.

Operator

(Operator Instructions) Next question comes from Quhay August from Barron Capital please go ahead.

Q - Quhay August

Hi, there. I have a question on distance learning. While I see the potential for distance learning, it seems like you as well as many of your competitors have ambitions to really expand in this space over the next couple of years. And I'm wondering what is your thought in terms of overall industry supply? And at what point do you think that that might exceed the demand that's out there for distance learning?

A - Frederico Brito {BIO 16674822 <GO>}

Hi Quhay, Frederico speaking. First, it is important to reinforce that that distance learning which is very new; it's a very new business. It just started just in 2001 or 2002 and it gained strong in 2007-2008 so there is a lot of space to grow in distance learning. When we analyzed our students that choose distance learning, our students in distance learning are older than the students in on-campus business. They are mostly women, 73% of the students are women and they are low income than the postsecondary present on the on-campus students.

So there are specific groups that are looking for flexibility and they are looking for price, and this is true conditions that distance learning provide the low prices and flexibility. So I believe that that there is a large space in the market to increase for all the industry and we are prepared to get the best part of this business and the demand.

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

Okay, so, I'll just add two things, the first if you look at penetration and if you look at penetration in postsecondary in general our penetration in Brazil is very far for more developed markets and within distance learning the penetration is almost half of the penetration of the US. So if you look macro there is still a lot to grow in postsecondary in general and within distance learning also a lot to grow its less expensive type of degree. The ticket is less than half of face to face so there is still more space.

And the second thing the government is starting and is not disclosed yet, but there may be good news on FIES for distance learning students. So today, FIES which is the student financing from the government is only accessible to the face to face, but there's work that we know that is being conducted by the government to expand to distance learning. So it's, it would be an additional lever of growth for distance learning as well.

A - Frederico Brito {BIO 16674822 <GO>}

But just to be clear, we are not expecting this for -- for a short time, but we know the government is considering the importance, but we don't know when it could be implemented, but it is a very huge potential at sight.

Q - Quhay August

Okay. And just a quick follow up, is -- I understand that in -- if -- in the on-campus business, there's a three- to four-year ramp up period where margins are lower and that it ramps up to group margin. Is that also the case for distance learning as well?

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

Okay, so it's a very good question. In on-campus if you open a new campus you usually have a ramp up and this ramp up depends on course by course so each degree has a different ramp up, but you're right on average about two to three years on an average four year duration of a course. Distance learning is very different, the fixed cost that you have in distance learning, they are much more diluted because of scale.

So when you add a new course or a new program in distance learning you almost only have marginal cost and the marginal costs is very small compared to the revenue. So it's very different profile when you add a new distance learning or when you add a new course within our platform. So distance learning is faster and conversion to higher margin than on face to face.

Q - Quhay August

So, could you give us some color on that? You mean faster as in it takes a year or two, or how should we think about that in terms of sort of the margin impact as you grow the distance learning business?

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

For Kroton, is almost immediate in distance learning why? Because for each real that we invoice our student in distance learning we pay to our distance learning center about 36%. So for each R$100 we pay R$36. This is pretty much our margin for an additional student. On the other side from the distance learning center, most of investments are done by our partner in the distance learning center.

So for Kroton, it is immediate so one new student or one new classroom is almost translated in the same -- in direct margin because the fixed costs to produce material and the fixed cost of our professors is pretty much fixed and is scalable for an additional student. I don't know if I was clear, but it's immediate on summary.

Q - Quhay August

Okay, great, thank you so much.

Operator

(Operator Instructions) At this time there are no additional questions. So this concludes the question-and-answer session. At this time, I would like to turn the call back to Mr. Rodrigo Galindo for any closing remarks.

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

I do like to thank you all for participating today and we are very optimistic with the perspective that we have for our next -- for this year. Thank you very much.

Operator

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