

## Q2 2011 Earnings Call

### Company Participants

- Carlos Alberto B. Lazar, Investor Relations Officer
- Renato Friedrich, Chief Financial Officer
- Rodrigo Calvo Galindo, Chief Executive Officer

### Other Participants

- Analyst
- Joao Carlos Santos Pedro Montenegro

### 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 Second 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 presentation. After the company's remarks are completed, there will be a question-and-answer session. At that time further instructions will be given. [Operator Instructions]

Also, today's live webcast, both audio and slide show maybe accessed through Kroton Educacional's Investor Relations webcast at [www.kroton.com.br/ir](http://www.kroton.com.br/ir) by clicking on the banner 2Q, 11 Webcast.

The following presentation is also available to download on the webcast platform. The following information is available in Brazilian reais in accordance with Brazilian corporate law and generally accepted accounting principles BRGAAP, which now -- 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 Calvo Galindo** {BIO 17238232 <GO>}

Good morning everyone and welcome to the Kroton Educacional conference call for the earnings results for the second quarter of 2011.

Also participating in the call today are our IR Officer, Carlos Lazar; and our CFO, Renato Friedrich.

I'd like to start our presentation on slide three, commenting on the highlight of the second quarter of 2011. We ended the second quarter with 98,000 post-secondary student for growth of 10% from the first quarter. Considering the M&A transactions in the period with the sale of our units in Rio de Janeiro and the three acquisitions the post-secondary segment registered organic growth of 5%.

The new business Graduate and Distance learning programs registered significant growth, reaching 3,300 student at 146 centers in less than six months of operation. In July, we began a new phase of growth -- with the purchase of units with the combined total of 6,500 student. The process to integrate these acquisition is already well advanced and all students from freshman to seniors have begun classes in the second semester of this year already with the new academic model, which had enabled a 24% reduction in the number of professors and staff.

The company's results in the quarter have shown important improvements for the second quarter of 2010. In second quarter of 2011, our pro forma net revenue reached 162 million from gross of a 9.4% on the same quarter of last year.

Korton's EBITDA in the quarter came to 16.1 million with the EBITDA margin on 9.5% for EBITDA margin expansion of more than 10 percentage point from the second quarter of 2010 on EBITDA margin was negative. This improvement was due to the various initiatives implemented last year due to the integration and turnaround process in the post-secondary segment. The result this quarter have brought revenue in the first six month of this year to 364 million with EBITDA of R\$ 68.1 million and EBITDA margin of 18.7%.

Lastly highlight in the period was the conclusion of our follow-on offering in early July, which -- proceeds of over R\$ 363 million, which will be used to support our growth in the coming periods.

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Let's go now to the company's operation performance on the next slide.

On slide, we can see the new map of Kroton's post-secondary operation, and here I'd like to highlight the following events.

In May, we announced the divestment for our operation with the City of Rio de Janeiro, a unit was not performing well, and it was failed one of the actions we implemented to improve our margins and the efficiency of our operations.

In July, another adjustment was the closure of yet another unit in the City of Belo Horizonte with the students transferred to another campus nearby without any impact on the operations and with no increase in dual pulse rates.

As a result of these measures, the consolidation of operations in Belo Horizonte in certainly strategic local campus is also part of the plan to boost margins in the post-secondary operations. All the actions in the plan are being implemented in accordance with the initial time table and one more unit should be closed until the end of this year.

In July, we began a new phase of inorganic growth with the announcement of two acquisitions as follows. First, the purchase of Faculdade Atenas Maranhense Fama, which had a total of 5,000 students in two units, in São Luis and Imperatriz, two cities in the State of Maranhão. This operation is fully aligned with our growth strategy, because it strengthens the position of Kroton in this state, where we already had a unit in the capital São Luis.

And second, the acquisition of Faculdade Educacional de Ponta Grossa - União, which has 1,500 students; and the acquisition was also aligned with the company's growth -- our presence in the state of Paraná, where we already have a unit in... With these events, the company now has 39 post-secondary educational unit in operation located in 29 municipalities in nine Brazilian states.

I would now like to comment about how the merger process is proceeding in the units we acquired.

In slide six, we present an example of the timetable of the integration process for FAMA in São Luis, Maranhão and Imperatriz when taken together represent the biggest acquisition until now. The schedule for the Ponta Grossa acquisition unit, it was very similar -- in this one that was presented now.

As we can see, Kroton has a structured merger process that begins even before filing, before the closing, and involves many different corporate areas. The schedule calls for the impact integration process to be completed within 90 days that we call 90 days integration.

The integration for the -- will enable us to efficient capturing important synergies -- operation. In the -- examples of these -- of the integration process can be seen the three

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latest acquisitions. And the Ponta Grossa unit, the acquisition was made on July 15. And the acquisition of the São Luís and Imperatriz units occurred on July 18. On August 8, just three weeks after acquisition, classes began and all the students at the three units from freshman to seniors were using the new Kroton academic model. Note that this was only made possible, because integration process was begun before the actual closing of the deal during the due diligence process.

And the implementation of the academic model now in August had allowed us to immediately capture synergies of the total 330 employees. The integration synergies are -- immediate termination of 79 staff and professors for a 24% reductions in the total of the right headcount with all the planned lay offs already completed.

We are certain that this rapid and efficient integration process adopted by Kroton represent an improve and important differential and will be fundamental for our plans to boost margins.

I'd now like to invite our Investor Relations Officer, Carlos Lazar to project our details about the quality in our institutions.

**Carlos Alberto B. Lazar** {BIO 17238206 <GO>}

Thank you, Rodrigo.

So, turning to slide seven, but still focused in the post-secondary operations, I would like to comment on two important subjects. The first are the assessments conducted by the Minister of Education of the quality of our undergraduate programs in educational units.

The Minister of Education has a series of indicators for measuring the quality of the academic programs and institutions, which includes the programming concepts, which is an assessment of each undergraduate program on the three dimensions of reaching organization faculty and facilities evaluated. And the institutional concept, which is an assessment of each educational institutions that we have on 10 different dimensions.

For this two indicators, the Minister assessment gives a score for one to five with scores of three, four, and five meaning a satisfactory to excellent level of compliance with their requirements. In the latest assessments, 97% of Kroton's academic received a satisfactory program concept scores of three, four, and five.

And 97% of the units received satisfactory institutional concept scoring at three, four, and five also. These results are very positive and demonstrate that the improvement in the financial results of Kroton's post-secondary operation has been a component by improvement in the quality of the services offers.

Another important event was the partnerships signed with Microsoft to implement innovation projects throughout the Kroton Group on a member of academic incorporate problems. The partnership creates a long-term platform to improve the quality of

education offered by the Group for the entire country and strategically positioned the technology-based education activities in the cloud environment.

The partnership was implemented through specific projects and the key partnership -- the general rules of the partnership with separate contract signed for each projects additional... We have also signed agreements for initial projects, which ensures access to the environment life at -- to all Kroton's current and old students, professors, and employees.

Other important projects are also being implemented with the aim of eliminated distance and promoting collaboration in digital environment between the teachers, students and administrators.

In the next slide, number eight, we highlight one of the most important projects recently initiated by the company: the distance learning projects, which offers 18 different graduate programs in the online and telepresence modalities. As mentioned, in recent earnings announcement -- associated K-12 schools are being invited to participate as centers for these projects, which makes us a major player in segment and in ensures a national progress and essential factor for the growth of the business.

The success of this strategy can already be seen with the cost -- evolution in the number of centers, which in the last four months included about 217% from 46 to 146 today, spreaded over 22 states and 127 different cities. For distance learning undergraduate programs, we do expect the approval from the Minister of Education in May 2012. The project will have 76 centers since the beginning in 17 states and 66 cities.

In slide nine, we initiate the presentation of the evolution of number of student between the first quarter 2011 and second quarter 2011. We started the first quarter with 89,000 students as we mentioned last quarter. In April, we had -- we've served a significant number of re-enrollment for the first semester. So in all, there were around 300 late re-enrollment and into 89,000 students at the close of the first quarter, combined it had some 92,100 students enrolled in undergraduate program, graduate in-class programs and graduate distance learning programs.

May and June, Kroton enrolled another 5,300 units students, which came from the transfer of undergraduate students and new enrollments of graduate students in both in-class and distant learning segments. In the second quarter, we had 1,800 students graduating and 1,900 students dropping outs.

With all these movements, the total student based ended the second quarter at 93,800 students, which represents organic growth of 5% from the base at the close of the first quarter. To us, how this student base will be impacted by the M&A transactions? We must first consider the sale of SUESC units with an outflow of 2,300 students and then the three acquisitions made in the periods, which brought about 6,500 students.

As a result of this impact, we ended the first quarter, actually first half of the year with 98,000 students, which represents a real growth of 10% in the student base from the

close of the first quarter.

In order to understand the different behavior of the post-secondary education segments, I would invite everyone to move to the next slide.

In the undergraduate segment, we ended the first quarter with 78,100 students; and after the transaction in the period, we ended the second quarter with 79,600 students for growth of 2%. With the sale of SUESC and the three acquisitions, the total number of undergraduate student went to 88,800 for growth of 7% from the end of the first quarter. The in-class graduation attendance reached about 10,900 students, an increase of 10% over the previous quarter.

Finally, the distance learning graduate business registered accelerated growth from 1,000 students in the first quarter to more than 3,200 students at the end of June. This movement strengthens our view in the distance learning business that we believe that will make a very important contribution to the organic growth of Kroton in the coming years.

In slide 11, we present an analysis of our of our performance in the FIES program.

In June 2011, we reached the milestone of achieving 11,100 students in the new FIES, a number of 59% higher than the first quarter 2011 adding the 2,900 students, who migrated from the old FIES for the conditions of the new program. Kroton already has hired 14,000 students in the FIES, that mean 18.2% of our under graduate base. In July, the total number of FIES students surpassed 15,000.

It is also worth mentioning the increase in the base of eligible FIES students, which went from 77% to 83% in June. Therefore, we continue to understand that the program will be an important tool to increase the penetration of the post-secondary education in the country. And according to the numbers that we are presenting here, we strongly believe that we offer a differentiated execution of the program.

About the analysis of K-12 on slide 12, I would like to remind you that the process of capturing the segment occurs only at the beginning of the year and that most of the revenues occurs in the first quarter, appeared when we delivered educational materials to the associated schools. Kroton maintained a base of 771 associated schools in the teaching network with more than 281,000 students of which 263,000 are served by Pitágoras education system, our brand in the private sector.

So, I'd would like now to start the financial performance analysis. And moving to the slide 14, we comment here the extraordinary events related to the billings of the K-12 business. So, as amplified and well described in our earnings release, during the month of June, we had a systemic communication problem between the company and the State of Minas Gerais Treasury area, regarding the issuing of Electronic Invoices. The event created problems in the billing process and to not cause adverse affect for the schools -- for our clients, we decided to extent on accession basis the deadline for receiving orders for products.

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With this expansion, a portion of the billing in the K-12 segment corresponding to R\$ 6.5 million that always occurs that should occur in June was postponed to July. To ensure that the invoicing for June was in fact realized in July we present the analysis of the budget amounts versus the actual amounts in June and July. These analysis verified that July was affect -- was in fact inflated by revenue that in the normal course of the business would refer to June.

To provide the market with -- more in line with normal environment of our business, we added an analysis by adopting the pro forma assumptions consistent to our budgets and the nature of the -- which were the R\$ 6.5 million in revenue posted in July, but related to June. In currency, the rate of 20% of additional revenue were located in June regarding the cost of goods the same percentage recorded in prior periods such as in the first quarter and in currency of a tax rate of 10% on taxable income also experienced in previous periods.

Regarding the deduction lines, cost of services and operating expenses, it's worth mentioning that there were neither positive nor negative impacts even with the delay in revenues, before the nature of these billing matures, which is not taxable, and because there is no relationship between the delay and the -- of the back half of the work in neither of the other segments or in the corporate area.

I'd like to emphasize that the pro forma information does not substitute either in the release or in this presentation, the data we think the user formats in which we disclose our results. The intention here was only to include these adjustments to give you a more adequate and more comfortable analysis to what happened between the periods.

With that said, in the following slides, my comments will be aimed mainly and because of the K-12 results focusing the comparative analysis using the proforma data. I'm further noting that all the following analysis except where noted otherwise, will also excludes non-recurring cost and expenses and includes the consolidation of the União results from January to June of 2010 numbers.

Now going to a slide 15, we present the company's quarterly net revenue, which grew by 9% compared to 2010. In post secondary education, net revenue grew 10% over second quarter 2010, driving by enrollments during the period that included the payment of tuition fees since the beginning of the year, which also impacted the average ticket as integrated by 7% between first and second quarter 2011 reaching R\$ 592.

These advances are consequence of the company's policy to recognize revenue from post secondary students, only when they pay first month. Therefore, the enrollment made after the end of the first quarter includes revenues from January to March only registered at the time of the enrollment, which this year was important in the month of April. Regarding the postgraduate business, the average ticket was stable at R\$ 158.

On the K-12 education segment, revenue in the second quarter 2011 due to the seasonal nature of this specific business is less than the first quarter. However, in the enroll analysis, proforma revenue was 7% higher than second quarter of 2010, following the level of

growth seen in the first quarter 2011. The average ticket -- this year is R\$ 275 per year, per student, 7.3% higher than in 2010.

In slide 16, we present net revenue for the first half of the year. In the analysis of consolidated net revenue, we are 7% higher than the first half of 2010. In post-secondary education, growth reached 6% and K-12 education pro forma included about 11%. I would like to emphasize that the beginning of the acquisitions process with the beginning of these acquisitions, we do expect that the revenue flow should speed up.

On slide 17, we show the cost of goods and services of the second quarter and the first half of 2011. Into the quarterly analysis shown in the chart in the left, we can see a substantial improvement in the relation between total costs and net revenues -- and net income, I am sorry, in the periods.

In the second quarter 2011, performance, the ratio was 67.8%, compared to 74.8% for the same period last year. In post-secondary education, it's worth noting the reduction of 10.5 percentage points from the sum of the cost of teachers and third party suppliers between second quarter '11 and second quarter 2010, mainly to the introduction of the new academic model in August 2010.

Rental cost also reduced substantially going from 11.1% of net revenues in second quarter 2010 to 9.5% in second quarter 2011, resulting from the gain margin initiatives currently underway.

Regarding K-12 education, cost and services provider pro forma represented 52.5% of net revenue in second quarter 2011, compared to 29.5% in the same period of the last year. The increase relates to the factors already mentioned and the disclosure of previous result and demonstrates that the actions that have been conducted since 2010 for structure new crystal network and rating the level of service to our clients. It's also here important to emphasize that these points have allowed the position of the Pitágoras as a premium brands and increasing the average primary and secondary education ticket above inflation with organic growth.

It's average for the year as I said in the quarter analysis. There is an improvement in the relations between total cost and net revenue for the students. In the first half pro forma basis, this ratio was 60.9% compared to 64% of same period last year. Value chain, we can see the evolution of the company's consolidated gross income, which amounted to R\$ 55.3 million with margin of 32.2% in the second quarter, 7 percentage points above the same period the last year in comparison between semesters, the first half of this year totaled R\$ 142 million, representing gross margin of 39% compared to 36% of last year.

On slide 19, we can see the gross income in each segment of the company. The major portion was due to the post-secondary education, which posted gross income growth of 80% in the second quarter 2011, over the same period last year, which in R\$ 46 million and margin of 32.3%, 12.6 percentage points higher than the same period last year.

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For the first half, the growth was consistent with an increase of 36.7% in gross income and 7.8 percentage points in the margin. In primary and secondary education, the margin sales driven by higher cost as mentioned in above, going from 54% in the second quarter 2010 to 32% in second quarter 2011. It's important to note that the actions that generated this higher costs, we will be offset by some gains in the mid-term with the beginning quality of this specific business and the estimates that we did.

Let's go on to slide 20; the total general and administrative sales and marketing expenses in the second quarter of the year represented 19.7% of the pro forma net revenue, a decline of 2.7 percentage points compared to the second quarter last year. The same behavior can be seen in the first half 2011, when the total general and administrative and sales and marketing expenses in the second quarter represented 18.2% of net revenues. The personnel, general and administrative expenses represented 14.8% of net revenue, a slight decrease compared to the second quarter last year, which was 15.2%.

First half 2011 showed a significant reduction in sales and market expense versus first half 2010 of 32.3%. This fact coupled with positive changes in the number of students appeared demonstrates the -- and the effectiveness of Kroton sales efforts.

In slide 21, we are presenting the EBITDA and the EBITDA margin. The company pro forma EBITDA in the second quarter 2011 was 16.1 million with the amount of 9.5%. In the semester, the pro forma EBITDA totaled 68.1 million, with the EBITDA margin of 18.7%. The company recorded a significant increase on EBITDA and the EBITDA margin versus the same periods of last year, demonstrating the real improvements of the operation in the financial performance after all the initiatives implemented until now.

Regarding non-recurring cost and expenses, I'd like to point out here that the company has been well restricted with regards to this event and treated only the specific and non-recurring items as is considered. During second quarter 2011, we have -- event, which lead to the right-off of the investment in the amount of 3.2 million in addition of about 1.4 million was paid during the process of the reduction of rental costs with the activation of post secondary units and the periods.

Even with these events as I mentioned, which is driving 34 new facts and generate -- will generate operating and financial gains in the mid and long-term, the total volume of non-recurring events in the first half of the year was approximately one-third of those recorded in the same period...

Passing now to the next slide, we can see that the pro forma net profit for the second quarter was R\$ 1 million versus a loss of almost R\$ 14 million during the same period last year. In first six months of 2011, the net profit reached of R\$ 34 million, about 180% higher than the same period of 2010.

Finally, regarding CapEx on slide 23, we show that we invested R\$ 13 million in the second quarter as follow: R\$ 3.2 million in computer equipment and library, 2.4 million in content development systems and software license, 6.2 in laboratories and similar equipments,

and 1.2 million in works and improvements. For the semester, the percentage of that net revenue consumed full CapEx was about 6% within the target established by the company.

I'd like now to give the floor Renato Friedrich for his comments regarding the provisions and receivables

**Renato Friedrich** {BIO 16888676 <GO>}

Thank you, Carlos.

Before beginning the analysis of the numbers and sales, I would like to make some comments in regards to the model we used to constitute our provisions for doubtful accounts on students receivables. The model we used takes into account the historical behavior and trends of collection curves for these receivables over a cycle of 360 days. Every month, the behavior of these curves is monitored and provisions are adjusted or the to the recovery trend of each period.

The PDA amount established covers the entire collection cycle starting from the month of billing. All amounts not collected up to 360 days as the due date are full year written-off.

On slide 25, we show our consolidated PDA. It was 7.5 million in the first quarter -- in the second quarter, representing 4.6% of our net revenues. In the first half, the PDA totaled 14.6 million or 4.1% of net revenues.

Given the fact that delinquency levels among the business segments are significantly different, on the next slide, we show the figures by business segment.

The proportion between PDA and net revenues was 5.1% in the first quarter of 2011 compared to 6.3% in the second quarter of 2010, regarding post secondary revenues. It's worth to mention that we have adopted the current PDA provision in criteria since the fourth quarter of 2010. And of the last -- based on last year and also the relevance FIES started to have in our receivables changed a lot since the first half of 2010.

The K-12 business delinquency levels are significantly lower than post-secondary receivables. Receivables in this case are not issued against students as in the post-secondary education, but rather against the associated schools. The PDA level was about 0.7% of net revenues in the first half of 2011 inline with the historical levels we have experienced for this segment.

Moving to slide 27, I would like to highlight the increase of 86.4% in the volume of the FIES receivables between the second quarter of 2011 and the first. This was due to the 59% growth in number of students under the new FIES since the first quarter of 2011. Given the fact that students enroll for FIES during the course of the semester, the receivables issued until then are reclassified the to FIES receivables portfolio in the month in which the students enroll for the FIES program.

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These generate retroactive action that ends up generating a disproportionate higher growth on this portfolio in comparison to the number of students. With important growth and relevance FIES starts to have in our business, the company chose to add information about accounts receivables terms segregating also the revenues linked to these receivables from FIES, allowing a proper analysis.

The average collection term for post-secondary education receivables in the second quarter of 2011 was 69 days, three days less than the same period of 2010. Compared to the first half quarter 2011, the increase of two days maybe considered normal in view of the seasonal nature of this business.

In the primary and secondary business the outstanding receivables amounts began to decline due to the seasonal nature of this business. Most sales occurred during the first quarter of 2011 with collections occurring along to subsequent quarters. Therefore, the number of days declined from 160 in the first quarter of 2011, to 98 in the second. From the other side, the improvement of 47 days compared to the second quarter of 2010 is due to a strict decline in financing policy we adopted 2011.

On slide 28, we present our collection timeline used for best new receivables from students. This chart shows the action taking along with the best ranging from simple reminders of non-payment in the initial phase through letters and other actions through specialized collection agencies -- with the lawsuits for higher amounts.

Finally, it should we mention that even after the 360 days, when receivables are already written off debt recover efforts continue seeking to minimize the impacts on revenue and receivable losses.

With that, I'll finish my comments and hand it over to Rodrigo Galindo for his closing remarks.

**Rodrigo Calvo Galindo** {BIO 17238232 <GO>}

Thanks, Renato.

On slide 30, we present general information on the follow-on offering that Kroton recently concluded. More than 80 meetings were held and 90 investors were visited 14 cities in Brazil, United States, and United Kingdom. We offered a total of 20.5 million unit of which 19.7 million in the primary offering and the greenshoe at the price of 19.25 per unit. The proceeds total approximately 354 million, which will be used to support our growth especially to acquire post-secondary institutions.

And other significant benefit of the offering was the increase of free flow, which went from 45% to over than 58% and other highlight in the quarter was Kroton winning the 2011 IR Magazine Awards in the category of Best Improvement in the Investor Relations. This important recognition demonstrates that all the efforts being made by Kroton to increase the relationship with the market are being well received by the financial community.

Going to the last slide, I would like to make my closing marks.

The consolidated results in the first quarter of 2011 shows significant trend in customer levels performance for the same period of last year. Kroton registered growth of 70% in EBITDA, which went from 40.1 million in the first half of the 2010 to 68.1 million in the first half of this year. EBITDA margin registered significant expansion from 11.8% in the first half of last year to 18.7% in the same period of this year.

Net income grew 174% from 12.3 million in the first half of last year to 33.7 million in the same period of this year. And net margin expanded from 3.6% in the first six months of last year to 9.3% in the same period of this year. We also begun to deliver on the acquisition front inline with our projections. We had already made three acquisitions all of them in the advance state of integration. The acquisition pipeline is very active and we plan to deliver new acquisitions before the end of this year. And the guidance of the 15,000 students in 2011 is on track to being met.

In terms of organic growth, Kroton registered net revenue growth of 9.4% between first semester of 2010 and first semester of 2011.

In our student base, we registered organic growth of 2% in our undergraduate programs and a 10% in our in-class graduate programs. In the first half of this year, we also successfully launched our distance learning business, which less than six months reached 3,300 students at 146 center, which gives Kroton one of the largest distance learning networks in Brazil and the one of the broadest coverage.

The company's fundamentals are solid. We continue to deliver consistent performance and we maintain a transparent relationship with the market. For all of these reasons, we are certain that the outlook for Kroton is very positive.

We'd like to thank you all for your participation, and open immediately to questions. Thank you.

## Questions And Answers

### Operator

Your first question comes from the line of J.C. Santos.

### Q - Joao Carlos Santos Pedro Montenegro

Good morning, everybody. Thanks for the question.

I have two questions. First two questions, you can jump off and get in if there is any other questions. The first one regards to organic campus opening; it seems that you've done some acquisitions like CEAMA and as per my notes here, you were already open... So, just wondering, how the plan to open organic units is evolving?

The second question regards to the non-recurring on the leasing costs, the pay back of those campus of closing campus. If you could tell us what's the expectation for that pay back. And how much is yet to come, if you can see that your guidance for sort of 8% of closing campus. What is the apparent level the company is running at and how much you see as opportunity here from the closing campus? That will be the two questions. Thank you.

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

Okay. J.C., thank you for your question, and I will try to answer your second question about the payback of the non-recurring closing...

We have some analysis, but it's very no-brainer that it's a good fashion for the company. Just remember, I will give you and you will see how it's no-brainer.

In this campus -- that we already closed, we have R\$ 1.4 million in one-time cost and benefits of this closing is 2.5 million per year. That's the relation between the non-recurring cost and the benefits of the closing campus. So, we are very comfortable that is a good measure and necessary measure to improve margin.

Your second question, could you repeat please, J.C.?

**Q - Joao Carlos Santos Pedro Montenegro**

Sure. It's still on the leasing side, how much is yet to come? I mean you were like 40% of revenue if I'm not are mistaken and you were targeting to get to 8% of revenue -- cost. So, how much is the company running now and how much is yet to come in and what's the timeframe here?

And then the very first question was regarding the organic campuses opening, if I'm not mistaken, you already have something in mind in your plans for organic campus opening -- acquisition. And after the acquisition of FAMA, how is going to be the game plan there in acquisition? Thanks.

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

Okay. Our regional plan is with the proceeds of the follow on build four greenfields and four brownfields. One of the brownfields that were planned in the follow-on is exactly in São Luís, Maranhão... We acquired an institution in the Maranhão, and we acquired the real estate in this institution. And we are increasing the deals in the same real estate and we are transferring our students for our actual institution in São Luís to the new institution that was acquired recently. So, the proceeds of the follow on will be impart used for this expansion of the real estate, and we consider this a brownfield, okay. So about the rental cost, we are today about 9.5% of net revenue, and our target is to consume 8% on net revenue with in the post-secondary, which we -- in 2013.

**Q - Joao Carlos Santos Pedro Montenegro**

That's, great. Thank you very much.

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

Thank you, J.C.

## Operator

[Operator Instructions]

Your next question comes from the line of Mr. Gundi.

## Q - Analyst

Hi, thanks for taking my question.

My question was along the lines of understanding distance learning. I wanted to get your thoughts on what is the average ticket for the distance learning whether this number was included in the post secondary numbers, what will be the expectations on students going forward?

**A - Carlos Alberto B. Lazar** {BIO 17238206 <GO>}

Okay, this is Carlos speaking.

## Q - Analyst

Hi, Carlos.

**A - Carlos Alberto B. Lazar** {BIO 17238206 <GO>}

Hi, thank you for your question.

Regarding the tickets that we charge in the graduate distance learning programs, we charge as gross ticket of about R\$ 190 per month. So, as you probably saw, we increased a large number of students, but the average ticket will remain something like that. And the margins considering this decade will be around 50% already considering after the payments of our partners as they're associated with, for example.

And the perspective in terms of -- for our distance learning is to, we were very, let's say, realistic in terms of our conservative -- in terms of number of students by the end of the year. So, our perspective was to reach the amount that we already reached around 3,000 students by the end of the year, but as a matter of fact, we already reached this level. So, but we didn't change, let's say, the analysis and perspective for the coming years, so by 2013, we do expect that we'll reach something around 20,000 students. Okay?

## Q - Analyst

Great, thank you. And these the number of students are they included in this 91,546 accounts?

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**A - Carlos Alberto B. Lazar {BIO 17238206 <GO>}**

The 2,300 that we have today, yes. The total number of post-secondary students, yes; we divided in the presentation for each of the segments.

**Q - Analyst**

Okay, great. Okay. Thank you.

**Operator**

[Operator Instructions]

Your next question comes from the line of Pedro Montenegro. Please go ahead.

**Q - Joao Carlos Santos Pedro Montenegro**

Good afternoon, everyone. I just would like to explore here to further explore following the Portuguese call, the strong penetration of FIES in your student base. I just was wondering if you could provide any data comparing the dropout rate of students with and without FIES contract. If you have these available data to provide for us?

And also are you already seeing a relevant number of students enrolled to FIES using the guarantor fund? And if yes, how we are booking these line in your income statement? Thank you very much.

**A - Carlos Alberto B. Lazar {BIO 17238206 <GO>}**

So, starting about your last question -- actually, let's talk about your first question in terms of drop outs.

We have a segment, yes, that is impacting positively; the sales is impacting positively. So, the number of drop outs are remaining very stable, and we are increasing our base. So, in nominal terms, it's been pretty much the same amount compared to what we saw before. But again sales is a very new, it's just one year old. We are still seeing -- we are still understanding the evolution of it in our numbers, either operational or financial. So with some time, we are going to be more able to see how big is this impact.

And also in terms of the intake process of what we are seeing, yes, is that that FIES helps when we are trying to attract new students to our base. But again, it's the same case of the drop out. We are still learning how to operate even better, as in how to enjoy even more deep growth in this case.

And finally, I will comment in terms of the accounting procedures. As revenue, we have to recognize in the same way as a regular student without FIES. So, there is no difference between the revenue from FIES student or a non-FIES student. And in terms of provisions, we are considering 2.25% provision for the students without the guarantor funds. The guarantor funds students in our base represents only about 10% of the total number of

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FIES students that we have today. So the greatest part of a regular FIES students not using the guarantor funds.

### Q - Joao Carlos Santos Pedro Montenegro

Okay. Just as a follow up: you must provision a 5 to 7% of students using -- of the students to issue on that used guarantor funds, right? This provisioning even booking in top line as deduction or in other line?

### A - Carlos Alberto B. Lazar {BIO 17238206 <GO>}

It's in the same line of the provisions. But just one important message here is that the provision for the guarantor funds students it's higher, it's about 7%. So, we have -- yeah, in our case, it's 7%, because it's a five plus two -- plus two. But since the beginning, we provision at 7%.

### Q - Joao Carlos Santos Pedro Montenegro

Okay. Thank you very much.

### A - Carlos Alberto B. Lazar {BIO 17238206 <GO>}

But the rules say that it's 5% obligatory, plus 2% you contribute with the fund depending on the delinquency of this fund you can get back this 2%, but the conservative manner, we are considered 7% since the beginning.

### Q - Joao Carlos Santos Pedro Montenegro

Okay. Thank you very much.

### A - Carlos Alberto B. Lazar {BIO 17238206 <GO>}

Okay. Thank you.

### Operator

[Operator Instructions]

Your next question is a follow up from the line of Mr. Gundi.

### Q - Analyst

Hi, a follow up question regarding FIES: so, I see like you have very large student base that's eligible for FIES like close to 83%. but the percentage of students that actually get into FIES program is only 18.2%. Can you just -- some of the reason can be just given the program being you on marketing. Is it anything that's missing is like the larger number of students are not taking the FIES loans?

### A - Carlos Alberto B. Lazar {BIO 17238206 <GO>}



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Yeah. Well, our focus since the beginning of the program was to offer the FIES and let's say to push more the FIES to students that were not very good payers. Because a good payers, I mean they are paying very normally. So, but for those, who aren't paying very well and who are having problems are forced to dropping out of our programs. We are offering more and more of the FIES.

So, of course we're not going to reach in terms of base in short-term for sure the level of -- the same level that it's our eligible base. But the eligible base is a very good figure to understand that how big we can achieve in the FIES side; and more than this, it represents that I can bring a lot of people because when I say, that I am eligible to the FIES, I am saying that I have a good quality in my programs. So, that can impact in the good manner, the improvement of entrance in my base.

### Q - Analyst

Okay, great. Thank you.

### Operator

At this time, you are now back in the hands of Kroton management.

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

I'd like to thank you all for the participation, and we are available for further questions with our area.

Thank you very much.

### Operator

This concludes today's conference call. You may now disconnect.

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