Q1 2012 Earnings Call

Company Participants

- Carlos Lazar, IRO
- Frederico Abreu, CFO
- Rodrigo Galindo, CEO

Other Participants

- JC Santos, Analyst
- Mitul Gandhi, 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 First Quarter 2012 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 Web cast audio and slideshow may be accessed through Kroton Educacional's Investor Relations website at www.kroton.com.br/ir by clicking on the banner 1Q '12 Web cast. 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 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>}

Good morning, everyone. Welcome to the earnings conference call of Kroton Educacional for the First Quarter of 2012. With me today is our IR Officer Carlos Lazar, the Financial VP Frederico Abreu, and the Operations VP, Igor Lima.

I'd like to start today's presentation on slide three with the highlights in the quarter. First, we are increasing the level of disclosure on various fronts. Starting this quarter, we will be able to analyze the operation and financial performance of Kroton's three business segments, on-campus postsecondary education, distance-learning postsecondary education, and primary and secondary education.

Information on students will be present by business, dividing on-campus, distance-learning, and primary and secondary education and also by product, divided in undergraduate and graduate, which we will load to monitor change in students' number in each segment and product.

Kroton's income statement will also be presented separately for each segment. With this, the financial performance of the three business can be followed separately down to the level of the operation -- operating resulting and operating margin.

The income statement we will also provide a breakdown of the Company's corporate expenses. We also present Kroton's results on a standalone basis, in other words excluding any effects from the Unopar acquisition. Beside that, we are also presenting our cash generation, taking into account the many variables that impact cash generation, such as CapEx and the FIES student loans. And to better align market expectations, we will also provide formal guidance with our projections for 2012.

Turning to the operation highlights, we surpassed the mark of 325,000 postsecondary students, with a growth of 28.8% from the Fourth Quarter. This growth is strictly organic, since we didn't make any acquisitions during the First Quarter. In April, we signed a contract for the acquisition of Unirondon, our university center located in the state of Mato Grosso with 5,400 students.

Another important point in the process to integrate is the process to integrate the Unopar of our operations, with the first phase already concluded and the second phase already well advanced. In terms of our financial performance in the First Quarter, EBITDA reached BRL126 million, with margin expanding above 10percentage points from the same quarter last year.

Net income grew by 202% to BRL99 million, and operating cash generation before CapEx surpassed BRL51 million. All these informations will be detailed during the presentation but already give you an idea of the evolution in the Company's results.

I will now hand the call over to our IR Officer, Carlos Lazar, who will comment on the next few slides about the operation or operating performance.

Carlos Lazar {BIO 17238206 <GO>}

Thank you, Rodrigo. So I'm speaking on the operating disclosure. In slide five, we show the growth in the number of students between the end of 2011 and March 31st, and as we know, the First Quarter's the most important period in terms of new enrollments, so we started in December with a base of 253,000 students.

The figure is considering graduate and undergraduate students in both on-campus and distance-learning segments and also for Kroton and Unopar students taking this into account, so by the end of First Quarter we reached a base of over 325,000 students, meaning a growth of 29% in the period.

Both new enrollments and re-enrollments surpassed the Company' s targets, and then it's important to note that this growth of 29% in the student base is strictly organic. It means same units, since we are talking about the same base of units between December and March.

The next slide provides details on the growth in the student base in each of the business. So turning to the slide six, we present the growth in the on-campus and distance-learning segments this basis, so the table and the chart on the left shows the growth of the on-campus postsecondary students.

In this business especially, the student base grew by 15% from the end of 2011, with new enrollments boasting strong growth of 35,000 students. These results reflect intense sales efforts and the various sales actions implemented during the period, as well as the FIES student-loan program, which has proven extremely important for driving goals in our on-campus student base, as we will see later in this presentation.

On the right-hand side of the slide, you can see the growth in Kroton's distance-learning student base, which had an organic increase of 39% between December and March. The strong growth was also due to the intense sales activities that we implemented, with the main focus on the first -- which was the main focus of the first phase of the enterprise integration.

We are certain that this major growth in the student base is directly related to the high quality of the services that Kroton offers to both on-campus and distance-learning business, leading us to expect consistent growth in the short and long run.

On side seven, we present the numbers for the FIES student loan, and here by the end of the First Quarter, we reached the mark of more than 37,000 students with FIES loans, a growth of 84% from the end of 2011. This means that in March, 33% of the undergrad base had FIES loans, and more recently, on May the 4th, the FIES base reached the mark -- and surpassed the mark of 40,000 students.

The chart on the right shows the strong roles that the FIES student base has been registering each semester, going from 6% in the freshmen of the second semester of 2010 to 47% in the first semester of 2012. As we have commented before, we believe this excellent performance is due to the combination of mainly two factors.

First, the actions to convert students to FIES financing that Kroton has been implementing since 2010 since the beginning of the program, and, second, the high rates with which our students qualify for the FIES product. In this sense, at the end of the First Quarter, 92.5% of the student base were qualified to FIES loan, to contract the FIES program. It is important to note that this high level demonstrates once again the quality of our academic programs.

Another point I would like to make is that the monthly repurchase of FIES credits have been occurring regularly and on schedule. In these first three months of the year, we received BRL27 million through this repurchase, and in April we received another BRL27 million. So in this first four months of the year, Kroton has already received BRL54 million on FIES credit repurchase.

Going forward and moving on to slide eight, we present some highlights about the acquisition of Unirondon and a summary of the Unopar integration process. So Unirondon is a university center in the city of Cuiaba with about 5,470 students, and we signed the contract to buy it on April 27th, and the acquisition price was BRL22 million.

And jointly with the acquisition of this institution, we also acquired the property in the city of Cuiaba. For the university, the amount paid was BRL28.3 million, and for the property it was BRL23.7 million. The debt that we put together and discounted of the total value was about BRL30 million.

It's good to point about the property price that we also contract and evaluation by Colliers International the pointed to a price of BRL28 million compared to the BRL23 million that we actually paid.

As I was saying, the contract has already been signed and we expect it to close by the end of June. In the meanwhile, we are already working to advance all phases of the integration in line with what we did before in similar acquisitions.

About the Kroton integration process, we'd like to highlight here that we divided in four distinct phases. The project is currently structured and has 15 work fronts, and the number of projects, it stands at 110, so it grew by 30 new projects during the process of integration when we started.

The first phase was concluded in March, last March, and was focused in the commercial area in order to leverage growth in new enrollment and re-enrollment, with a goal effectively met as shown in the previous slide.

The second phase will focus in two areas, the organization restructuring in the revenue upside projects. The organizational restructure was already concluded, with a new structure implemented aligned with Kroton's management practice.

We fully integrated and disintegration -- in addition with the integration, we expect the benefits in terms of management quality, in terms also of payroll savings in the administrative area in line with the business plan for the Unopar acquisition with -- that we lay off about 53 employees. That specifically occurred in last April. The process has already been concluded, and the operations are completely stable.

The second phase of the integration recurrent to restructuring, revenue upside projects in the distance-learning segment. These revenue upside projects are concentrated in two complementary strategies to expand its distribution channel, which means increasing the number of distance-learning centers, and also second thing is to offer more products through this distribution channel.

I mean, the project that's at the more advanced stage is the activation projects, which will make possible the implementation of 50 new centers that have already been accredited by the Ministry of Education but have not been implemented and also the expansion projects, which involve the potential of new accreditation for more 200 centers in the near future.

The third phase of the integration involves implementing Kroton's academic model at the Unopar own campus postsecondary units, which we expect to occur in the midyear.

And the fourth and last phase involves the full integration of the process and systems, which should be conducted by the end of the year. So today what we can say about integration is that five months after we initiated the management operations for our areas have already been integrated and are conducted on a metrics basis by the Company's corporate departments. The operations are completely stable and the teams are committed to delivering both the quality targets and the sustainable growth.

On slide nine we present the indicators for the primary and secondary education segments, the K-to-12 segments. Kroton began 2012 with 289,000 students, divided between the private network and the public network, which is 2% higher than in 2011. Looking only at the private sector, the growth was about 2.4%.

Meanwhile, the number of students in the public school fell due to one of the municipality serving in 2011 not renewing its contract. However, there was an improvement in the number of additional services provided to the public schools, which more than offset the revenue reduction caused by this contract cancellation.

The number of associated schools increased by 5.1%, with a high renew rate of around 90%. So these indicators should allow the revenue growth in the K-12 segment between 2011 and 2012 to remain in line with the level in the recent years.

So now I invite our Financial VP Frederico Abreu to present the financial performance. Thank you.

Frederico Abreu {BIO 16674822 <GO>}

Thank you, Carlos. Before I move to the financial highlights, I would like to present the new results format we will start adopting this quarter, as Rodrigo mentioned. In order to increase the level of transparency, financial performance will now be broken down by business line or, in other words, on a face-to-face business, distance-learning business, and primary and secondary.

After the operating results by segment, the numbers are treated on a consolidated basis, including the corporate expenses, which consist of personnel, G&A on the different corporate areas, which provide shared services to the three segments, and this is why we cannot allocate them separately, in addition to the criteria described above, except where stated otherwise, all of the following analyses, excluding pacts on recurring events.

Moving to slide 12, where we present the changes in net revenues, gross income, and operating result in the on-campus face-to-face postsecondary segment. Note that this segment includes all the results of the undergraduate and graduate operations, including Unopar results, in this segment.

Net revenues grew 50% from the First Quarter last year, driven by expansion institute and base through acquisitions and organic growth and also by a higher average net ticket, which increased to BRL546 in the quarter. Considering only organic growth or, in other words, on a same-unit basis, revenues posted year-on-year growth of 30%.

Gross income grew by 77%, with gross margin expanding 6.9percentage points from the First Quarter last year due to the strong revenue growth and rigid control of costs and expenses we have been implementing. The operating results that we started disclosing by business segment this quarter grew by 78%, mainly due to the control of our operating expenses, and operating margin in this business was 31%.

Moving to next slide, slide 13 shows the performance of distance-learning business. There is no base of comparison for the First Quarter of 2012, since the results of Unopar were consolidated only in December 2011. The results in the First Quarter 2012 include the results of the undergraduate and graduate distance-learning operations incorporated from Unopar, as well as the results of the graduate distance-learning operations that Kroton already had before the acquisition.

It is clear the importance of distance-learning business to Kroton, with net revenues representing 22% of total in the First Quarter. This relevance is even greater when we analyze gross income and operating results with distance-learning representing more than 30% of total. This is very positive for Kroton, since it is the Company's fastest-growing segment and also it's most profitable.

In the First Quarter 2012, distance-learning segment have gross margin of 85.7%, an operating margin of 67%. Finally, the average net ticket in distance-learning segment was BRL189.4, and this is 100% of the revenues, remembering that 64% of the revenues are from Unopar and 36% of those revenues are to the distance-learning centers. So if you would exclude the 36% that we transferred to the distance-learning centers, the average ticket for Kroton only would be BRL121.2.

Moving to slide 14, we can analyze the primary and secondary education segments. These results are reported in exactly the same way as they were before, so as mentioned earlier, these segments posted growth in both number of students and number of associated schools.

It is also important to mention that the strategic move Kroton had to expand the level of its services in this segment, which helped both to support net-revenue growth of 8% in the quarter and expand gross margin in 3.6percentage points. Lastly, operating margin expansion was also driven by rigid control of costs and expenses, which led to an operating margin of 51.2%.

Moving to slide 15, we present the Company's consolidated performance. As mentioned earlier, the combination of a solid performance in the face-to-face postsecondary segment, the expansion in the primary and secondary segment, and, most importantly, the higher contribution of the distance-learning segment to the consolidated results resulted in a consolidated net-revenue growth of 75% in the First Quarter, gross margin expanding 12.4percentage points, and operating margin increasing 9.1percentage points.

Slide 16, we provide details on nonrecurring items in the period, which total BRL7.6 million. Important to mention, these are mainly costs related to M&A activities, such as auditing, due diligence, and also the expenses related to integration. From those BRL7.6 million, BRL4.1 million are related specifically to the integration of Unopar.

As previously disclosed, nonrecurring events should total about BRL15 million this year. This is what we mentioned in the last release. We maintain this projection for 2012, and we add additional BRL2 million for nonrecurring expenses related to the acquisition of Unirondon. So the total costs we expect to incur related to nonrecurring events are BRL17 million, BRL15 million from our previous disclosure, plus BRL2 million from Unirondon.

Moving to slide 17, we present the evolution of EBITDA and net income. Kroton's EBITDA in the First Quarter was BRL126.3 million, which is 2.4 times larger than last year, 37.1% EBITDA margin, which is 10.4percentage points higher than a year ago. This strong margin expansion was driven by a combination of four main factors.

The first is a strong organic growth in the student base and revenues. The second is the excellent performance of Unopar. The third is the successful integration process for the acquired institutions in 2011, four acquisitions. And the fourth is Kroton's consistent and rigid control of costs and expenses.

Net income registered the same positive performance as EBITDA and reached BRL99 million in the quarter, 3 times larger than last year and a net margin of 29.1%. Note that net-income adjustments we made include two things. The first is nonrecurring items, which we already considered in EBITDA, and also the amortization of intangible assets from the acquisitions. Excluding those two adjustments, accounting net income was BRL84.8 million, which is 2.6 times larger compared to the BRL32.3 million in First Quarter 2011, which is important to say that puts Kroton at a different level of performance.

Moving to slide 18, we present here Kroton's managerial analysis. Just to remind you, during Kroton's restructuring process started in 2010, we divided this challenge in two phases. The first stage was a turnaround in postsecondary segment to take the Company to acceptable profitable levels. This stage was successfully concluded in August 2010 and led EBITDA margin from Kroton from 9.8% in 2010 and to 15% in 2011.

However, as mentioned in previous quarters, during the integration process we identified a set of measures that would allow the Company to reach a higher level of performance. This set of measures were represented through a margin reach and was the second stage of the restructuring process, where our objective was to move from 15% to 22% EBITDA margin in 2014.

With Unopar acquisition Kroton's profitability increased substantially, since distance-learning margins are higher. Nevertheless, we are still pursuing the margin expansion in the on-campus face-to-face segment and continue to focus on our bridge levers.

So on slide 18, we present the managerial analysis of Kroton excluding the effects of Unopar. These analyses will be disclosed to the market over the course of 2012 and will allow the market and investors to monitor the evolution of Kroton's standalone margins without the positive contribution from Unopar results.

So if you look at net revenues of Kroton standalone, they grew by 28% in the First Quarter, and even if we consider 100% of the corporate expenses in Kroton's numbers, EBITDA margin in the First Quarter increased by 6.4percentage points compared to a year ago. So Kroton's standalone increasing 28% on revenue and increasing the margins in 6.4percentage points. This margin expansion clearly shows the operational improvement achieved in 2011 and the positive impacts from organic growth combined with our strict control of costs and expenses.

Bear in mind that the corporate areas were strengthened and suffered an increase due to the Unopar acquisition, and that's on the analysis I just mentioned. 100% of the corporate expenses were considered at Kroton standalone. In other words, excluding the corporate expenses that would be allocated to Unopar, Kroton's standalone EBITDA growth would be even higher.

Now, moving to slide 20, we present the provisions for doubtful accounts. The next three slides provide information on the evolution and performance of our PDA and our accounts receivable. Before starting, I would like to refresh your memory on the provisioning methodology we have used since the end of 2010.

First, our accounts receivable are segmented by overdue ranges, such as one to 30 days, 31 to 60 days, and so on. Each range is analyzed by its own historical behavior. These historical data sets are monitored over time, and we analyze its average recovery rate.

The default rate is precisely the difference between 100% and the recovery rates, meaning what we believe we will not receive. In addition, all accounts overdue more than 365 days are automatically written off. In short, it is a methodology that is robust from a technical point of view and consistent from quarter to quarter.

On slide 20, we present the provision as a percentage of net revenues. In postsecondary, the provision was 4.8% in the First Quarter, down from 5.1% in the same quarter last year, which is basically due to the higher number of students in our base. When we analyze ex-FIES portfolio, meaning excluding all the accounts receivable from FIES, the level of provisioning was 6.5%, which is higher than a year ago.

Despite no signs of higher default rates in our accounts receivable portfolio when analyzing our historical data, the Company is maintaining a more conservative approach to recover future potential increases in default levels, given, for instance, the negative expectations of financial institutions under default levels.

For the FIES portfolio, it is important to note that since 2010 we have been constituting provisions to cover any future losses from FIES students and to remind you that Kroton is liable for 15% of any losses in receivables from FIES students with a guarantor and for 7% of net revenues for FIES students participating in the guarantee fund. So our provision for the combined portfolio for FIES students is an average of 2.25% of cumulative FIES revenues.

Similar to the on-campus face-to-face, the provisioning for distance-learning segments follows exactly the same methodology. Based on this, we have a provision of 6.9%, which was established for this quarter during 2012 Unopar integration, and the subsequent integration of billings and collection integrations from Unopar at Kroton should lead to improvements in the recovery rates, and therefore we may see any potential decreases in the default rates we are provisioning for this quarter.

Lastly, the PDA level in the primary and secondary segment in also in line with a more conservative provisioning policy and is a result of a more restrictive posture adopted with the associated schools, as well as the reduction in the average payment terms. Once again, we should point out that unlike the postsecondary segments, receivables in the primary and secondary segment are not generated against students but rather against the associated schools.

On slide 21, we showed evolution in our accounts receivable net of provision for doubtful accounts, broken down by each of the three business segments. The postsecondary segment registered a 20% increase, which was mainly due to the increase in the FIES balance. The tuition and agreements portfolio, without FIES, decreased by 4.7%, which is mainly a result of a higher provisioning mentioned earlier and also the seasonality between the two quarters.

FIES accounts receivable increased by 48% between the two quarters, first because of a 84% growth in the number of students and second because of an already mentioned (set) of the accounts receivable, which totaled BRL66 million related to the lack of debt-clearance certificates, which we already commented last quarter.

It is important to note that management already has taken some measures to resolve these both accounts, including contracting a bank guarantee in the First Quarter, and of the total balance disclosed this last quarter, BRL11.2 million of that blocked accounts receivable has already been repurchased in April.

So from the total BRL56 million blocked in First Quarter, BRL11.2 million was already included in the repurchase in April, and we expect this issue to be completely resolved by the end of the Second Quarter. Accounts receivable in the distance-learning segment totaled BRL16.3 million, and, finally, in the primary and secondary segments the increase was mainly due to seasonality of this business.

The average receivables term -- on slide 22, we are analyzing it on four different angles. The first analysis that we present in terms of accounts receivable term is excluding FIES balances and where we show a 14-day reduction in the average term reflecting the higher share of FIES students in Kroton's total (needs).

In the second analysis, we exclude the balances of both FIES accounts receivable and FIES revenues. In this analysis, the average term decreased by two days from a year ago and nine days from the Fourth Quarter, which shows the adequacy of Kroton's provisioning practices.

In the third analysis, we analyze only the receivables under the FIES program, which result in an increase of eight days from the Fourth Quarter. Most of this increase is due to the strong growth in 259% in FIES revenue from the First Quarter in 2011 compared to the First Quarter in 2012 and also because of the repurchase rules do not allow schools to include the balances from either the month or the previous month of the repurchases, meaning if we have a repurchase in March, we cannot include the revenues in March, neither from February.

In the fourth analysis, we show the FIES balances excluding the blocked accounts related to the lack of clearance certificates. As you can see, receivable days increased by last end of the previous analysis. Complementing this analysis, it is important to note that in April alone, as mentioned, Kroton received more than BRL27 million in FIES loan repurchases, of which BRL11.2 million correspond to the unblocking of some accounts due to the clearance of some of the blocked certificates.

Based on the balance in April, excluding the blocked accounts and already considering the repurchase of the BRL27 million, our average term decreases from 160 days to 131 days, which compares to 133 days from the Fourth Quarter.

On the distance-learning segment, the average term in the quarter was 24 days. This shorter time is the direct consequence of a higher aging of the receivables portfolio when compared to Kroton postsecondary segment, mainly due to the different collection practices adopted at Unopar up until December 2011 before the acquisition by Kroton.

After the acquisition, this portfolio was adjusted by Kroton's provisioning criteria, which includes provisioning based on overdue ranges and the writing off of accounts overdue more than 365 days. As mentioned before, management believes the profile of distance-learning accounts receivable should converge to levels closer to those in on-campus following the unification of collection practices at Kroton.

And last, the average time in postsecondary segment was stable in First Quarter compared to between 2011 and 2012, which shows the consistency of our provision income.

Moving to slide 24, we can see the CapEx, which totaled BRL21.5 million. This represents 6.3% of net revenue in the First Quarter of 2012, which is very close to what we presented in the First Quarter of 2011 of 6.4%. Important to note that this CapEx includes maintenance and the CapEx used to support company's organic growth. Kroton's M&A investments are not included in these amounts.

Moving to slide 25, we present company's debt. We ended the quarter with a higher balance of cash and securities, which on the one hand was generated by the capital increase concluded in March 2012, resulting in a cash injection of BRL597 million and by the Company's operating cash generation.

On the other hand, we have a BRL260 million non operational disbursement in the quarter due to the payments of the second installment of Unopar acquisition. The increase in the long-term loan item is due to BRL550 million debentures issued, which is also related to Unopar acquisition. Note that this debenture is amortized over seven years with a two-year grace period, with a first interest payment only in June 2012 and the first principal payment only in December 2014.

With that, net debt considering only bank liabilities totals BRL47 million, including the other short; and long-term liabilities mostly related to tax liabilities, such as Refis or liabilities from acquisitions. Total net debts reaches BRL244 million, which represents in our view an adequate level in relation to the expected company's EBITDA and cash generation.

Moving to slide 27, we present the Company's free cash flow. This is the first time we are presenting the free cash flow in such a detailed way, and we expect to continue presenting in this format, so let's start. First we start by accounting that income, adjusted for all non-cash impacts on the result and also excluding financial results.

Cash generation from operating and activities include all changes in working capital, taxes, and CapEx made. Note that for this analysis we did not consider any adjustments of nonrecurring items, as we are using only accounting numbers.

Cash generation from non-operating activities is related to all financial items, such as interest paid and received and also all items related to M&A. Operating cash generation, before recurring in maintenance CapEx, was BRL51.6 million in the First Quarter, which is significantly higher than the cash generated in the First Quarter last year. Driven by company's better performance, this cash generation represents 43.5% of our accounting EBITDA, which shows a good level of conversion of EBITDA into cash.

After CapEx, Kroton recorded strong cash generation of BRL33.2 million with a conversion of 28% of accounting EBITDA into cash. We make two simulations to take into account the FIES impact. The first would be to consider the impact of the variation of FIES between quarters as cash.

If we would have done so, we would have a positive impact of BRL47.6 million in additional cash, meaning that all the change in the balance of FIES would be converted into cash. In this simulation, operating cash generation before CapEx and excluding this FIES impact would be equivalent to 83.6% of accounting EBITDA and after CapEx would be around 68.1%.

In addition, we also carried out a more conservative simulation, so if we assume that the midterm collection period for FIES would be 80 days, this is what we assume on a midterm. Under this scenario, the variation in nonrecurring FIES would be not the BRL47.6 million but BRL32.8 million.

So in this case, cash generation before CapEx would be BRL86.3 million. I would like to stress that both of these simulations are merely for illustration, but it is important to show those because of the importance of FIES in our base.

These cash-flow levels take the Company to an extraordinary position and allow us to continue developing our long-term strategies. So now I would like to hand the words back to Rodrigo.

Rodrigo Galindo {BIO 17238232 <GO>}

Thank you, Frederico. On slide 29 we present the guidance for our net income statement line in 2012. We expect the Company to reap net revenue of BRL1.2 billion in 2012, with EBITDA of BRL305 million, which corresponds to an EBITDA margin of 25%.

For investments, we project CapEx to support recurring and organic growth corresponding to 6.7% of net revenue, and we also expect BRL60 million in CapEx for special projects to support growth over the coming years. This amount includes the two brownfield projects announced in the fall on prospectus and the investments related to the acquisition of the two properties that were acquired and announced yesterday to the market.

This guidance does not consider the impacts from any acquisition made from 2012, such as the acquisition of Unirondon are already announced. We are very confident that we can deliver these results, which represent a high level of improvement and take Kroton to a whole new level of performance.

That will now be the last slide of today's quarterly-earnings presentation -- for my closing remarks. We are very satisfied with the results delivered in the First Quarter of 2012. We delivered strong growth in various indicators in both absolute and relative terms, and all segments delivered very positive results in the quarter.

In the postsecondary segment, the student base expanded by 15%. Net revenue grew by 50%. Operating results grew by 78%, and accounts receivable ex-FIES decreased by two days. In the distance-learning segment, the student base expanded by 39%. Operating margin was 67% and integration is advancing very smoothly.

In the primary and secondary segment, in the K-to-12 segment, net revenue grew by 8%. Gross profits grew by 15%. Operating results grew by 10%, and accounts receivable remains stable. All the business segments improved their performance.

EBIDTA grew 142% from BRL52 million in 2011 to BRL126 million in 2012. This means that EBITDA in the First Quarter of '12 was higher than the whole year of 2011. EBIDTA margin increased by 10percentage points and surpassed 37%. Net income grew 202% and cash generation was BRL52 million before CapEx and BRL33 million after CapEx -- sorry, BRL52 million before CapEx and BRL33 million after CapEx.

We are confident that 2012 will be a very positive year, and we continue to work to ensure that Kroton continues growing with high-quality operations and increasingly better results. Before concluding the presentation, I want to remind our view that Kroton Day will be held on June 18 on the Unopar campus in the city of Londrina.

The event will give you a chance to talk with all the Kroton officers and to know in detail Brazil's largest distance-learning platform. To confirm your presence, just go to our Investor Relations Web site and register. We are looking forward to seeing all of you there.

Once again, thank you for listening, and we will now start the question-and-answer session. Thank you.

Questions And Answers

Operator

Thank you. Ladies and gentlemen. we will now initiate the question-and-answer session. (Operator Instructions) Our first question is from JC Santos, BTG Pactual. Please go ahead.

Q - JC Santos

Good afternoon, everybody. The first question, Fred, would be related to the CND. You saw the BRL56 million stock that you have, to be recovered -- that you already recovered BRL11.2 million and probably all of it by the Second Quarter. That would indicate a fairly decent cash generation in the Second Quarter.

I was wondering if with this revised guidance of BRL305 million, if there is any views -- of course, you do have your view, but if you could share with us how much would be the EBITDA-to-cash conversion for the year, if you have an idea in terms of cash generation for the full year of 2012. Thanks.

A - Frederico Abreu {BIO 16674822 <GO>}

JC, thanks for your question. So you're right. We have BRL56 million. We contracted the bank guarantee in the First Quarter. We released BRL11.2 million. Everything that we can do, we are doing to release the CND. It is on the federal courts.

It is in Cuiaba, because the most important CND is related to UNIC, which is in Cuiaba, so we are doing everything we can. We have the support of two law firms. We expect in the Second Quarter, until the end of June, to solve these pending and to already participate on the repurchase of July.

In terms of conversion, we do not -- I will not disclose formally EBITDA-to-cash conversion, but I can tell you that 40% to 50% would be a reasonable assumption. And this is post-CapEx.

Q - JC Santos

Post-CapEx. Thank you very much for that, Fred. Thanks.

Operator

The next question is from Mitul Gandhi, HNC Capital. Please go ahead.

Q - Mitul Gandhi

Hi. Congratulations to all the entire team for a fantastic First Quarter. I have a few questions. My first question is regarding the gross margin for the on-campus business. I see that it's improved by roughly 6.9percentage points year-over-year. And in the earnings release it was mentioned that some of the costs were actually going to be deferred and would probably hit the next quarter.

So what I wanted to understand was what percentage of improvement should we consider as improvement with what is recurring versus what percentage is just merely a catch-up in the next few quarters.

A - Frederico Abreu {BIO 16674822 <GO>}

Mitul, thanks for your question. It's Frederico. So the first thing that's important to mention, what is this delaying cost. So the delaying cost is a result of our monitoring between real and our budget. The only way we know that we have a delay in some cost is because we have a very detailed and very granular budget and a very granular forecast model internally, so we identified that the portion of the cost that we have in our budget to not materialize in the First Quarter, so this is the first thing that is important.

So none of these costs were incurred, and therefore we are not sure that we will necessarily incur all of these costs in the future. We just know that we have them in our budget and we did not incur it. So we could not make any provisions on those costs, and what we are doing is we are analyzing each of these items, and they are spread. In K to 12 they are spread in post-education and postsecondary, so there is no big item.

There are a set of different items, and we estimate the total amount of all of those items to be around BRL5 million to BRL10 million to be materialized in the second, third, or Fourth Quarter. But again, we are not saying that we will incur these costs. We know that they were not incurred compared to our budget and our best estimation is from BRL5 million to BRL10 million in these costs.

A - Rodrigo Galindo {BIO 17238232 <GO>}

Hi, Mitul. Good morning. It's Rodrigo speaking, and just to complete, these items that we found, between BRL5 million to BRL10 million in the First Quarter, that will materialize in second or Third Quarter, are already considered in the guidance that we gave around BRL305 million, okay?

Q - Mitul Gandhi

Yes, got it. Great. My other question was related to other margins. There was some improvement also in SG&A margins. Do you think that is recurring? Going forward, can that be applied to the full year, the margin expansion that was achieved year-over-year? So roughly 2percentage points on G&A, 1percentage points on corporate, is that reflective of the full-year trend, in other words?

A - Rodrigo Galindo {BIO 17238232 <GO>}

Mitul, let me divide my answer in two blocks. So the first thing, the impact that I just mentioned of the BRL5 million to BRL10 million, they are related to costs and expenses, okay? So part of the improvement in G&A is also related to this delay, but nevertheless, a part of it will be recurring. So a part of the improvement will be recurrent and a part will be related to this portion of costs that I just mentioned they were delayed.

Q - Mitul Gandhi

Great. Also, one final question I have is I wanted to get your view on FIES. FIES has been pretty critical in driving enrollment growth for you or some of your peers, and what I want to understand from you, perhaps Rodrigo, is we have touched on how likely you think the program is going to continue, the government financing ability for it. What kind of conversations you've had, just say, in the absence of very concrete data? I just wanted to see what gets you comfortable that FIES will be there to boost your growth this year, next year?

A - Carlos Lazar {BIO 17238206 <GO>}

Mitul, this is Carlos speaking. With FIES we have been very comfortable with how the government's treating and how, let's say, the companies also are looking for it. Kroton seems to be getting very, very active on FIES, and the feedback that we are receiving from the government, I would say, since the beginning of the program, is they are very interested in make it work, in make it better, so -- and they did some changes over last year in terms of operating changes to improve all the flow of the program.

The buybacks are working very, very well during this year. It's been on a monthly basis and it's happening in exactly date that they are mentioning, so we are being very confident that the program will remain at it is and it will get even better.

In terms of financing, in terms of the -- let's say the fund for the FIES, we didn't hear yet any movement on that or any change on that. They are not worried. What we see and what we believe is that they are not worried with the cap but they are worried with the flow into, let's say, to put FIES as a regular program as it happen with ProUni several years ago.

Q - Mitul Gandhi

Great. Thank you.

Operator

(Operator Instructions) Having no questions, 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 just want to thank you, everybody, for the participation in this call, and we are waiting you in the Kroton Day on June 18. Thank you very much.

Operator

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