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PRESENTATION

Operator

The Navitas FY17 half year results investor and shareholder webcast is about to commence. I will now hand you over to Rod Jones, Group CEO of Navitas, and David Buckingham, CFO of Navitas, to proceed.

Rod Jones ***- Navitas Limited - CEO***

Thank you. Good morning, everyone and thank you for joining me on Navitas FY17 half year results investor and stakeholder webcast. We certainly appreciate your interest.

On the call with me today is David Buckingham, our CFO, and also our head of investor relations, James Fuller. In terms of the format, we'll run through a few slides and then we'll open up the webcast for any questions that you might have.

Moving on to the slide headed up company profile, I just want to spend just a couple of minutes on this as I know that there's a lot of new people on the call who haven't really been that exposed to Navitas in the past. For those of you who are new, Navitas is a global education provider that has a more than 20-year-old record of providing high-quality educational outcomes to our students and to our partners.

We're currently organized into three main divisions plus a corporate office, and these divisions are our university partnerships division, and this is the core program that we have which partners with universities to provide for students pathways into those universities. They transition from our colleges generally into the second year of the degree.

The division operates in three regions: Australasia, North America and Europe. We also have a second division, SAE, which is a chain of over 50 creative media education providers focused on providing programs in audio, film and television, multimedia, gaming and animation, and that's based again as I said, in 50 countries around the -- 26 countries around the world.

And the third division is what we call our professional and English programs division, and it's a collection of businesses delivering education and training both at vocational and at higher education level as well as language and integration services to new migrants that have come to live in Australia.

Moving on to the key highlights page, I think the key highlight for the half is that we have managed to improve the margin in the underlying core university programs division by 1.7%. And after you remove the closed colleges, there was a very healthy 8% growth in EBITDA for the division. We're also pleased to announce we've signed up another college in the US and we've secured a number of our contracts with -- renewals for -- with a number of our partners.

We've been saying for some time, and it's been very clear, that the results have been heavily impacted with the final impact of the -- or with the impact of the closure of the Macquarie and the Curtin Colleges. I think people perhaps don't quite recognize the size of that impact.

I know that when we talked about it earlier we anticipated it was going to be -- and people made a guesstimate that the EBITDA effect on the Company of the closure of those colleges was between AUD25 million and AUD30 million for EBITDA. And I think it's fair to say that's probably -- that it's more at the top end of that than the bottom end. And it's also fair to say that the impact in this half has been significant of that.

We're now moving to a position where we've finalized those contracts, so moving forward, we're moving into clear air and that will now -- those will no longer be a drag on our earnings. We've also had unfortunately an unfavorable FX translation that has impacted on our results this year -- this half, should I say -- and also some of the reforms that have been taking place around the vocational funding within Australia has also had some impact. With the closure of the Curtin and Macquarie Colleges, as I said, we're now moving into our next phase of the Company's story, which is -- the number one is probably a more efficient and nimble structure and also providing us a new platform for future growth.

In terms of the operational highlights of the year, we're really proud of the outcomes we're achieving both in student experience and student results, academic results. And I think that's been reflected in the demand we continue to get from students and also certainly in strengthening our university relationships. We've also made good progress on a number of initiatives to restructure the colleges to maintain our leadership position in the industry globally.

I'll now hand over to David to talk a bit about the key financials.

David Buckingham - ***Navitas Limited - CFO***

Thanks, Rod and good morning everybody. I won't -- Rod's already provided a fair bit of commentary so I won't repeat too much of what he's already said. I'm talking to a slide on the webcast right now, which is slide 4 of the results presentation that we put out this morning. This is our financial overview.

Clearly the two colleges had a material impact on the results, both on revenue and EBITDA, but also you can see, and further on in the presentation I'll cover off in a bit more detail the impact from the FX translation changes. Post-Brexit we had a fairly big decline on revenue in our British businesses and also a negative impact in the half versus the prior comparative period in the US and Canada, so that had some bearing on the results.

We've transferred or shifted our relationship with ECU PIBT, P-I-B-T, the previous college that we had with ECU, to a JV in the half and that created an accounting non-cash one-off gain of AUD17 million and so the profit is heavily inflated by that impact. Otherwise it would look pretty similar to the EBITDA result for the half.

The balance sheet remains strong. We're still very cash generative and therefore we've been able to hold our fully-franked dividends in line with our policy and also continue our buyback.

The final point I'd make is just to clarify one of the changes we made in the half, we took the decision to transfer the management reporting line of the ELICOS Colleges in Australia across the university partners division and that was -- that's a sensible decision for us to make. It's a better process for us to manage the student outcomes of the students involved.

So in these results, in this results presentation what we've done is reallocated those, the results of that particular portion of what was the old -- what was in the old PEP division across to UP and all of the historics in the PowerPoint presentation. And also in the footnotes to the [4D] you can see the specific numbers for the prior comparative period and how we've reallocated those, so hopefully that will give you clarity over that shift.

Just flicking on, slide 12 in the investor presentation covers revenue across the three business units, so I'll just talk to that. As you can see, the translation on FX was over -- well over AUD15.5 million unfavorable impact. Most of that was in UP; AUD11.5 million of it was in the UP division and the rest in SAE. And as I said earlier, the British pound went against us by AUD9 million and (inaudible) and US movements were over AUD4 million in our North American businesses.

Strip all that out, and as Rod said earlier, stripping out the closed colleges, really strong underlying revenue growth in the university partners division, up 7%. We had 6% and 2% growth in our two main semesters in the half in terms of enrolment so that drove most of that revenue growth as well as some of the pricing growth that we put through each period.

SAE on an underlying basis when you take out that currency was actually 2% favorable, mostly driven by good performance in our Australian and US businesses. And as Rod mentioned, the VFH reforms in Australia and a slow start on Syrian migrants coming in our AMEP program meant that we were flat in our PEP division on revenue.

Jumping to EBITDA further down in the investor presentation, slide 14 of the investor presentation you can see the breakdown by divisions on a similar basis. I guess what stands out is the increase in the margins for university partnerships, largely driven by two or three efficiency gains that we've delivered in the half. Colleges filling up always generates improved leverage in our individual colleges and improved margin, as well as the transformation of our college structure to a more standard optimal model was implemented in the half, so gains from that as well.

SAE's EBITDA unfortunately went down, but that was again driven by a couple of one-offs. Following the loss of the first appeal in the UK over our -- by the HMCE over our tax approach in relation to that, we've decided to provide for that until we go through the final appeal hearing in June this year where we'll find out the final decision. So we've provided for that; that's about AUD1 million half-on-half.

And then we've also closed four underperforming colleges across the portfolio which cost as money to do as well in the half, so they dragged our EBITDA back a little bit. On PEP, really not much to say other than that there's ongoing changes to vocational funding have affected enrolments and had an impact on our ability to grow EBITDA there and that will continue into the second half.

Jumping to net debt, we've given you a waterfall bridge on slide 15 of the investor presentation covering the key movements. Fair to say that our cash flow was heavily impacted by the unwind of deferred revenue from Macquarie and Curtin closing, and that's probably the biggest impact on operating cash flow. When you strip that out, our operating cash flow is pretty much in line with what you'd expect.

We had a big CapEx half, we signaled that in July and August in the full year results that we were going to spend a fair bit of money this half on some building relocations. We've moved offices in Sydney which cost us a fair bit of money in terms of CapEx; however, most of that's been paid for by a lease incentive from the landlord.

We've also relocated a couple of other small campuses around the globe, so they added to CapEx in the half. I would expect a full year 2018 CapEx number of more like AUD15 million to AUD20 million range, much more in line with what you've seen in the past.

On the balance sheet side, we progressed the buyback throughout the last six months. We're up to about -- just over 60% of that, so we've signaled in the results this morning that we expect to continue that in second half of FY17.

And with that, I'll hand it back to you, Rod.

Rod Jones - ***Navitas Limited - CEO***

Thanks, David. Moving on to the slide called restructuring for the future, I think most of you are aware that we've been working through a program of looking to reposition the Company in a way that continues to ensure that we are relevant into the future with all the changes that are happening within education. And this restructuring program that we're putting in place to actually do that continues to move forward, and I think is starting to show positive results. There's been a number of initiatives which aim to ensure best practice, particularly around such as moving our -- into a shared services arrangement with -- in our different areas of IT, finance and HR.

We've also launched Navitas Ventures, and that is primarily about scaling ideas and delivering education innovation, and that's through incubation, investment and partnerships in the areas that we believe are appropriate. We see this as a way of potentially future-proofing Navitas by being well over and understanding the emerging trends and developments that are occurring across the educational space. What we will do, we'll be looking to provide a comprehensive update on our strategy in these areas as we move forward in April -- the date is, I think April 4, in Sydney. We'll give a very comprehensive update at that point in time.

In terms of the next slide, which is the contract update, obviously one of the questions of concern was when we lost the Macquarie contract and with what was happening with Curtin in Sydney, what does that mean for the future. And I think it's fair to say that since then we've had significant new agreements signed, we've also had -- that's four new agreements signed.

We've had seven agreements renewed and one of those has been converted to a JV, being E

dith Cowan University. The Curtin contracts were extended but we're in the process now of working through those with a view of having a long-term agreement signed through this year.

We've also listed for you the upcoming contracts that we'll be seeking to renew for the rest of 2017. Clearly, the first one that's coming up is the Australian migrant English program. That's obviously a full tender and we've tendered for that.

Our expectations, we'll have an idea of what that means if we are successful or otherwise in March, although we're not anticipating that we will -- well, put it the other way around, we are anticipating that it will still be a significant program for us moving forward. And if we get what we want then it may even mean an increase in the program itself for us.

So we've got a busy year, as you can see on that list, in renewal of contracts. All of them are proceeding appropriately and we have a high level of confidence that they will be renewed.

The last slide is on the outlook, which is -- I think the important thing is to note that we have reaffirmed our guidance. Two years ago we gave guidance about where we would be over the 2016 and 2017 financial years and in both cases we stated our expectations of being flat against the 2015 financial year, and I think we did that in 2016 and we're confident we're going to be broadly in line with that result in 2017 as well.

And that includes the closure, as I've said, and a significant loss of EBITDA through the closure of the Macquarie campuses and the Curtin Sydney campus. They're now complete; there's a minor bit that will flow through in this semester but it's so small it doesn't matter. I think it's -- our expectations (inaudible) solid underlying growth, organic growth, as we move forward.

The guidance does take into account, and I think it's important to note, the regulatory changes that we're experiencing globally but there is still uncertainty existing in some markets. So whilst we believe in terms of our guidance that we have taken full account of what the potential impact of these might be, there is a level of uncertainty around that.

I have actually been talking -- David and I have been talking for probably too long now, so we'd now like to throw it open to questions.

QUESTION AND ANSWER

Operator

Thank you. (Operator Instructions) Your first question comes from Entcho Raykovski with Deutsche Bank. Please go ahead.

Entcho Raykovski - ***Deutsche Bank - Analyst***

Hi, guys.

Rod Jones - ***Navitas Limited - CEO***

Hi, Entcho.

Entcho Raykovski - ***Deutsche Bank - Analyst***

A couple of questions from me. The first one is just around the ECU contribution. Is it fair to say that ECU is the only profitable JV college at the moment, and just to be clear, that the guidance doesn't include any EBITDA contribution from the other JV colleges?

Rod Jones - ***Navitas Limited - CEO***

Did you want to give us your second question as well, Entcho, or was that it?

Entcho Raykovski - ***Deutsche Bank - Analyst***

Yes, so the second question is also related the to the guidance. Obviously given that you've indicated it's on a constant currency basis, can you give us an indication of what the contribution is from non-Australian sources of income to EBITDA, just to give us -- to give us an idea of what the swing factor could be from an actual reported EBITDA number?

David Buckingham - ***Navitas Limited - CFO***

Sure, I'll do both of those. Hi, Entcho, it's David here. ECU was the only positive one in the period, so our two other JVs are in early-stage growth phase so we haven't quite turned the corner on those. So yes, we converted ECU from October 1, so it's a bit of a weird half.

For the first three months of the half we had ECU 100% EBITDA in our results that you're seeing here. For the second half it gets reported in the equity accounting line. So what we'll try and do as part of the guidance is include our 50% of EBITDA of JVs. Obviously when we did our guidance we owned ECU 100% so we'll include that 50% when we come to full-year result. Hopefully that's clear.

On the currency side, I think we highlighted in the presentation AUD15.6 million translation unfavorable impact. AUD11.5 million of that was in the UP division, the rest in SAE. AUD9 million of that was on the British pound and then AUD4 million on the Canadian and US dollars. So real big hit in -- thankfully, but in our smaller divisions -- our smaller businesses overseas.

On EBITDA, AUD2.4 million impact adverse; pretty much all of that was in the UP division, not much impact on SAE at all. And again, spread pretty evenly between the British pound and the Canadian dollar.

Entcho Raykovski - ***Deutsche Bank - Analyst***

Okay, cool. Thank you.

David Buckingham - ***Navitas Limited - CFO***

Hopefully that gives you a sense.

Operator

Thank you. Your next question comes from Sameer Chopra with Merrill Lynch. Please go ahead.

Sameer Chopra - ***BofA Merrill Lynch - Analyst***

Morning.

Rod Jones - ***Navitas Limited - CEO***

Morning, Sameer.

Sameer Chopra - ***BofA Merrill Lynch - Analyst***

Morning, morning. I had two questions. One is what's the EBITDA impact of Edith Cowan in the second half? I'm trying to understand.

So let's say the currencies stay where they are, where does EBITDA head to? Because on a constant currency you're talking about AUD160 million but if you assume currencies stay where they are there's about a AUD30 million headwind and then there's Edith Cowan as well to come out of second half. I just want to get a sense around the numbers.

That's one; the second one is just around cash realization. Cash realization was at 80%, David; I was just wondering what's holding cash back and what's your sense on where net debt ends at the end of this financial year?

David Buckingham - ***Navitas Limited - CFO***

Okay, we'll try and give you all of that as best I can. Look, we don't disclose the EBITDA of individual colleges for very good reasons, and it's also confidential.

It's a reasonably small college in our portfolio with all due respect to the work we've done there, but it's -- against the guidance of broadly in line with last year, not including 100% of the EBITDA, is enough to give potentially a small variation. So we want to make sure that what we said back in August for the full year includes that EBITDA.

The currency one is interesting; we've incurred about AUD2.4 million in the half just gone of negative impact versus the prior comparative period. We've worn that in the half and we've come out with the same guidance and reaffirmed.

But if that doubles -- you know how much uncertainty there is in the US and the UK right now politically -- if that doubled or it grew even more, then that's going to be a hard number, north of AUD2.4 million, to swallow without much impact to the results. So hence why we've given you the guidance based on where we are at the end of the half plus constant currency going forward.

On cash, the 80% excludes obviously the non-cash gain on the transfer of PIBT to a JV, a bit less if you include that but that was a non-cash transaction so we kept that out. So good strong cash realization number. We won't have anywhere near the level of CapEx in H2 that we've had in H1; we've moved to two buildings in Sydney and had to fit those out.

Yes, the landlord has paid for a fair slug of one of those, but the net impact on cash flow was quite strong in the half. We won't get that again in the second half at all, so I expect our CapEx to drop off heavily.

We won't also get the unwind of much more deferred revenue from Curtin Sydney and Macquarie; they're closed so again we won't have that negative impact in the half. So you should see cash bounce back, and I would expect, as always with our business, our cash, our operating cash flow before tax and interest should mirror our second half EBITDA.

Sameer Chopra - ***BofA Merrill Lynch - Analyst***

Thanks, David.

David Buckingham - ***Navitas Limited - CFO***

So work that through and you will end up with a net debt proxy that hopefully brings net debt down. And again, that's pretty hard to predict, Sameer, with buyback activity out there.

Sameer Chopra - ***BofA Merrill Lynch - Analyst***

Yes. Thanks, David.

Operator

Thank you. Your next question comes from Gareth James at Morningstar Equity Research. Please go ahead.

Gareth James - ***Morningstar Equity Research - Analyst***

Hi, guys. Just a first question from me around margins, which obviously improved in the first half. I was just wondering what your expectations are of margin improvement going forward. And also, have you got a target capital structure?

Rod Jones - ***Navitas Limited - CEO***

Okay. Well, first one first. I think the -- we certainly expect to hold the margin and if anything, see slight improvement moving forwards into the second half. So we don't see that dropping away at all, and as I said, hopefully moving forward a bit further, that's what we've said. David, do you want to --

David Buckingham - ***Navitas Limited - CFO***

Our target debt-to-equity ratio based on market is 10%, that's market value calculation that we use. We're kind of around that right now, or we were certainly before we opened this morning.

And so we'll -- I guess as we go through the second half we complete the buyback, we've got plenty of headroom to do that but the Board will have to sit down and we'll reconsider that position as we go through this next half. The 10% is our overall guidance.

Gareth James - ***Morningstar Equity Research - Analyst***

Okay, thanks.

Operator

Thank you. Your next question comes from Lucas Goode with Credit Suisse, please go ahead.

Lucas Goode - ***Credit Suisse - Analyst***

Hi guys. Just had one question around the operating lease and how that's accounted for, and then just a couple on the reclassification of the English colleges into UP. Just firstly on the lease incentives, can you just confirm what the P&L impact of that is for the first half and the full year?

David Buckingham - ***Navitas Limited - CFO***

No real impact for the first half. It's more of a cash impact, Lucas, it unwinds through the cash flow. I think we've disclosed the amount in the results. So, no real impact in the first half. Does that answer your question on the lease?

Lucas Goode - ***Credit Suisse - Analyst***

Yes, I guess so. I guess I was just thinking -- because moving forward, I would have thought you basically save money on OpEx, but then give that back at the depreciation line for the extra PP&E.

David Buckingham - ***Navitas Limited - CFO***

Correct, yes, but it's spread over a large number of years. The lease is over 12 years, so marginal impact on bottom line.

Lucas Goode - ***Credit Suisse - Analyst***

Okay, alright, no that answers my question I think. Because I was sort of looking at it thinking, if that's only over five years of that, it would add sort of AUD7 million to EBITDA. But if it's over 12 years, obviously a smaller impact.

Then just on the reclassification of the English colleges into UP, I guess could you just give maybe more of a like-for-like kind of underlying number in terms of what just the university colleges themselves grew? Then, secondly, does this mean you're sort of seeing now the remaining more vocational training focused assets as being non-core and maybe something you'd potentially look to sell off, especially given it looks like the environment is probably getting worse there?

David Buckingham - ***Navitas Limited - CFO***

I'll cover the financial bit and I'll let Rod respond on the second half of your question. If you look at page 13 of the [4D], Lucas, there's a footnote to the segment table and it gives you the financial revenue and EBITDA of the ELICOS businesses, the English language business in Australia and what were transferred. So you can pretty much work it out from there.

Lucas Goode - ***Credit Suisse - Analyst***

Okay, cheers.

Rod Jones - ***Navitas Limited - CEO***

And in terms of the colleges themselves and the future of them, we have closed one college down in Bondi, if I recall, which was very much focused more around what I would call tourism tycoon English. We are focusing these colleges far more of where we believe there's still potential for strong growth, and that is the academic English and preparing students with English for entry into higher education. So by bringing it under the university partnerships division, it's actually probably going to be an appropriate way to manage it going forward.

It also means that we can actually bring it under the management of the UP colleges, which means there are clearly savings in terms of staff and the like. There are definite synergies there to be had which we're starting to achieve. So, look, I think the -- are we talking about closing it down? No, I think it's a significant part of the front end to what we do, which is the front end to what universities do.

Lucas Goode - ***Credit Suisse - Analyst***

Alright, thanks guys, cheers.

Operator

Thank you. Your next question comes from Philip Pepe with Blue Ocean Equities, please go ahead.

Philip Pepe - ***Blue Ocean Equities - Analyst***

Hi guys. Look, just --

Rod Jones - ***Navitas Limited - CEO***

Hi Philip.

Philip Pepe - ***Blue Ocean Equities - Analyst***

Hey guys. Just one question on the various student visa regimes around the world. I think at your last student numbers update, you flagged that the UK wasn't getting any easier, there might have been some confusion in Australia with the new streamlined student visa processing and it looked to me like US is getting more difficult. You mentioned earlier, political uncertainty, and we've all seen President Trump's comments in the papers. So looking beyond the next 12 months, what do you see regarding the ease of students entering the UK and particularly the USA going forward?

Rod Jones - ***Navitas Limited - CEO***

I think the point to recognize is the underlying demand from students is not reducing at all. If anything, it's growing and continues to grow. So there's no question that there is a whole lot of uncertainty in the US at the moment. What that means is probably anybody's guess. Other than it probably does mean -- and we have seen -- that students are starting to back away from the US because of their concerns about potential issues they may face.

But, in saying that, they still want to go somewhere and I think this actually does start meaning that other -- particularly Canada and Australia -- are going to be key markets moving forward. Canada, the Prime Minister there has already come out strongly and said, well -- to students -- if the US doesn't want you, we'd love to have you. And I think that's certainly the approach being taken by Australia as well.

In the case of the UK, yes it's tough there, yes -- and it's driven principally by migration issues around Europe more than the students themselves, but the students have become collateral damage of this. I think it's fair to say that we are holding our own and I think it's important that that's what we do, we continue to hold our own within the UK. We're not going backwards at -- flat (inaudible) do that.

But the outcome of that will be I think, as Brexit moves forward, students potentially will come out of the migration quotas and I think you will see an easing back of policy. It might be another year or so, but certainly the groundswell is already there for that to happen.

The important thing is that we maintain our position, we do not put ourselves at risk and we continue to move forward there. But I think there's enough -- the markets in Australia and Canada are likely beneficiaries out of all of this. But Trump, who knows where that's going to go and we've just got to wait and see.

Philip Pepe - ***Blue Ocean Equities - Analyst***

Excellent, thank you.

Operator

Thank you. Your next question comes from Pete Vanns at Macquarie, please go ahead.

Pete Vanns - ***Macquarie Group - Analyst***

Hi, hello everyone.

Rod Jones - ***Navitas Limited - CEO***

Hi Pete.

Pete Vanns - ***Macquarie Group - Analyst***

My first question is just following on from what you said about the US. I think that the US's pain can be Canada and Australia's gain so to speak. But while you're nicely leveraged to Australian would-be growth, your footprint in Canada isn't growing perhaps as quickly as perhaps you'd hoped. I just wondered what the pipeline was there, and particularly in the context of an upcoming Manitoba renewal.

Rod Jones - ***Navitas Limited - CEO***

Yes, Manitoba renewal is not a problem at all. Our expectations is that will be completed by April. In fact, we've agreed with the university we'll go to the council for approval in April. So of that one I'm confident we'll move forward.

FIC, yes, there's no question that we are -- that's the one with Simon Fraser -- there's no question that we are starting to burst a bit at the seams there. Interestingly enough, we've been struggling to be able to get traction with any new institutions in Canada because of particularly issues with the unions over there.

But, in saying that, in the last few months there's been some interesting developments there which I won't go into at the moment. But we'd like to think that there may be opportunities in the next forward period.

Pete Vanns - ***Macquarie Group - Analyst***

Okay, great to hear. I guess Idaho was the first successful partnership win since I think August 2014, give or take?

Rod Jones - ***Navitas Limited - CEO***

Yes.

Pete Vanns - ***Macquarie Group - Analyst***

Some needed momentum there. Are you encountering the same issues in the US, struggling to gain traction with those guys as well?

Rod Jones - ***Navitas Limited - CEO***

Look, it's just taking a long time. You know, we're in negotiations with probably a dozen at the moment. Idaho, interestingly enough, was reasonably quick. But there's others that we're talking to where I'm confident they will get to where we need to go, but you're constantly coming up against timing issues and barriers and lack of understanding in universities. But we're working on it. The thing is, it's very difficult to give firm dates, but there's a number of really strong opportunities we're still working on there.

Pete Vanns - ***Macquarie Group - Analyst***

Okay. Then jumping over to the issues of VET FEE loan reform. You mentioned that the second half obviously is going to be more impacted with the first half obviously taking place ahead of the enactment of those new rules.

I'm aware of the impact on nursing diplomas. I know that there's a AUD15,000 cap on a AUD25,000 course. What other areas have been impacted by it? And I'm not sure if you can let me know, but can you give me a rough idea of what revenue is kind of at risk and --

Rod Jones - ***Navitas Limited - CEO***

Yes, okay.

Pete Vanns - ***Macquarie Group - Analyst***

-- how you see demand being impacted?

Rod Jones - ***Navitas Limited - CEO***

Look, I think, firstly, in terms of what is happening at the moment with these changes, the only way you could describe how it's being handled by government at the moment is it's a complete debacle, and that's being polite. And I think the impact it is having on the whole VET area at the moment is incredibly -- well, it's really smashing the whole bit.

What I will say -- and we have parts of our organization, small parts of our organization, in fact immaterial parts of our organization, in the VET FEE-HELP space. We've got a few VET courses in SAE, a few in ACAP, and obviously HSA which is the nursing one which is one that you mentioned.

Our exposure is very, very small. And at the moment, we're still -- there's decisions being made by government and it's going to take another month, I would say, before we really understand what the potential impact is because the government is still working through the rules themselves. But I can assure you, the impact is immaterial and we have taken well and truly into account -- of the full impact, if we lost the lot, in our second-half guidance.

Pete Vanns - ***Macquarie Group - Analyst***

Right, great, okay thanks. And one more question from me. Just on your CapEx outlook, I know that David mentioned FY18 will see a normalization. But for the second half of FY17, what can we expect from CapEx there?

David Buckingham - ***Navitas Limited - CFO***

A few small million.

Pete Vanns - ***Macquarie Group - Analyst***

Sorry, can you say that again? I didn't quite catch it.

David Buckingham - ***Navitas Limited - CFO***

A small few million.

Pete Vanns - ***Macquarie Group - Analyst***

A few million.

David Buckingham - ***Navitas Limited - CFO***

Less than five maybe, from all the plans that I can see in place.

Pete Vanns - ***Macquarie Group - Analyst***

Okay, that's great. Alright, thanks very much guys.

Operator

Thank you. Your next question comes from [Ray Tollison], a private investor, please go ahead.

Ray Tollison ***Securityholder***

Good morning all. I've got four questions covering a range of areas. So if I can just ask them one at a time and if you can deal with that. You talked just a moment ago about the VET thing and you said in the announcement that there's a limit to future growth. Does that mean you actually still expect some growth or that it might go backwards depending upon the worst-case scenario?

Rod Jones - ***Navitas Limited - CEO***

Well I think that's what I was saying. Worst case scenario is that we get nothing back out of it, we move out of it. That's not our intent. But at the moment the rules, as they are in place, are still undergoing significant changes. And certainly we're involved in discussions with government as part of advisory groups and the like, where they're still trying to work through and come up with an appropriate model for the VET FEE-HELP sector, or what's now called -- what's it called now?

David Buckingham - ***Navitas Limited - CFO***

VSL.

Rod Jones - ***Navitas Limited - CEO***

The VSL which is --

David Buckingham - ***Navitas Limited - CFO***

VET student loans.

Rod Jones - ***Navitas Limited - CEO***

-- VET student loans. So, look, it's just a little bit early to say. But certainly where we are positioned, we are not at risk in terms of being closed down or anything like that, other than if the fees and how they actually structure it creates that. But we're not at risk for being closed down for issues because we're not in that space at all. So we're sitting back, we're watching what's happening. As I said, in terms of our results, it's immaterial and we've taken account of it in our second half.

Ray Tollison ***Securityholder***

Right, thanks Rod. Next one, the announcement also refers to a -- and I'll quote -- initial lower arrival of humanitarian entrants. Does the wording, initial, imply that it's now actually increasing?

Rod Jones - ***Navitas Limited - CEO***

Yes, that's correct. What's happened is we anticipated, based on advice from government, that the flow of these students would start much earlier in the first half. They really didn't start until about December, but now there is a steady and regular flow. So that's why we're saying that, from the second half we expect to see a positive impact on the PEP division from that.

Ray Tollison ***Securityholder***

Right, thanks. Now you also talked about the contract renewal -- and I'm talking about the migrant type one and all those sort of things you said are coming up in June. Is there much competition for that sort of thing? In other words, how many other players are likely to be after this sort of work?

Rod Jones - ***Navitas Limited - CEO***

Yes, I can't answer the question of how many, but certainly there are other players in the game, ranging from TAFEs to not-for-profits to other profit organizations. I guess it's a contract, it's for tender, you've got to win a tender. We will know by March where we're at there.

But I guess we've been in this game going back to 1998. Every time, at every tender, we've actually increased the size of the contract. We know this year in New South Wales, what they're looking to do is spread the contract a bit more, we have a fair slice of that. But we also know that other regions have opened up and we will be tendering in other states, not just in New South Wales.

Ray Tollison ***Securityholder***

Right, thanks. Just the last question then, it's to do with the VAT in the UK. I'm assuming that the impact is because VAT hadn't been charged, it was then charged but you couldn't recover it from the students. And, secondly, is any contingency being made by way of charging students now, just in case the challenge or appeal is lost? In other words, have you put the fees up in -- just on the off chance that you might lose it?

David Buckingham - ***Navitas Limited - CFO***

So what we've done is, from the moment we lost the appeal, the first appeal -- and we're pretty confident, by the way, that we're in good shape going into the final appeal for June. But, just as a cautionary move, we started providing for VAT and we've actually been paying it to HMC in the UK from that point in time, which is around about May. So that's a direct hit to our P&L account in the UK business of SAE. What we haven't done though is changed our prices for students. We're waiting to see what the outcome of the final appeal is.

Ray Tollison ***Securityholder***

Yes, okay.

Rod Jones - ***Navitas Limited - CEO***

The final appeal will be in June and, as David said, we have a high level of confidence based on all the advice we're receiving that we have a real chance of winning that.

David Buckingham - ***Navitas Limited - CFO***

We'll make our decision on the go forward once we've had that outcome.

Ray Tollison ***Securityholder***

Sorry, I missed that bit.

David Buckingham - ***Navitas Limited - CFO***

We'll make the decision on what we doing going forward once we've had that outcome.

Ray Tollison ***Securityholder***

I'm just a bit concerned that -- I know you're confident, but if you were to lose and you haven't been charging students this extra VAT, that would then have an impact on margins and everything else from it, is that right?

David Buckingham - ***Navitas Limited - CFO***

It would, but thankfully it's a very, very small portion of our overall SAE business and an even smaller portion at a Group level.

Ray Tollison ***Securityholder***

Right, thanks. They're all of the questions from me, thank you.

David Buckingham - ***Navitas Limited - CFO***

Thanks Ray. Actually, we've probably got time for a couple more questions.

Operator

Thank you. Your next question comes from Entcho Raykovski with Deutsche Bank, please go ahead.

Entcho Raykovski - ***Deutsche Bank - Analyst***

Just a quick follow up from me. You've obviously detailed on slide 9 the upcoming contract renewals, and this question is around Deakin given that it is I think now the largest college in the portfolio. Are you still considering the JV structure in relation to that college, or is that not being considered and you're looking to re-contract on similar sort of terms?

Rod Jones - ***Navitas Limited - CEO***

We've been discussing with them both models. I think it's likely -- most likely, in fact -- that we'll continue with the royalty model. They're pretty comfortable with that model and understand it, so that's probably where that contract will end up. The option's there for both and we don't try to push a university particularly in one direction or another. But yes, as I said, in this case I'm pretty certain that we'll move forward with a royalty model.

Entcho Raykovski - ***Deutsche Bank - Analyst***

Okay, great.

Operator

Thank you. Your next question comes from Sameer Chopra with Merrill Lynch, please go ahead.

Sameer Chopra - ***BofA Merrill Lynch - Analyst***

You know on slide 8 where we have the enrolments, I was wondering, so going forward, will the red and the purple line kind of come together because you would have fully cycled the Macquarie contract going forward?

Rod Jones - ***Navitas Limited - CEO***

The answer to that is yes, it'll move in that direction, yes.

Sameer Chopra - ***BofA Merrill Lynch - Analyst***

And so, broadly speaking, is the underlying growth in the business 2%-ish, like the sort of growth that you're seeing in terms of student enrolments?

David Buckingham - ***Navitas Limited - CFO***

It was for two.

Rod Jones - ***Navitas Limited - CEO***

Semester 3.

David Buckingham - ***Navitas Limited - CFO***

Sorry, semester 3, but it was 6% semester 2. And our biggest semester is the one we're about to go into because the majority of our business has been in Australia.

Sameer Chopra - ***BofA Merrill Lynch - Analyst***

Great.

David Buckingham - ***Navitas Limited - CFO***

So it's very --

Sameer Chopra - ***BofA Merrill Lynch - Analyst***

Mid-single digits through the cycle, through the semester, is probably about the right assumption?

Rod Jones - ***Navitas Limited - CEO***

Sorry, what was that again?

Sameer Chopra - ***BofA Merrill Lynch - Analyst***

Mid-single digits, would that be a fair assumption?

Rod Jones - ***Navitas Limited - CEO***

Yes, that's fair.

Sameer Chopra - ***BofA Merrill Lynch - Analyst***

The second one was, when you move a profitable college to a joint-venture structure, does the college give you a one-off receipt? Because, in effect, you're selling a business, do you get some money back from them upfront?

David Buckingham - ***Navitas Limited - CFO***

No, not in the case of ECU. What we -- and the move, the impact for us at a margin level is obviously dependent on the size of the college and its profitability at that point in time.

But historically what we've always done is we've shared the financial outcome, 30% royalty to the university, 30% EBITDA margin typically, if you ignore all the sort of central corporate-type costs that we have to allocate in our external results. If you just look at individual arrangements, that's not a bad proxy, 30% royalty to the university and 30% EBITDA margin to us means that we're getting an even split.

Obviously when we transfer to a JV, that the university gives up the royalty and then we both go into the JV with an agreement on who pays for what, we try and price that in terms of the services each partner provides to the JV. Then out of that pricing, then drops an EBITDA which we share 50-50. On the whole, I'm hopeful -- I mean it depends on how many of these transfer -- that we can keep to that sort of even split.

Rod Jones - ***Navitas Limited - CEO***

Yes, and that's really the outcome at the moment. The bottom line is both continue to receive similar amounts to what they've received in the past, but you're in a JV model rather than a royalty model.

Sameer Chopra - ***BofA Merrill Lynch - Analyst***

I very much appreciate it, thanks.

Rod Jones - ***Navitas Limited - CEO***

No worries.

David Buckingham - ***Navitas Limited - CFO***

[Lexie] we've got time for one more quick question, if that's alright, and then we'll wrap up.

Operator

Your next question comes from Pete Vanns with Macquarie, please go ahead.

Pete Vanns - ***Macquarie Group - Analyst***

Yes, hi again guys. Just diving back into the outlook for upcoming contract renewals. Pretty happy then with the outlook for Deakin and the prospects there, but concerned around the kind of flight risk of Curtin College.

Appreciate it's also quite a large contingent of international students there, it's sort of growing international notoriety. I just wondered if you viewed it in the same way as I do, as a potential flight risk. And just whether or not it's material enough for us to be concerned.

Rod Jones - ***Navitas Limited - CEO***

The answer to the first question, do I, no. we've got a good relationship with the university, we're moving into our contract negotiations now. The extension for one year was not about an issue. It was about they were contemplating the idea of a joint venture and they wanted more time to think it through.

The outcome of that was we said, yes, we'll -- but the outcome will be -- I think we'll end up, again, moving with the royalty model. We're moving into discussions with them, in fact the next week or so, and much of the pre-work has already been done. So, no, I don't see them as a flight risk. I see it as moving forward in a positive way.

There's still strong demand for international education and I think the university sees that. And I think they've recognized that, in this space, the best way of doing it is through us. We haven't talked about Macquarie, but I think, in one sense, the loss of the Macquarie contract actually put all the rest of them in a position where they're saying that would not potentially be a smart move to break the relationship.

Pete Vanns - ***Macquarie Group - Analyst***

Okay, cool, that's great to hear. I guess just those three UK based contracts that are due for renewal shortly, should we --

Rod Jones - ***Navitas Limited - CEO***

They're all under discussion at the moment. So --

Pete Vanns - ***Macquarie Group - Analyst***

Yes.

Rod Jones - ***Navitas Limited - CEO***

-- again, don't --

Pete Vanns - ***Macquarie Group - Analyst***

Yes, no that's fine.

Rod Jones - ***Navitas Limited - CEO***

I'm not aware of any issues that I need to be concerned about.

Pete Vanns - ***Macquarie Group - Analyst***

Should we be concerned at all about their general financial health, given the overarching issues and the kind of going backwards of EFTSU?

Rod Jones - ***Navitas Limited - CEO***

In the UK you mean? Look, the answer is, to me it's a holding pattern, and I've been talking about that for a couple of years now. And we're holding very, very well in fact. We did go slightly back on the September intake, but the reality is that it's come back a bit in the January intake in terms of new students. So, from my perspective, I'm just seeing it at this stage for the next 12 months, a holding pattern.

I think there's potential to see some potential upside from September, but I'm not going to hold my breath until we actually get a bit closer down the path towards that. But, yes, look I see it as being flat and that's really -- well we've been saying that for two years and that's exactly what's been happening.

Pete Vanns - ***Macquarie Group - Analyst***

Brilliant, great. Thank you very much for answering my questions, thank you.

Rod Jones - ***Navitas Limited - CEO***

No problem. Well thank you very much everybody. At this point, I think we'll close the meeting and I appreciate your time in joining us and thank you for your questions.