Y 2019 Earnings Call

Company Participants

- Bruno Giardino, Investor Relations Officer
- Jamil Saud Marques, Chief Financial Officer
- Mario Ghio Junior, Vasta Executive Officer
- Paulo Serino, Saber Executive Officer
- Roberto Valerio Neto, Kroton Executive Officer
- Rodrigo Calvo Galindo, Chief Executive Officer
- Unidentified Speaker

Other Participants

- Analyst
- Irma Sgarz
- Javier Martinez
- Leandro Bastos
- Marcelo Santos
- Samuel Alves
- Susana Salaru
- Vinicius Ribeiro

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the Fourth Quarter Earnings Conference Call of Cogna Educacao. We would like to inform you that this event is being recorded and that all participants will be in listen-only mode during the company's presentation. After the comments of Cogna, (inaudible) will have the Q&A for analysts and investors. At that time, further instructions will be provided. (Operator Instructions) We also have a live webcast with audio and slides that can be accessed in Cogna Educacao at ri.cogna.br. The presentation will also be available for download from the website.

The following presentation is stated in Brazilian reais in accordance with Brazilian corporate law and generally accepted accounting principles, which now conform with International Financial Reporting Standards except where otherwise indicated.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Cogna 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 Cogna's CEO, Mr.Rodrigo Galindo, who will begin the presentation. Mr.Galindo, you may begin the call.

Rodrigo Calvo Galindo {BIO 17238232 <GO>}

Good morning, everyone, and thank you for participating in today's conference call to discuss the fourth quarter and the year 2019. With me today in this conference call, Bruno Giardino, our new Investor Relations Director; Jamil Marques, our CFO; and Managing Directors of our four business verticals: Neto Valerio from Kroton, Paulo de Tarso, PLATOS; Paulo Serino, Saber; and Mario Ghio, Vasta.

Due to the severe situation caused by the pandemic of COVID-19, we will dedicate the first part of today's presentation to comment on the effects of COVID-19 on our business and our actions to mitigate these effects.

On Slide 4, we present the actions we've taken to protect our students' and employees' health as well as to ensure the continuity of our services as defined by our crisis committee set up on March 9th, specifically, towards this end.

First, we made the decision to migrate all corporate employees to home office so as to ensure they are safe, and we keep online services for them through our structure. We will also provide health care services and psychological services online to our employees who may need these services. This is being offered by our occupational health and safety structure.

Now on the Postsecondary segment, we suspended all on-premise activities in our own and partner learning centers as of March 16th to avoid the propagation of coronavirus. And we suspended all on-premise activities as of March 16th, considering the new enrollments and renewals that is operating normally on digital media. Since January, we already have the online admission exam, which makes it easier to continue with our enrollment with the centers closed.

Before the crisis, we made a decision to migrate on-premise activities to digital platforms. So 100% of our 32,180 disciplines were migrated. And now, there are upwards to 13,836 classes. So now, classes can be synchronous or asynchronous when professors and teachers post their digital classes, or synchronous with live online activity. The teachers and professors can choose which model they will prefer. We believe prerecorded solution or asynchronous solutions are preferable for students' homes, because students can access academic conference from practically any Internet connection, even if more limited.

But for content where synchronicity is relevant, we also have a synchronous situation with live activities. 100% of all academic contents were already available on virtual platform because of our academic model, KLS 2.0 based on flipped classroom. So appropriate material of that were already available. Textbook with 240 pages, web classes and additional content with video, summary discussions for tutoring, all of these contents are organized by our teachers and professors, and the numbers are incredible. More than 400,000 learning objects, more than 300 pages of material, video classes, exercises, tests, lots of contents available. We will see today the engagement of our students with these contents, which is extremely important. Let me tell you the engagement is higher than in previous quarters.

Now on K-12, we have a similar approach. All our own schools are closed. In the case of Vasta, the decision is made by each school, but they can migrate on-premise activities to our platform. In addition, we also have the digital school, which is a combination of three platforms, Plurall, Plurall Maestro and Google Hangouts Meet. So all partner schools can offer digital educational services on digital media. Since March 19th, thousands of students are already using Somos' Digital School. They're using our own school, and very successfully. The digital school offers more than 400,000 learning options via the company's academic material, making assignments, tutoring, exercises, tests and many other functionalities.

On the second platform, Plurall Maestro, teachers can address lessons and specific activities for their classes or individual students. And the third platform, Google Hangouts Meet, allows the live activities of teachers and students, ensuring a complete approach on digital media. Pitagoras brand, the PDA, Digital Learning Platform, makes the same functionalities as those partner since 2018.

Now our prep courses, Anglo, is providing their programs online, and the accounts for Stoodi as of March 15, achieving an online record, 100% of all academic contents are delivered to all students.

On Slide 5, let's look at student engagement in this initial phase as mentioned by our crisis committee. Beginning on the left, you can see the continued evaluation forward of our students. So this is a gamified evaluation, looking at all activities developed by students. So we have evaluation of until the sixth week of classes that is March 23. As we compare that to the first half of 2019, the level of engagement has grown 13%. So the academic engagement is up as compared to the previous half, the increase in (inaudible) student engagement is over 60 from flat. This indicator is important because we know there's a big correlation between salient goal and having a high level of engagement.

In the midpoint of the slide, we could see a pronounced increase in the number of student access, which have grown up 81% comparing before and after March 16th, when on-premise activities were suspended. But students are truly offering to the virtual environment. So all of our academic material, video classes, textbook, et cetera, has had an NPS score of 81%, measured by 1 million evaluations. The average grade of 9.4, showing these materials have been well accepted by students.

Now Slide 6. Let's look at some spontaneous statements of students and how happy they are about the actions we've taken. Based on messages to colleagues from Facebook, they make compliments to our classes on Instagram and they congratulate teachers on e-mail, evidence that we are on the right track in the way we're modernizing these materials and with all of these materials made available.

On Slide 7, we can see good numbers entering to our current student evaluation. Our digital schools have impressive numbers, more than 4,000 schools, more than 41,000 classes, 53,000 teachers, 923,000 students between activities until March 30, and the number is growing every day. We have 47 webinars and we trade more than 40,000 teachers, all told about the Digital School.

Plurall, our app, our platform, is the closed app that has the highest number of downloads in education at Apple Store, and it ranks 3 -- ranks third in all educational apps, which shows our trade. So we can also see very favorable evaluation from parents and teachers about the digital platform of our digital school.

On Slide 8, another big concern about the uncertainties caused by COVID-19, which is cash position and corporate debt. That truly we cannot predict. But, in fact, that the filing of our follow-on public offering was picked to further strengthen our cash position. February 11th, we received BRL2.6 billion, adding to our cash position at the fourth quarter, in addition to receivables from the national tax book program. Our net debt-to-EBITDA ratio is now down at 1.9 times. That is (inaudible) with key major partners.

In addition, on the right side of the chart, you can see the amortization of our debt is pretty comfortable. The next big disbursement will be only in August 2021. Being conservative in the current situation, we decided for the first time, not to pay further dividend. Our efforts in 2019, we had a payout of 68.6%, higher than the minimum mandatory level. We still monitor the situation, the engagement of our students. We continue to work on our crisis committee, and the market will be kept informed about it. This is a difficult moment for Brazil, and we are 100% focused to get across in the best possible way.

Well, this has closed this part of the presentation. I'll now invite Bruno Giardino, our IR officer, to present our financial highlights in the fourth quarter and the year of 2019.

Bruno Giardino {BIO 21658408 <GO>}

Good morning to all. I will end this part by commenting that as of next quarter, we will be presenting the results broken down by the business verticals that we described in the Investor day in October '19, that is gross income (inaudible). This will make it much easier to analyze the challenges and opportunities related to each events.

In Slide 11, we see that the mass revenues of Postsecondary Education dropped 14% in the end of quarter, reflecting the decrease and the change in the student base profile. These effects were partly offset by the increase in revenues resulting from the 2019 student recruitment process, in addition to the positive performance of the Continuing Education segment. Gross profit retracted 20% with a decrease of 540 basis points in gross margin, mainly due to maturing of the 16 million own units and the impact coming from programs of engineering and health being given in later semesters. They are more costly.

Finally, the operating results fell by 41%, a 14.6 percentage point drop in the operating margin, mainly due to the additional provision for losses that was in place in the fourth quarter. This effect was partially compensated for by the reduction in general and administrative expenses, thanks to the greater efficiency and by the cost controls, in addition to the decrease in marketing expenses which were brought forward to 3Q '19.

In the next slide, we see pro forma numbers for better cost comparability. For 4Q '19, we moved the amounts related to the PNLD repurchase that we have considered in 3Q '19, to maintain the same seasonality pattern as in 2018. In addition for our 4Q '19, we included the PNLD purchase proceeds that will be recognized in 2020, excluding the impact of reclassification carried out in this quarter, with the reclassification moving at (inaudible) CapEx amortization as a costout in the past, the impact related to the amortization line. We delivered net revenue, thanks to our new go-to-market implemented for the K-12. And also, we had an increase of 25% in annual cost on February 16th, representing 35% is unpaid. And now, please look at the product line. We delivered net revenue growth of 7.4%, and our operating results reached 270 basis points in the margin. And thanks to the synergies we've seen in the period.

Moving now to Slide 15, we present our consolidated results. And so what we said with K-12, I will comment on the results of 2019 in the pro forma basis for better comparability.

Looking at the bottom half of this slide, our annual consolidated revenue dropped 4% in 2019 due to the lower basis of higher education units, which ended up offsetting the growth in K-12 net revenue. However, EBITDA grew 4%. And in spite of all the pressures, we were able to maintain a healthy level.

Finally, our adjusted net income registered 33% with net margin of 470 basis points reflecting higher debt and higher depreciation and amortization. With this, I hand over to our CFO, Jamil Marques for his presentation.

Jamil Saud Marques {BIO 21416820 <GO>}

Thank you very much, Bruno. Turning straight to Slide 17, I would like to discuss the decisions we took in relation to the provision for losses in higher education.

The first point that I have to highlight is that our provisioning policy is based on the historical fees and also the outlook for the future. In the analysis of this historical periods, we have two very important moment. The migration of our students to cost systems; and also the one-off increase in work load adjustment on what we call PAM. Confronted with a scenario with growing uncertainty in relation to economic recovery, we decided to increase provisions for the next semester. What we have been doing this -- something in the last three quarters, so that everything is being provisioned for. With the current uncertainty also related to the COVID-19 pandemic in relation to the ability to make our students happy, it's very difficult to predict whether there will be an improvement in the virus. And that's why we had a complement of BRL181 million. With this, the provisioning for this financial was up 17 percentage points, 23.7 points in the out-of-pocket segment. It's important to highlight that in the annualized analysis, we were at 14.9% growth. This would be a reduction of 113 basis points in relation to the third quarter '19.

Moving on to the right side of the page. We had a reduction of 120 basis points in comparison since there was extraordinary positioning to account for deterioration related to judicial reorganizations of bookstores in the 4Q '18. And when you look at the 4Q '19, we see also that the P&L also increased and it has lower positioning.

Now going to Slide 18, we're going to talk about the average term of receivables. For our profit, the average term of receivables this quarter, 115 days, 4Q '19 out of 11 days. We had a comparison, which reflects the challenging macroeconomic scenario that put pressures on the drop-off rate indicator. It's important to remind you that this number, 115 days, is in comparison with the second quarter and third quarters of 2019. As for the average case, there was a reduction of 22 days reflecting the November (inaudible) receipt in December. And finally, the average PEP and PMT totaled 691 days in the quarter, up 208 days in the other comparison. In the K-12 side, the total receivables was 39 days. This is above 4Q '18 due to the postponement on the PLP national tax group program receivables that were already accounted for in 1Q '20.

Now on Slide '20, we'll take a deeper look at CapEx, investments and expansion and cash generation. In Slide 20, we look at the CapEx evolution on the left side of this slide. And we can see that CapEx was BRL483 million, representing 6.9% of the net revenue in 2019, down 200 basis points of the total, which 88% was channeled to the development of content systems, expansion and improvement in our units besides the editorial CapEx.

Now talking about investments for expansion, they reached BRL195 million in 2019, that is 2.8% of the net revenues, down 27% in comparison to 2018, which was the year in which we concentrated most of the expenses related to our organic growth. For comparability purposes, on the right hand of the slide, we present the operating cash generation analysis, excluding the PN23 receivables in 2018 as well as adding the receivables for PNLD, that's (inaudible) in the beginning of 2020.

In this amount, our operating cash generation was BRL634 million a year, up 30% vis-a-vis 2018 with an EBITDA cash of 26%, proving our focus on growing cash generation in 2019. And it's important also to mention that in the non pro forma analysis, our cash generation was very solid in the fourth quarter, BRL267 million. Ensuring half of it coming from the PNLD receivables in the first quarter and also owing to the lower disbursement in comparison to previous semester, and in fact, that we have been signaling to you in recent months.

Now moving on to Slides 21, let's talk about our indexes. We ended 4Q '19 with total cash equivalents of BRL843 million, an increase of 94% in the quarterly comparison, reflecting the lower operational disbursement and the PNLD receivables. Besides that, we also received one of the Uniasselvi installment and raised funds with the sale and leaseback of properties in the period. Those two non-operating events were sufficient to neutralize the payment of interest on debentures and the investments in extensions besides the payment of dividends in 2Q '19.

Our indebtedness, adding the debt obligations (inaudible) the short to long term recorded BRL7.2 billion. It's important to state that this level isn't taking into account the capital received on February 2020, which the company raised BRL2.6 billion, reducing its leverage -- it's multiple gains, putting us in a very solid cash generation position.

With this, I give it over to Rodrigo.

Rodrigo Calvo Galindo {BIO 17238232 <GO>}

So you can see how this has an impact of coronavirus on our business. Let's move on to Slide 23. Now looking at new enrolments in the first half of 2020 until March 16, when we decided to prevent all on-premise activities in our centers, we had already a change about 70% of our total in terms of new enrollment. We continued with our enrollment efforts after closing the centers using digital media, implementing 100% online admission exams and enrollment, being the admission exam has been online since January this year. However, after March 16, as we closed our centers, we observed a slowdown in new enrollments after March 16th. It is still early to assess the impacts in new enrollments. There will be some impact, such the enrollment growth continues until the end of April.

Now on renewals, when we decided to close our centers, we have already delivered 88% of our target of renewals. As in previous years, this process was already digital. Our feedback from students has been quite favorable. As I've shown earlier on, the students are engaged. They like the digital positions we've implemented, and this is key to ensure a good performance in renewals.

In the K-12 segment, this is a more resilient segment to this crisis. So the acquisition of Somos was key to diversify our revenue stream. Today, 26% of our revenue comes from this segment, not including the national tactical program.

Let me also emphasize our cash position is in final consideration. We continue to look at possible M&A opportunities, that's why we decided to conduct the follow-on public offering next month. But until we have more clarity about the impact of COVID-19, we will maintain our solid cash position.

We are already preparing a relevant action plan to face the post COVID-19 scenario, including restructuring to optimize our operations, always based on our DNA of execution and efficiency. Thank you all very much for participating.

We will now open the Q&A session. Let me tell you that all of us are quarantined, that is all of us are remote today. So we might have some delay between the question and the answer because of the physical distance. But I want this mentioned, we will (inaudible) open the Q&A session.

Questions And Answers

Operator

(Question And Answer)

Thank you very much. Ladies and gentlemen, we will now resume the questions-and-answer session. (Operator Instructions) Our first question is from Mr.Samuel Alves, BTG Pactual.

Q - Samuel Alves {BIO 18720076 <GO>}

Good afternoon, everyone. Good afternoon, Jamil, Rodrigo, and other officers. I would like to comment, please, on this migration of on-campus students to the online platform. Could you tell us a little bit about this move? We have seen about complaints. Students asking for the tuition fees to be reduced. Have you received any complaints of this kind in many of your brands?

And also in relation to the PMT, do you have any indicator, we believe prospective indicators, that show a worsening of receivables for the future in relation to the provision for doubtful accounts. Do you have anything in that front for March, for example?

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

Sam, thank you. Rodrigo here. We're going to get all the questions in the Q&A. I will answer some of the questions on this. I look forward to the other officers and I'll call them via the conference call.

So firstly, I would like to comment about tuition fee reduction. We had a few comments in that regard, mostly coming from K-12. But in our operations, we didn't see this yet. And what's the main argument here? Because we are maintaining all the original costs from beyond CapEx operations. We continue to pay the wages of our teachers. And additionally, we have no investment expenses that will ensure the migration to online. So in addition to everything that we're already paying, we have this increase in infrastructure. And I was right, of course, our prices are internal on the spread sheet, the cost spread sheet, and they are increasing rather than decreasing. So that's why we cannot really accept any reduction in tuition fees. Now I'll hand it over to Jamil for him to answer the second part of the question.

A - Jamil Saud Marques {BIO 21416820 <GO>}

Thanks, Samuel. In relation to the prospective-indicated question, we don't see it happening because the social distancing went into effect after the payment date. So that's why we don't have any indicators or prospective indicators for now. What we have been observing prior to this new scenario that -- well, we had a complement of BRL781 million. It was an adjustment relating to workload and also the effect of migration of students. And we have been observing this (inaudible) on-campus. And online, we really don't know, basically, like a time.

But overall, one effect counters the other. So we were counting on the improvement of 2020. Basically just looking to the improvements in relation to partial payments that we have been observing since the second semester of 2019 in January and February, and also with the effect of that we don't have a bigger workload now, this, of course, was positive. And this trend of increasing the PDA and also with a shorter enrollment phase, and then we have the social distancing in place, all of this is compensating for a very significant cost of BRL181 million. So this situation has been showing improvements before the social distancing. We saw our improvements in timely payments. But I still don't have more information about the future of what we can predict for this isolation scenario.

Q - Samuel Alves {BIO 18720076 <GO>}

Well, thank you very much, Jamil, and Mr.Galindo.

Operator

Our next question is from Goldman Sachs, Irma Sgarz.

Q - Irma Sgarz {BIO 15190838 <GO>}

Good afternoon. Thank you very much. I would like to go to the PDA question. I know it's very hard to predict the impact. But are you thinking of increasing content available to students or expanding the timeline pertaining to maintain your student base, based on the previous comments that, obviously, from the side of the student, it's very likely that there will be a worsening in the means of payment, the public debt payment. So should we predict an increase in the PDA line?

And also another question. Is there an impact of COVID-19 in the funds operation?

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

Well, Rodrigo here. I'll start answering the first question. And I'll -- for the second question, Mario will answer.

So the answer is yes, we will be creating new products that are suitable to the student and in a very organized way so that we don't see a worsening. So it could be a new financing model with discount. So we're still trying to think of the best option. But we will really offer them to the students that have an impact because of COVID. For example, students who lost their job or who saw -- lost of income. So we can say that really now, of course, there will be an increase in PDA for 2020 because we want to conserve and support our students. But at the same time, we'll be doing this with intelligence, offering the benefit only to those students in need. Now I'll hand it over to Ghio so that he can answer about K-12.

A - Mario Ghio Junior {BIO 17363553 <GO>}

Thank you very much, Rodrigo. Thank you for the question. In relation to the synergy that will come from the synergies that comes in 2019, all of them were implemented as we have announced early in the year. And based on our internal culture, the synergies are always considering the purchase for the following year. Now all synergies has been identified and they're part of the budget. So I don't see in the current formal scenario that the synergies we have included in the budget will be left aside. They will continue -- we will continue to pursue them. So the synergies continue to be in line with the previous announcement.

Operator

Our next question comes from Marcelo Santos from JPMorgan.

Q - Marcelo Santos {BIO 17186991 <GO>}

Good afternoon, everyone. Thank you for taking my questions. There are two questions. First, could you please compare the behavior of Distance Learning compared to the students who need to be on-campus after the pandemic? I mean you showed that consolidated. Do you believe Distance Learning has an advantage or not?

And the second question about provisions for doubtful accounts, how comfortable do you feel about this level of provision? And do you have any more numbers that validate these?

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

Marcelo, thank you for your question. The two questions will be answered by our directors. So the difference in impact between Distance Learning, maybe I'd like to turn it across to (inaudible) and the next one to Jamil, please.

A - Unidentified Speaker

Hello Marcelo, thank you for the question. Now about new enrollments. Both segments, On-Campus and Distance Learning, already had a digital enrollment process. The admission exam is also online, but we can see that some of the tools are easier to understand for Distance Learning students, but the difference is very small due to our capacity to implement the tool also with our On-Campus students. We were very quick to provide these tools to our On-Campus students and teachers how to use them. The materials were already available only a few hours after the centers had to close. And we maintained activities on the platform. And our commercial team also uses this as an argument, showing how our On-Campus students are learning to use the digital tools in our platform. Our goal is not to cause -- not to have any differences in terms of Distance Learning students and On-Campus students. And our commercial team is using this opportunity to show the advantages of our digital platform.

Actually, all of our On-Campus students already use the tools of the platform. So they were used to doing some activities on the digital environment. Now On-Campus students have had a slightly bigger impact. The impact was similar after March 16th when we had all of our activities going virtual.

A - Jamil Saud Marques {BIO 21416820 <GO>}

Thank you. Now Marcelo, thank you for the question. About the PMT, they -- our level is 50% PDA. We believe this is a comfortable business and adequate level. We cannot yet mention impact of COVID. The only thing about social distancing impact is that the number of graduating students may see an impact, but we believe this be a temporary impact. Thank you.

Q - Marcelo Santos {BIO 17186991 <GO>}

Thank you.

Operator

Our next question comes from Vinicius Ribeiro from the UBS.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Morning, everyone. Good afternoon. Thank you for taking my question. I'd like to have an idea of the impact now with COVID-19. What do you believe is going to happen with the price of both segments, On-Campus students and also for Distance Learning students? And what is your due for 2021 in terms of tuition season?

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

Well, Vinicius, I did not understand your question. I could not really hear it. I just heard a few parts of your question. I will try and answer what I heard and then you tell me, or you repeat the question, please, so that I can answer what I did not hear first time. You would like to know about organic growth and pricing now that we have the impact of COVID-19. So let me answer about this.

Our organic expansion plan started in the last semester. And on the roadshow of the follow-on public offering, we said we had no plans to open more On-Campus centers. The organic expansion was limited. So now we would have a combination of these 60-some centers that we already have. They would grow becoming a reference, and the margin will grow. Because as we know, the newer these centers, the more they can fill margins, until they begin to generate margins. So we saw the positive impact. The plan, in fact, remains the same because our organic growth was already limited to these units we have.

We usually have two investment waved. First, to ensure our units are up and running, either in a smaller business or in the lead building. And the second wave of investment is, after we test it with (inaudible), the marketplace, we know there is a demand. We already know the size of the demand and the size of the real estate property we will need, then we usually build a new building, and that's the second wave of investment. The only change that may happen is that we would have one semester or two semesters where we will perhaps move from a smaller campus to a bigger campus. This year, we had a reduction in expansion investment, because after the first wave of greenfield investment was completed, and a good portion of the second wave had already been made so that's why we had a reduction in expansion investment. The only change that they have, we believe, in terms of expansion strategy, is that we may take a longer time to move to bigger properties. And we may have to make adjustments for the smaller buildings to continue to be adequate for our students. But these are minor changes. They don't impact the strategy.

About pricing, it's too early to make pricing decisions for the next semester. Meanwhile, we came for our prospects in terms of pricing for the next semester. But that will be defined only in the future, when we have a clearer scenario of the COVID impact, and we will be able to see whether there will be an impact on pricing. So far, we don't see any reason or any justification for any pricing reduction. Our cost was not reduced. So it doesn't really make any sense to reduce prices. We expect it to increase prices in the second semester. So far, we keep the plan. But we will review that week after week, depending on the impact of COVID-19 on the national scenario. This is what I understood from the question. If you want, you can repeat your question, please.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

No. Thank you, Rodrigo. I'm sorry for my connection that was not so good. Thank you.

Operator

Our next question comes from Susana Salaru from Itau Bank.

Q - Susana Salaru {BIO 16170633 <GO>}

Good morning, everyone. Thank you very much for taking our question. We have two questions. I would like to know about the fast ticket sales. Could this have an impact on the event of 2020? And will this repeat itself in 2021? So in other words, when (inaudible) sales begin? Could you also elaborate on the news of online content by the On-Campus students and what's the rate that you expect for the end of the year?

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

Well, I'll -- Mario Ghio will answer the first question. And the second question, I'll answer together with Roberto. Mario?

A - Mario Ghio Junior {BIO 17363553 <GO>}

Thank you, Susana, for your question. By the way, I would like to answer the second question of Vinicius' question about Vasta that we ended up not responding. So all of our efforts to put the partner companies on the online school platform is of course, based on the objective of having to continue operating without any disruptions to the educational team. So up to now, only some clients could use our digital school (inaudible). Tomorrow, what we saw is that there is a long list of schools that are not our clients that wish to use (inaudible). So we have started our commercial campaign this year in a different way by making available (inaudible) schools who might become partners next year.

So with this change of scenario, of course, there was a big change of our commercial team who is working from home to support schools. But at the same time, we opened this huge opportunity of digital schools and that we have seen a lot of demand coming from the public schools that are not part of Somos, but we want to establish partnerships with them. So this is one of the clients. I cannot really gauge if this is going to be better or worse than our expectations, but it's definitely a different scenario.

We also observed that there's demand coming from partner schools and new schools for how to shift product. Since children and adolescents are spending a lot of time at home, we want to provide an option to parents, so we believe that this will create a very good incentive for cross sale. So I think that the outlook is bright for this year with, of course, the change in procedures, but we are still feeling very optimistic. Here is Rodrigo, please go ahead.

Q - Susana Salaru {BIO 16170633 <GO>}

Well, with relation to the sales cycle, what's happening in that sense?

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

Well, the ACP composition for the following year starts to be developed in March. This year, we started it in February, that is 1.5 months before the previous year. So in February, there was no impact. We have agreements for next year. But in March, we would have the natural rollout of the business campaign. But as I said, it's unfolding in have a very different way. By the way, just to add, tomorrow, we'll have our first commercial webinar in our history, which we will have all of our prospect clients participating in an online meeting. And interesting to say, we are completely sold out. No more seats available. Everybody is very interested. And I think that's a different way of working, and it's very, very positive.

Q - Susana Salaru {BIO 16170633 <GO>}

Well, Mr.Rodrigo, in the segment K-12, schools need content for '21. So regardless of the type of contract, whether digital or what happed, the schools will need content and the current contracts for the following year.

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

Now I'll now answer the second part of the question. On the On-Campus segment, I think your question was revolving around engagement of students and the use of (inaudible). Okay. I have two numbers to share with you showing that engagement is very good. On On-Campus, considering the students who use the environment, the number of academic activities, so number of students that used the environment, there was growth of 60% in the number of accesses among On-Campus students, and also a good growth in single access. So this shows the migration that students really adhere to the (inaudible) higher numbers than in the last semester, so they are more engaged.

Number of exercises or activities (inaudible) by students, because one thing is to access the platform and another thing is to use it, there was growth of 42% in use of exercises. This is another very positive indicator of engagement of students. Of course, there are improvements to be made. There was a very significant increase in capacity and structure, but we are very happy with the results in the platform, I'm not saying it's perfect, but we have been able to meet the demands of our students. And basically, those are the indicators that show that engagement have increased substantially amongst On-Campus students. And if you have a follow-up question, just go ahead.

Well, I just wanted to add some more information. Well, we were really quick. In just 24 hours, we were able to make the On-Campus content online, make it available online. And our teachers began recording their lessons at home using PowerPoints and all the tools and video, using their own smartphone. And also, we were able to quickly offer broadcast. So our On-Campus students are feeling very satisfied in comparison to other students from other educational groups. So I think that the reaction was quick and the acceptance was very good as well.

Q - Susana Salaru {BIO 16170633 <GO>}

Thank you very much.

Operator

Our next question is from Mr.Leandro Bastos, Citibank.

Q - Leandro Bastos {BIO 21416405 <GO>}

Good afternoon, everyone. I would like to talk a little more about COVID-19 and its impact on K-12. I have two questions, in fact. First of all, do you see a risk of returns in relation to what has been contracted earlier in the year? Could you make a few comments about it? This would be the first question.

And secondly, are you in the discussion or expecting a change in the P&L, the cycle for this year?

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

Well, Mario will answer the first question, and the second question will be answered by Paulo Serino. Okay?

A - Mario Ghio Junior {BIO 17363553 <GO>}

Leandro, thank you very much for your question. Well, returns is a process that took place along the semester. So we don't see that the rate of returns will be above the numbers, we have enough of 25%. And since now, we have to -- these assets were all students in classes, we are feeling much more confident about the number of students that are attending classes, considering the number of students (inaudible) communication, we'll have to receive transfers. We don't expect returns to be higher than before.

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

Serino, could you please answer about PNLD?

A - Paulo Serino

Thank you, Leandro and Rodrigo. Well, here, we don't have any indication that things will be different from what's been seen so far. Well, it's now under analysis by the government. And probably by August, or that is within schedule. We've been talking to the Ministry of Education in relation to the PNLD and they've been healthy exchanges.

Q - Leandro Bastos {BIO 21416405 <GO>}

Well, thank you very much for those answers.

Operator

Our next question is from Mrs.(inaudible) Insider.

Q - Analyst

Thank you. Thank you for answering my call. Could you please tell us a little bit more about the investments? Could you give us a ballpark on the investments that were suspended? And also, could you give us a little more flavor on net-debt-over-EBITDA.

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

I'll hand it over to Jamil for him to answer the question.

A - Jamil Saud Marques {BIO 21416820 <GO>}

In relation to the investment plan -- sorry, sorry about that. In relation to the investment plan. We believe there will be a reduction along 2020. This was not in the guidance. But what I can say is that this is the plan, especially in the area of expansion. Most of the investments have already been made since 2018. And also in current operations, we have implemented improvements. And for the leverage, with the coming in after follow-on plan, if -- so we now are at a multiple of 1.9 times. Without considering any regional impact that we cannot foresee. This is the level we had expected for 2020 without considering any exceptional events or M&As for this year.

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

Rodrigo here just to add in relation to investments. At the end of my presentation, I have mentioned that we are shaping up a very robust action plan for COVID with reduction of investments and also reduction of expenses. As we begin to understand the impacts of COVID for our enrollment and student recruitment rate, we'll take action to size the company, or dimension of the company in such a way that we'll continue to maintain the positive outlook. Of course, maybe the changes won't be needed. But if the (inaudible) asset groups have to take swifter and more aggressive action. And I think this is one of the characteristics of the company, we're able to quickly adapt to new scenarios, whatever it is, whatever they are in the post-COVID era.

Q - Analyst

Thank you very much.

Operator

(Operator Instructions) Our next question comes from Mr.(inaudible)

Q - Analyst

Hello everyone thank you for taking my question. Good afternoon. My question is with the -- let's go back to the macro scenario, both secondary education. The whole sector was under pressure. Now how do you view -- I mean, let's try to forget COVID-19 a little bit. But what do you expect for 2020? Will there be a price war for Distance Learning, (inaudible) scenario you would expect?

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

Well, I will ask Roberto Valerio to answer this question.

A - Roberto Valerio Neto {BIO 2243533 <GO>}

Hello, Rodrigo. Thank you for the question. In the scenario of prices for Distance Learning and (inaudible), we are watching the market. We have discussions about this new regulation, and it's now around about BRL150 per month, so that we try to avoid a price for less than good.

Let's say this BRL130 that, that would not be adequate. Now we believe there will be more competition on price. We look at prices in every market today, as we look at pricing in detail and different tools. We actually make phone calls to try and understand the pricing in each marketplace. And we have been able to maintain our average ticket in -- still about the question. We don't -- we have not seen any difference in the price for that already. We did not see any differences in terms of price wars. But if we see a more fierce competition, we will have the right tools to overcome that situation. Thank you very much.

Operator

Our next question comes from Javier Martinez from Morgan Stanley.

Q - Javier Martinez {BIO 15976679 <GO>}

Hello. Good afternoon. My question goes to Roberto, still talking about pricing in the On-Campus business. I mean, looking at the model and the pricing tools that you used, I understand what you said, that since we did not have any cost reduction, there will be no price reduction. I understand the concept, the philosophy. But now, I mean, if we had a simple reading, a simple benchmarking of your business and looking at pricing in the next few years, felt it has always performed above its peers in terms of pricing. Now the prices are more similar, I mean, early on, the price was also similar, but then you had this very good pricing performance. And since 2016, you now have more SKUs and more market share and you have this mix of out-of-pocket and PEP and FIES students. But I'd like to understand your pricing condition, not in relation to cost, but in relation to the competition. Is your pricing higher in (inaudible) the competition? This is my question.

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

Thank you, Javier, for your question. I will answer partially. The first thing about this is that for On-Campus students, we did not lose any market share. Looking at it -- looking at each market flow, we did not lose market share. We lost market share in Distance Learning, but not revenue share.

Let me remind you that what we want here is to maintain a higher level of revenue because the cost, we already have the cost. We have 450,000 students. So there is not a big cost change when we add more students. So additional revenue has a bigger impact on Distance Learning. But it's important now that you note that we aligned our prices of Distance Learning students to the market at BRL160. And we could see a big acceleration in the level of satisfaction, which proves that there is a high price sensitivity. So we can accelerate volume. But it is -- you grow volume, but you may not sit -- and so we have to make sure that the net impact will be positive.

So it's not so obvious to reduce price to gain volume. So we conducted a few tests. We could see a strong growth in the participation of students. I mean, at the beginning of the outbreak of COVID-19. So it shows that price makes a difference, but I think it's important to make it really very clear that in the Distance Learning, revenue has a bigger impact. Because having more students growing our market share is really important, and we're working for that. So revenue share is the most important thing for us. And here, we do not have any losses. We keep it at 32%, 33%.

If I may add, using your expression, I mean, make the company ready for Distance Learning. As soon as we have the regulation on Distance Learning, we knew there would be an increase in the number of Distance Learning centers and we needed a lot of discipline on pricing to avoid having disorganization of prices. And this is what we did for 18 months in three or four recruitment processes. We had a big discipline in prices trying to maintain our revenue share, (inaudible) we would lose market share. But this is not a strategy that can remain forever.

It had a growth, which was (inaudible) self-discipline. Now we believe the market has self-discipline, so now we have a more balanced strategy between price and volume, which is working really well until we had the COVID-19 outbreak. We don't know what the impact will be, but we're certain the strategy is right, because of course, it is international growth impact. But before that, we had a growth in revenue and volume. So we believe in this strategy. It is not going to be so visible now with the COVID-19 outbreak. But we know the market is now disciplined, and we can now have a more balanced strategy of pricing and volume. Thank you very much.

Q - Javier Martinez {BIO 15976679 <GO>}

In relation to the potential business, I'm not really sure. I think that in 2016, this was around 30%. But now it was closer to 60%. So please correct me if I'm wrong. And now with the new regulation, if you make an adjustment to the level of capacity, it could go lower. So there's a lot of capacity for more volume. Because the market is the market, and we have a lot of idle capacity, continues to increase prices. And now with the new regulation, this may be too low, this is my question.

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

I'll start to answer, then Roberto will complete. Well, this increase discussion is more around On-Campus and here we're talking the normal tier. In relation to our campus PS, there is an opportunity to increase the capacity, but there is limited potential in relation to our costs and expenses, and this is based on the physical structure renewed because all of our costs come from classrooms. And in classrooms, I can -- I don't know, put entertain, (inaudible) and what's going to tell me whether I'm being efficient or not is the revenue being generated by this class. So there's no right or wrong strategy. What we try to find is the optimal point of revenue generation combined with volume and pricing.

At every new semester, we make adjustments to strategy to get optimal results. And for 2021, On-Campus, similar to DL, the numbers were growing really well, both in volume and revenue on On-Campus. But in the student recruitment revenue. This is a revenue that has been growing consistently for the last three semesters. So the challenge is driving revenue, we see that it's growing semester on semester. There was an increase two semesters ago now. And before COVID, we have 50% of the processes completed, and with growing as a need from teacher rates than in the past. So it's generating more revenue. But we still have room to grow. And I think that in relation to this low use, I think this is more an opportunity than anything else. We set up the structure at the time when there were other programs that are no longer in place. And now we have room to continue growing our recruitment along these without a lot of investments. I think this is on broad line, what is important to remark.

A - Roberto Valerio Neto {BIO 2243533 <GO>}

No, unfortunately, I don't have anything to add. I think you were very complete, very thorough in your answer.

Operator

Now I'll hand it over to Cogna for their final considerations.

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

Thank you all very much for participating in this conference call. Our Investor Relations officers will be available if you have any further questions. Good afternoon. Thank you all very much.

Operator

Cogna conference call is now closed. Good afternoon to all.