

## Q1 2022 Earnings Call

### Company Participants

- Frederico da Cunha Villa, Chief Financial Officer and Investor Relations Officer
- Mario Ghio, Chief Executive Officer at Vasta
- Roberto Valerio Neto, Executive Officer of Kroton Educacional
- Rodrigo Calvo Galindo, Chairman of the Board, Chief Executive Officer

### Other Participants

- Lucca Generali Marquezini, Analyst
- Marcelo Santos, Analyst
- Marcio Osako, Analyst
- Pedro Caravina, Analyst
- Unidentified Participant
- Vitor Tomita, Analyst

### Presentation

#### Operator

Good morning and thank you for waiting. Welcome, ladies and gentlemen to Cogna Educacao's First Quarter 2022 Earnings Conference Call. We would like to know -- to let you know that we have with us Mr. Roberto Valerio from -- and Mario Ghio from Vasta and also our CFO at Cogna. This event is being recorded and all participants will be in listen-only mode during the company's presentation. After that we will have a Q&A and at that time further instructions will be provided. (Operator Instructions) Today's live webcast, both audio and slide show may be accessed through Cogna Educacao's investor relations website at [ir.cogna.com.br](http://ir.cogna.com.br). The following presentation is also going to be available to download right after this earnings conference call finished. You can also submit your questions via the website and you will get your answers after the conference call.

Before proceeding, let me mention that forward-looking statements on this conference call are based on the beliefs and assumptions of the Cogna management and on information currently available to the company. They involve risks, and as you know, future considerations involve risks, uncertainties and assumptions because they relate to future events and therefore 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.

With this, I turn it over to Mr. Roberto Valerio who will start his presentation.

## Roberto Valerio Neto {BIO 2243533 <GO>}

Thank you. Good morning, everyone. Welcome to our call to discuss our numbers in Q1 2022.

With me today in this call, Frederico Villa, our Financial VP; Mario Ghio, CEO at Vasta; Bruno Giardino, CFO at Vasta; and Eduardo Honzak, our IRO Director and Corporate Finance Director. Today's call will begin on Slide 3. Going to give you a summary of our views on the first Q 2022. Now first, we will look at Kroton and Vasta and then Cogna consolidated numbers. In Kroton, Q1 2022 shows we're closer to the revenue turning point. A year ago, we had 19.2% drop in revenue compared to Q1 2020. Today, the gap is only 4.9% compared to Q1 last year. Therefore, we see a clear trend to resume revenue growth as of 2023. Now, we've actually mentioned this in previous meetings actually in the last call on Q4 '21. So we now see a higher intake and a lower dropout rate. I'm going to talk about this further on as we talk about Kroton and we've had this significant reduction in the dropout rate that is a higher student base.

Let me also highlight and draw your attention to this great landmark, 1 million students. A number we did not have since 2015. Basically out of pocket students without any benefits to volume. I mean we're not benefiting volume and forgetting about profitability much to the contrary. Our current base of 1 million students has a higher quality of receivables because it's not vulnerable to any programs. We continue in our asset-light strategy concentrating in hybrid and digital programs. We also see a better EBITDA margin despite lower revenue and pressure on the cost side, which we see in all industries. I mean, higher inflation and also in our case, we see students coming back to campus. Despite all that, our EBITDA margin has grown in this quarter. It shows the capacity of this team to continue to gain efficiency consistently. As we've said, we can see these efforts quarter after quarter to improve profitability for the first time. We are opening information to the market about Kroton Med. We are therefore delivering not only the med seats we had in the guidance, but also EBITDA and revenue.

At Vasta, the results have confirmed we have resumed revenue, growth and profitability growth. We now see students, as I mentioned, coming back to school as you know the pandemic is now lower and we see a higher penetration of complementary services in the network of schools that subscribe in by our services. With that, in the first Q 2022, our revenue has grown. More than two-thirds of the ACV have already been attained. In addition, the restructuring we conducted in 2021 has brought clear benefits improving the profitability in this vertical that has grown more than 5.3 percentage points in the EBITDA margin. At Vasta, we also have the first sustainability report. And by doing this, we are strengthening Vasta commitment and actually Cogna's commitment to ESG.

Now about Cogna. Let me tell you that Cogna continues to generate value. We said that in 2020, we had to resume cash generation. We have been able to attain this goal in 2021 according to the numbers we posted in Q4 2021. And now, in Q1 2022, we continue to grow revenue. We had a drop last year, you remember, and we're also improving profitability and accelerating significantly our post CapEx operating cash generation. It shows the quality of management work. This is the fifth quarter in a row where we see results improving.

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Now looking at EBITDA and operating cash generation, we see positive and growing results improving our leverage levels and making it possible for us to take important initiatives in line with our strategy. First, we are prepaying short-term debt, so we're going to use cash to pay for our short-term debt. We're also repurchasing debt that was negotiated below par whenever we have an opportunity. This is also part of our strategy to reduce our debt. We are fully implementing our program to repurchase stock announced in February believing that our current price is below the fair price. And that's why we are repurchasing. In addition, we are investing in the develop of some long-term options such as the Voomp platform we have recently launched in the MDP version. It is a marketplace -- an educational marketplace and very soon we will see the Voomp Bank in 2022.

With that, let us move on to Slide 5, please, so that we talk about Kroton results. You can see intake dropout and student base, I've already mentioned, we reached 1 million undergraduate students. And -- but look at the growth of our student base for growing 11.4% as we compare 2022 to 2020. That is we are growing quickly. We have a drive of low in person content programs. So, concentrating the on-campus content in premium and hybrid programs and the low on campus content for the digital base. We know that 100% digital programs are growing. Now we see an 11.4% growth in the student base that is a strong growth, 14% in low on campus content and 8% in high on campus content.

Now this is about our student base. Now if we look at this quarter in terms of revenue growth, in this trade cycle, we have increased high on-campus content programs, 13% growth year-on-year and low on campus content. We've had a growth of 26% that is a very strong growth based on our recent expansion. We have expanded our learning centers and that has brought us to 22% growth in student intake, I mean, in the 2022 enrollment cycle. So, growing 22% volume. And dropout, the total dropout rate has fallen 0.9 percentage points and we've seen lower dropout rates in the last four cycles. So that is in line with our strategy of trying to bring new oxygen to our student base and trying to replace students who had more difficulty to pay for monthly tuition. Today, we have higher quality students, lower PDA, lower default rates and lower dropout.

Now on Slide 6, let me talk about revenue, total revenue and cost of customer acquisition and a little bit about our learning centers. It is important to say that our revenue is growing 6.3% compared to last year that is comparing 2022 to 2021. This is a competitive market. And our commitment has always been to grow volume and profitability. And you see yet one more sales cycle where we had precisely that higher volume and higher profitability.

So if you look at the -- at a series of intake cycles of enrollment cycles, we can see we are improving revenue and profitability and we believe we will continue in this trend in 2023. And high-on campus content, we are growing. It's important to say that if we made a comparison on the same basis, I mean as we analyzed in 2021, our revenue growth in high-on campus content would be even higher. Let me explain this effect. You remember that in the first half of 2021, we still had PMT installment program, which used the raw price that is it did not include anything else than you added all the instalments when they were not paid in the first half of the year. Let's say, from March, these students stopped paying. And so that raw amount would be paid by the student at the end of the program. But now we made a change, so instead of having the student pay the gross amount or

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the raw amount of the program in the end of their program, we now receive payments from the following month that is during the program. It brings a cash benefit because we receive earlier and there is a reduction in PDA. And -- but now we are charging the net price and not the gross price.

So you have an effect of revenue reduction. But if we would compare on the same basis that is apples-to-apples without considering the PMT effect, our revenue would be growing 8.8%. Let me remind you that this revenue used to be posted, but because we only received further on, we had a lower cash conversion, lower than today. So today we have the net price, yes, but we received much earlier. So that is the explanation behind that. And we have now provided both numbers, revenue growth in the ex-PMT program and then after the change. So I think this is important information. You can see that we have a higher revenue in low on campus content programs, but we're growing volume 26% and in revenue 22%. So it's only natural that we see this difference between volume and revenue. Why? Well, because we now have more 100% digital students and so it is a different mix of programs.

The second chart shows our marketing efficiency. We have two pieces of important information, total expense and sales and marketing divided by students enrolled. That's CAC. I think you remember we have been reducing CAC every period. We've been able to reduce another 26% CAC compared to the first half of 2021. Now you also have some more information about sales and marketing. If we made a comparison to the revenue received, I mean this revenue that we delivered is 16% higher and also it cost 16% less than in 2021. This is efficiency for us where you're bringing more revenue and investing less to obtain this revenue.

The final chart shows our expectation for revenue growth and it shows the profile of our learning centers, 41% of our learning centers have been operating for less than a year, approximately 30 students as you can see in the third column. And so as amateur, we will see more enrollments. The learning centers that have been in operation for more than two years, they already have 150 students enrolling every year and this is the trend after two years and we also have some incentives, a 40% incentive in the first year and then it is reduced down to 30%. As you know the premium distance learning, we have 25 and now we are providing these 40% rebate, so the average would be 30. But the fact is that we have added more than 1,000 learning centers, we are still in their ramp up, they have not matured and so we can certainly expect efficiency gains.

Now on Slide 8, we're going to talk about the quality of our receivables. We've seen a drop in PDA. We already had a reduction in the number of days or receivables. So, now we've had this reduction down to 46 days. So it's the lowest average receivables turn in the history of Kroton. Our students are paying earlier, it shows the quality of our current student base. So I believe this is a very important piece of information. The on-time payments are improvement and you can see the chart in the middle showing receivables. You can see that our accounts receivable is now lower both in gross numbers as well as in net numbers. We keep a coverage level at 60%. We believe this is perfectly adequate. But it shows that the quality of our students, the quality of our receivables, the quality of our collection has certainly improved.

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Now Slide 10. Let me talk about our net revenue and EBITDA. As I mentioned, revenue is still falling, but much slower than before. So you can see in the chart in the middle of the slide, it shows the revenue is falling as I mentioned in the beginning because we had a great cycle of renewals and new enrollments. We believe that as of 2023, we will resume revenue growth at the current profitability levels, which is what you can see also here on this slide, about 30% and coming up to 33.9%, so we see a higher profitability, we have been able to resume profitability and we expect to resume revenue growth, meaning we will continue to add value consistently. So let me highlight this margin gain, which is very important, 4.2% comparing year-on-year.

On Slide 11, we are now for the first time opening the information on Kroton Med and we just wanted to give you a little more color on our seven units and the amount of openings -- the number of medical education openings for the year. Today we have 556 openings in total. By the end of the year, we hope to have 636 medical education openings with a maturing process that will lead to more concentration of revenue in the semester, but still will be able to reach 24% of the revenue that is expected for the year and we have guidance given up for BRL482 million and we have achieved already 24% of this revenue and 22% of EBITDA, but I would like to highlight that we have more revenue and results concentrated in the second half of the year in which we will have more medical education seats than in the first half of the year. So this is very much in line and we are very much on track to deliver on the guidance.

So with this, I close the explanation on Kroton and I hand it over to Mario Ghio, who will discuss Vasta.

### **Mario Ghio** {BIO 17352490 <GO>}

Thank you very much, Roberto. I would like to start my presentation on Slide 12. In K-12 we are celebrating more than 1 million students. This is a very important milestone for us. It's the first time we have achieved this number. This is the result of a very positive commercial cycle with added schools amounting to 700 and this, of course, is a jump of more than 20% in relation to the previous year. This positive cycle for private K-12 education shows that we have left behind the lockdown effects of COVID in which we had several students leaving schools and once again we have resumed the historical traits of resilience student base and ticket growth above inflation that is typical of Brazilian education. We also have to highlight complementary solution growing at two digits and the CAGR of complementary solution partner schools reached 43% between 2020 and 2022. This led by two pillars. First of all, a more differentiated portfolio of integrated solutions and secondly the quick cross selling growth among our subscribers of core and complementary solutions. There is growth potential of more than 300% of our complementary solutions, a potential that should materialize and be driven by just a few products.

Now I would like to discuss Vasta's financial performance. Revenue was up 35.5% in the quarter, meeting the guidance that was given, especially in the subscription approach. We know that there is a mismatch between subscription and the guidance that we provided on the first quarter. And now on the 2022 cycle, between fourth quarter '21 and first quarter '22, year-to-date revenue was 24.7% higher than in the previous cycle as BRL779

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million. Besides that, subscriptions also improved the quality of our revenue with greater loyalty and predictability. Today, we had around 87.4% of the total revenue of the cycle being represented by subscriptions.

I would like also to highlight recurring EBITDA amounting to BRL288 million. This represents 45.8% in the cycle with an improvement of 530 bps of margin. The results on Vasta, of course, the consequences are greater scalability of our operations with more revenue. We can also work on the relevant lines and had overhead costs. And also we have had success with cost efficiency initiatives started in 2021 demonstrating the team's ability and diligent efforts. And as for EBITDA margin, we expect our business models to show good results.

With this, I close the highlights on Vasta and I hand it over to Frederico Villa.

### **Frederico da Cunha Villa** {BIO 18677215 <GO>}

Thank you, Ghio, and congratulations on the great results. I will start my presentation on Slide 17 speaking on the Saber's operating and financial results. By the way, let me remind you that Saber now represents the National Textbook Program Sets and Voomp. After the sale of the operations of schools, we have now full alignment with our asset light strategy. But we have now demonstrated that our business with the National Textbook Program Sets and Voomp are now integrated.

And speaking on net revenue, there was a reduction of approximately 1.5% from this while in spite of the growth in revenue in Red Balloon. However, there was a reduction in the National Textbook Program affected by the seasonality of this line. Now in recurring EBITDA, reduction was around 26.2% with BRL32 million in EBITDA overall. This is explained moving from revenue to EBITDA. Once again, we see the impact of the National Textbook Program seasonality and also tutorial and marketing expenses in the first quarter as we know revenue is received along the four quarters of the year. This is how we look at the Saber business and our Red Balloon student base grew approximately 18% in the comparison with between 2022 and 2020.

Now turning to Cogna and moving on to the final part of the presentation. Cogna is made up of Kroton and that Roberto Valerio spoke about Mario Ghio discuss Saber -- Vasta and Saber. So the news is positive. Net revenue in the company grew approximately 6.4%, reaching BRL71.2 million in the period. Here the main impact came from Vasta's solid performance, growing 35.5%, and a total of around BRL100 million in the comparison with the previous quarter. And in the comparable version ex schools, we see that this was a positive result. Now looking to the graph to the right in recurring EBITDA, we see that recurring EBITDA totaled BRL402 million, up BRL35 million versus what we announced in the first quarter '21 or BRL78 million more if we consider the sale of schools.

So regardless of the comparison basis, ex schools or with schools, our EBITDA is growing. And this shows that we have paved the way for this growth in the last three quarters. The message I would like to give you on Cogna is that in fact 2022, well the quarter started

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showing signs of revenue growth, so definitely the year of inflection, the turning point was 2021 for Cogna.

Now turning to Slide 20. We would like to give you a message on OCG after CapEx. From the operating cash generation in the first quarter that was negative, we have now cash generation of around BRL178.2 million of net cash, represented BRL225 million positive and we have made this announcement to the market in due time. But even with the advanced receiving off receivables, we grew significantly in the period. So the consistency of our OCG is one of the highlights, our EBITDA conversion represented 44% into OCG. This is 254 bps versus Q1 2021. And in net cash generation, we reached BRL512 million superior to the first quarter last year in spite of the buyback operations and also the operation of BRL100 million in debentures in the secondary market. So the company is keeping an eye on revenue and another one on cash. And this is part of the wisdom that have brought us these positive results.

Now turning to leverage, Cogna closed the first quarter 2021. When we look at net debt over adjusted EBITDA, the leverage rate was 2.15 times. This amount is in line with what we presented to the market in the fourth quarter '21 in spite of the increase in interest rates. We are able, well, thanks to the strong cash generation and EBITDA, to maintain the same leverage ratio, our net debt. Cash gross debt represents BRL7 billion. Our cash is very positive at BRL3.8 billion leading to net debt of BRL3.1 billion. In our amortization schedule, we expect amortization of 1.0 -- well, from BRL2 billion, this is what we were doing, but as Roberto has announced, we are buying back the debt that's been negotiated below par, so our cash is now very close to the interbank interest rate. And as a result of this, we will amortize and we have no intention in the short term of rolling over our debt. The company's leverage is under our full control, so the solid performance of the company and revenue, EBITDA, culminating in cash generation makes us very comfortable in relation to our leverage.

So with this, I close this presentation on Cogna and I hand it over once again to Roberto Valerio to talk about the future outlook of the company.

### **Roberto Valerio Neto** {BIO 2243533 <GO>}

Well, thank you very much. On perspectives for the future, just to summarize, in spite of the revenue retraction we expect for 2022, this will become compensated by operational improvements leading to greater EBITDA margin. We're still in May, we have many years ahead of us. It's a challenging year and also it's an election year in Brazil, but we feel confident that with our initiatives, in spite of the drop in revenue, profitability will improve. And as of 2023, with more growth in revenue and recurring EBITDA, we will be able to take Cogna Kroton to a new level of value generation. So, we are also working on alternatives to grow this vertical. And from 2023 on, we expect revenue to grow, as I said. I would like also to underscore that we have had non-recurring expenses back in 2021 now they are being reduced and they are related to Kroton's restructuring, but the expenses now are at a much lower level. This shows that we are moving in the right direction when we show information without non-recurring expenses. We are not expecting any major restructuring for the near future.

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As for Vasta, well, the ACV was confirmed. Last year there was a break in ACV because of the second wave of the pandemic. So conversion of ACV demonstrates the company's ability of delivering results when not in a pandemic. The first quarter was very good. We are much more asset light, much more digital, several additional products are being connected to the platform and distributed to the network. So we have positive margin expectations as well. And let's not forget the improvement in revenue quality since we are now gaining traction in our subscription earnings. So with Cogna, we would like to highlight the message of strong cash generation that will continue in the near future and in coming years.

And as we have maintained this target of BRL1 billion in cash generation by 2024, according to the guidance that was previously given, Voomp is a platform model that is very successful in Vasta focusing on adult education. We have no expectations of short-term results, but maybe in horizon of two or three years, we'll have a more diversified business through Voomp. Cash is being generated. We are prioritizing payment of debt and buyback via the M&A because the price of our shares is very low. We are not expecting any major M&As in the short term, but there could be some M&As of a minor significance to complement our portfolio. With this, I end my presentation. I thank you all and invite you to the Q&A session in which we'll be happy to take your questions.

## Questions And Answers

### Operator

(Operator Instructions) Our first question comes from Lucca Marquezini from Itau BBA.

#### **Q - Lucca Generali Marquezini** {BIO 21102315 <GO>}

Morning, everyone. Thank you for taking my question. About Med -- Kroton Med, you provided some color. I've heard in the industry there is a more difficult environment to increase prices in medical school, can you talk a little bit about that and elaborate a little further? Thank you.

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

Hi, Lucas. Thank you for your question. Look, we have not seen this effect, I don't know, maybe because of our marketplaces, the regions where we operate. We -- I mean for senior students, we have been able to adjust prices by inflation upon renewal in this trade cycle and all our seats are being sold at the current prices, at the prices that have already been adjusted by inflation also for new students. So, my answer is no, we have seen no difficulty in adjusting prices by inflation. Thank you.

### Operator

Thank you. Our second question comes from Ian [ph] (inaudible) from BTG Pactual.

#### **Q - Unidentified Participant**



Good morning, Valerio. Good morning, Ghio. Hello, everyone. I have two questions on my side. First about Vasta, I'd like to understand a bit better what would be a recurring margin for Vasta thinking about this year further ahead? We see a structural improvement, but now I'd like to understand what we can expect for the near future? About Cogna, I'd like to hear about recurring expenses. I know they've been reduced in the first quarter PEP [ph], for example, or marketing expenses, commercial expenses have also been reduced. Does it make any sense for us to expect the same level of reduction as a recurring reduction in the near future? Thank you.

#### **A - Mario Ghio {BIO 17352490 <GO>}**

Hello, Ian. This is Ghio. Thank you for your question. I think first, I'd like to say that the margin improvement comes hand in hand with our cost cutting initiatives, but also the product mix, we are now closer to 90% of our revenue guidance. So this is because our products, they have a higher margin, even gross margin or net margin and complementary products in our portfolio, they have the highest margin of contribution to our numbers.

I really wanted to talk about our expectation in terms of margin until year end, but what I can tell you is that we expect recurring margin gains. If you look at the first quarter, this is what we plan to maintain in the next quarters. Of course, there are changes from quarter to quarter. You cannot make a comparison to the previous quarter, but you can make a comparison to the same quarter in the previous year, but we do expect a higher margin, higher than 2020. And I can tell you that this year it's going to be less impacted after the pandemic. But yes, I am very optimistic in terms of margin gains.

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

Hello, Ian. This is Roberto. I will answer your question about Cogna expenses and marketing and our operations at Kroton. I think your first question about PDA, I think that is directly related to default levels since we have a lower default, I mean, so we've improved processes, we've become more sophisticated in collections, we've purged our student base selecting our best payers. So therefore, this was a structural change. We expect the default levels to remain low, actually even lower. And so the answer is that, yes, we believe PDA will continue at this level.

Now marketing, I think we have shown reduction in marketing expenses in the last few quarters. So, not only in terms of total expense, but also in terms of cost of customer acquisition or CAC. We have a high CAC we believe, 6 by our numbers. And I believe that it is still high. We would like to maybe spend more on marketing to get more volume and this is something we discuss about quite often. We -- I mean, we are delivering a good margin result so far now. Our decision is to maintain our marketing investments at the same level. We've spent BRL100 million less in marketing in this cycle and we brought 435,000 students, not only a few, I mean, we have enrolled 435,000 in the single sales cycle. That is a significant number looking at the marketing investment we have.

So in the next two to three years, I believe we will be able to invest more in marketing, but for now, it's not in the plan. We don't want to increase marketing expenses. I think, we

are quite efficient as we are. We could gain some more margin to gain volume, but that's not our strategy.

## Q - Unidentified Participant

Thank you very much. It's clear.

## Operator

Thank you. Our next question is from Marcelo Santos, JPMorgan.

## Q - Marcelo Santos {BIO 17186991 <GO>}

Good morning, Roberto. Good morning, officers. Well, just to clarify, could you please comment about the trends you detect in average ticket? How is it going in both segments? And secondly, within Saber, there are operations of very different natures. Do you -- are you considering investment in any of them or do you think that the portfolio is what you would like to have for the long term? And Ghio said that margin this year should surpass the margin in Vasta, I just wanted to clarify whether this is exactly which is that?

## A - Mario Ghio {BIO 17352490 <GO>}

Marcelo, well, I -- let me jump in to give you this answer, our margin at the end of '22 will be higher than the 2020 margin, as I answered in the previous question, that every new quarter you see that the cross-cutting initiatives we executed or with the penetration of subscription products will see improvements in margins. And when we close the cycle and the year, there will be higher margins in the comparison with 2020, which is the first year in the historical series.

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

Thank you. This is Roberto here, Marcelo. Let me answer the question on the average ticket and then I'll talk about somewhere in the assets that we might sell. Well, in relation to the average ticket -- well, we have high on campus content and low on campus, high on campus the average ticket and the intake showed a slight decrease, less than 2% on on-campus. And what is affecting the high on-campus content is the mix of programs. In the comparison onsite versus on signed, there is a marginal decrease in average ticket which is irrelevant in the competitive scenario because we are no longer using or offering the low LTV on campus programs. This is the red ocean. We have concentrated the HOC programs in medicine and veterinary medicine where we have less competition and that's why we were able to maintain stability in the average ticket. But we see the high on-campus content programs growing in the yearly mix.

As for low on-campus content, there was no loss in the average ticket in the digital programs, but we have less and less penetration of the once a week model and this is what's causing this effect. This is the explanation. Obviously, Marcelo, we could be pursuing growth 40% in volume, but this is not what we want. We want to have consistent results growing double-digits and growing in revenue, that's why we have avoided our price for. And now, Fred.

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**A - Frederico da Cunha Villa** {BIO 18677215 <GO>}

Fred. Thank you very much. We consider at Saber -- do we consider disinvestments in Saber? No. On the contrary, with the launch of Voomp, what we think is that we might have to make more investments to strengthen this portfolio in the near future.

**Q - Marcelo Santos** {BIO 17186991 <GO>}

Well, thank you very much.

**Operator**

Thank you. Our next question is from Vitor Tomita, Goldman Sachs.

**Q - Vitor Tomita** {BIO 19238819 <GO>}

Good morning to all. Thank you for taking our questions. Two things on our side. Firstly, can you give us a little color about the average receivables term for Kroton? Will it become more stable in the long-term as a consequence of the effects that have been discussed? And secondly about the expansion of DL centers, do you see more competition for those centers and other opportunities related to the DL centers?

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

Thank you very much, Vitor, for your question. Firstly, the average term of receivables question will be answered by Fred.

**A - Frederico da Cunha Villa** {BIO 18677215 <GO>}

Fred Villa here, Vitor. Well, average term of receivables. We have demonstrated -- well, we are -- we had 120 days and now 145 days. We understand that the average term of receivables is moving towards an inflection point. What I mean is that when we made the change in our PMT enrollments and we discontinued PEP, what we have done is increase the health of our student base. So I understand it gradually there will be operating efficiency gains, but we are coming close to what is the ideal point. Just to reinforce Vitor, we have a tuition cycle of 30 days -- so 46 days for receiving is very close to stability.

Now competition for DL centers, our strategy, Vitor, is to continue growing our DL center network using the partners we have already have many times because we prefer to work with them because they are already present in the region and they want to open a center in a nearby town and also because they are aware of the challenges, they are aware of the need for investment. So to answer you, I don't see competition for DL center administrators because we have a very strong team, a very well-structured team and mature as well. In fact, we are very proactive as well. We visit the towns where we want to grow, but I don't see this as a problem for our growth. We believe that there will still be room for us to grow in DL centers.

**Operator**

Thank you. Our next question is from Lucas [ph] (inaudible), Morgan Stanley.

## Q - Unidentified Participant

Good morning. Thank you so much. I have two questions. First about Kroton Med. What avenues for growth do you envisage for Kroton Med in addition to the increase of medical education seats? Do you see the possibility of a carve out, any news about this? And secondly, what about LTV in the margin? How is it incorporated?

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

Lucas, I wasn't able to hear your question. I will answer about Kroton Med, but I didn't get the question on customer acquisition costs. So, Kroton Med. We intend to grow this vertical. We are not thinking of having exclusively magical education programs. We -- at the end of the carve outs should have a fully independent company. So in addition to having seven medical schools and two universities, there are two distance learning licenses including (inaudible) and they have 800 DL centers authorized to offer health program such as pharma, medicine, physical rehabilitations. There are 16,000 seats that have been authorized for nursing.

So Kroton Med is a vertical operating with medical education, will seek to acquire other medical schools, but we can complement our offer with healthcare programs also through our capillarity of DL centers, you're probably monitoring that the fact that healthcare is in expansion in Brazil and we believe that Kroton Med could support this growth and need for professionals. We have plans of offering graduate programs in medical education and also prep courses for residents, so we are not focusing exclusively on medicine. There are also the adjacent programs. Could you please repeat your question on cost of acquisition?

## Q - Unidentified Participant

The fact that you have a lower ticket, how do you incorporate this?

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

I am sorry. When you incorporate what from the student? I cannot hear you.

## Q - Unidentified Participant

The students LTV.

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

Well, I'll try to answer the best I can. The cost of acquisition has been dropping in absolute terms. We have been gaining efficiency because our distribution channels are stronger. We are selling more, so LTV over CAC is lower. So -- and I think that this is actually your question. Even if the -- even if LTV is decreasing in average because we have more digital students, it's positive in proportion. Cost of acquisition is dropping faster than LTV. And LTV here is also a ratio between the profitability of each student. They have a lower average ticket, but a higher margin. So if this is your question, so we are adjusted for a new LTV with a higher share of digital and smaller share of own campus.

## Operator

Thank you. Our next question is from Marcio Osako, Bradesco.

### Q - Marcio Osako {BIO 6748109 <GO>}

Thank you very much. I have two questions about Kroton. The first one is, you said you expect growth in 2023 for EBITDA, but I believe that there will be a different behavior as we see today because the revenue will grow again. So question whether you still have space to improve efficiency and to improve margin in Kroton's operation for next year. Now about receivables in PEP and the average time of receivables, we see stability in terms of net receivables. What is your expectation in terms of receivables and maybe some timeline idea? Do you expect a linear behavior? Do you believe that you will have more improvement in 2024? I mean, what do you expect? That's it. Thank you.

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

Yes, Marcio. This is Roberto. I'll answer the first question about margin and then Fred will answer about receivables. We expect -- I mean, in general terms, right. I'm not going to provide specific details about 2022 or 2023. But looking ahead, we expect margin improvement at Kroton for a simple reason. In our strategy, we are now having more digital students that bring a higher margin. So because we've made this choice some time ago, we decided to be a smaller company in terms of revenue with a higher average ticket and also with a higher profitability. This is the trend. As of 2023, revenue will continue to grow. But with this student base, I mean the operating leverage is very high. The more students I have here, I'm not going to have incremental cost in the same proportion. So as I said, I believe, we do have space to improve margin in the next few years. Now Fred, you want to talk about receivables?

### A - Frederico da Cunha Villa {BIO 18677215 <GO>}

Hello, Marcio. This is Fred. About your question on receivables and the PEP program or PEP. So we will see a slight growth in 2023. 2024 will be the peak. And after that, it will fade out. That is we will see a more linear growth. With PEP, in terms of coverage and this is included in the presentation in Slide 9, so you can see that we came from 63% on our receivables. We believe this is the ideal PDA. So this is the optimum PDA. So that's why we believe we are now at the right percentage and so we do not expect to have any increases.

### Q - Marcio Osako {BIO 6748109 <GO>}

Thank you. Now, just to clarify about receivables. So for this year, you will still be consuming cash? I mean I didn't understand very well. That was not clear to me. Do you believe it will begin to generate cash as of 2023 and then reach the peak in 2024 or is it going to begin to generate cash already in 2024?

### A - Frederico da Cunha Villa {BIO 18677215 <GO>}

No, no, it is already generating cash as we speak in 2022. And in 2023, then we'll will reach a peak of cash generation in 2024 and after that it will be maintained and have a slight drop that is it will fade out.

**Q - Marcio Osako** {BIO 6748109 <GO>}

Okay, thank you. Yes, it's clear. Thank you, Fred.

**A - Frederico da Cunha Villa** {BIO 18677215 <GO>}

Great.

**Operator**

Thank you. Our next question comes from Pedro Caravina from Credit Suisse.

**Q - Pedro Caravina**

Hello, good morning, thank you for taking my questions. I have two questions on my side, both about Kroton. Can you please talk about dropout rate for the second quarter and also in the year 2022? Now on a more qualitative aspect, why is the dropout, because of the macroeconomic scenario, and what is your strategy to try and reduce the dropout rate? Thank you.

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

Hello, Pedro, this is Roberto. Now dropout in the second cycle, I mean students who enrolled and we will now begin their renewal process, it is still early to talk about the dropout. Because we do have a dropout in the mid-point of the year. And the first signs show it will be lower than the historic level, but it's still too early to tell because we will know about that and as we close this semester. But we feel optimistic about the dropout rate for a few reasons. First, because operationally we are better organized now. I mean our rates of commitment are good. We have lower complaints. I mean, of course, you can always improve, but we see a generally high level of satisfaction amongst students.

A few problems we had for students to have access to their bills. Now we have solved this issue as we have introduced new systems and we now have a better integration with legacy systems. We have digitalized all of our small and medium sized campaign, so they have higher level of self-service and so satisfaction amongst students is higher. So I would say that we have indications that the dropout rate may come down. Of course, we cannot forget that when we have many new students joining our student base, as I said, we have enrolled 430,000 students in this enrollment cycle. So then when we grow quickly, may be the dropout rate will suffer the impact. But as you look at senior students, the dropout rate is being reduced consistently. So this is my answer to your question.

**Q - Pedro Caravina**

Thank you. Yes. Perfect.

**Operator**

Thank you. We will now close the Q&A session. I'd like to give the floor to Roberto Valerio for his final considerations. Roberto, you may continue.

FINAL

Bloomberg Transcript

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

I just want to thank you all, those of you who've been with us. My congratulations to our teams for excellent results posted. We are on an excellent track for the future, improving our numbers at Cogna. Our Investor Relations team is at your service. If you have any questions, do not hesitate to come and talk to us. Have a great day, everyone.

## Operator

Cogna's call is now closed. We thank you all for being with us. Have a nice day. Thank you for using Chorus Call.

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