Y 2021 Earnings Call

Company Participants

- Frederico da Cunha Villa, Chief Financial Officer and Investor Relations Officer
- Mario Ghio, Chief Executive Officer
- Roberto Valerio Neto, Executive Officer
- Rodrigo Calvo Galindo, Chief Executive Officer

Other Participants

- Marcelo Santos, Analyst
- Unidentified Participant
- Vinicius Figueiredo, Analyst
- Vinicius Ribeiro, Analyst
- Vitor Tomita, Analyst
- Yan Cesquim, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to Cogna Educacao's Earnings Conference Call on the Fourth Quarter 2021 Results. This event is also being broadcast simultaneously via the Internet with webcast and audio and Slides, and it may be accessed in Cogna's Investor Relations website ri.cogna.com.br banner Webcast 4Q '21, and the presentation is also available to download from the website. This earnings conference call is being recorded and all participants will be listening in listen-only mode. After the presentation, we'll have a Q&A for analysts and investors and at that time, further instructions will be provided. (Operator Instructions) (technical difficulty) which now conform to international accounting standards IFRS, except where otherwise indicated.

Before proceeding, we would like to clarify that any statements that may be made during this conference call regarding Cogna Educacao's business prospects, operating, financial projections and goals, constitute the beliefs and assumptions of the Company's and are based on information currently available. Forward-looking statements are not performance guarantees. They involve risks, uncertainties and assumptions as they refer to future events and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors could affect Cogna's future performance and could lead to results that differ materially from those expressed in such considerations.

Now, I would like to turn over the conference to Cogna Educacao's CEO, Mr. Rodrigo Galindo, who will start the presentation. You may proceed, sir.

Rodrigo Calvo Galindo {BIO 17238232 <GO>}

Good morning everyone. Thank you for participating in today's call to discuss the results of Q4 and 2021. With me in this call, Frederico Villa, our Finance Vice President and the CEOs of our vertical business units, Roberto Valerio, Kroton; Mario Ghio, Vasta; in addition to Bruno Giardino, Vasta's CFO; and Eduardo Fonseca, our IRO and Corporate Finance Officer.

Beginning on Slide 3, with an overview about Cogna's achievements in Q4 and in the year 2021. Looking at this year, I mean it has been a difficult year. And we said that the measures we've implemented in 2020 were already bringing on consistent results. Q4 has confirmed this consistency, recovering our student base that is growing in the last quarters. Our student intake is growing volume and also revenue, because we don't want to grow volume at any cost. And we're also generating cash, our main focus. And therefore, we feel confident that Cogna is on the right recovery track.

So we're looking at the results of Q4 and 2021. Looking at Kroton on the left-hand side, let us try to understand the operational turnaround. First, we see exceptional numbers with relevant and perennial gaze. In 2021, we began to capture efficiency gains and in Q4, Kroton comes from BRL295 million negative to a positive EBITDA BRL191 million, growing BRL486 million in recurring EBITDA, with a 28.7% margin, 25 percentage points better than the year before. Even if we deduct the effects of our doubtful debt, we still had a growth in our margin goes from 13% up to 23%, that is a very robust growth and a sustainable growth.

In 2021, our EBITDA margin goes from 3% to 28.7%, a new level of profitability for higher education, bringing long lasting results. Now student intake in 2021 had growth in both volume and revenue. So we have a higher intake in three trade cycles in a row, but we believe that it is not worth growing volume without growing revenue. Now with a growing student intake, Kroton will resume growth in revenue as of 2023, to maintain Distance Learning growing and we've had an expansion of partner learning centers. We now have 2,517 Learning centers. That's a great expansion.

Now talking about high school, we plan to -- no, I'm sorry, talking about medical education, we plan to have 636 medical seats in 2022, with a potential of 5,250 students, and that represents a organic growth of 75% in the number of medical students. Still talking about Kroton, we've had a growth in student base, 5.2% led by 15.1% growth in digital. Another highlight was our growth in programs with a higher lifetime value, medical, dentistry, law, that have been growing sustainably in the last trade cycles. It means we have been able to implement our strategy as announced to the market, growing on digital and hybrid, and on-campus prioritize higher LTV programs.

Now let's talk about Vasta in the middle of this Slide. The 2022 trade cycle began in Q4 2021. As you know, we begin in Q4 and the year goes up to Q3 of the following year, and it marks the beginning of a new chapter in Vasta history. We concluded the 2022 trade cycle with an ACV, annual contract value of BRL1 billion, 35% higher compared to our subscription revenue posted in the commercial cycle of 2021. And 30% ACV growth shows we are resuming growth. One of the highlights is our supplementary solutions growing 47%, it strengthens our cross-selling potential offered to a very large client base in our core business, we have a robust client base.

Now let's talk about revenue. In Q4 2021, our revenue soared 16% at Vasta and we announced the net revenue guidance for Q1 2021, different from previous years when the ACV was concentrated in Q1 and Q2. Now in 2022, because new products have a different seasonality, and because we have a lower PAR revenue, we see less concentration in Q1 and Q2, which would be Q4 in the calendar year and Q1 in the following calendar year. That would be the full commercial cycle. Now, so we come to BRL370 million in Q1 '22 in terms of revenue for Vasta, growing 32% compared to Q1 2021. Now this revenue guidance is very consistent. I mean we are already on March 25th, the first quarter is about to end. Adding up the first quarter of our trade cycles, we will reach BRL768 million, that is they represent 23% increase compared to the revenue of the year before. It means that our revenue continued strong in Q3 and Q4. So 32% growth in Q4 compared -- in Q1 '22 compared to Q1 '21 and we continue with a strong performance.

Now some more information about Vasta. By October, Vasta concluded the acquisition of Eleva learning platform, and in November, we started the integration, it's following the plan. We already concluded a few milestones, the definition of the new organizational structure, definition of commercial team, editorial, digital and the onboarding of Eleva students in Plurall platform. Eleva will now be included in our go-to-market for the commercial cycle beginning in 2022 for 2023. So, Vasta will be able to tap the full sales potential of our new platform. Also important to highlight is the strength of Vasta brands, especially Plurall in 2021 we started and we've already spoken about this, we've started important partnerships.

For example, Fibonacci learning system, it is one of the top 10 performing schools in the National Exam. Also Mackenzie and the partnership with Macmillan. We already had this partnership, but it's now even stronger. It's one of the largest publishers in language worldwide. In addition to Edtechs worldwide offering our solutions on -- offering their solutions, I'm sorry, on our Plurall Store now. So it shows our capacity to partner with other important brands.

Finally, on the right side of this Slide, let us talk about Cogna. Cogna's results in Q4 show a performance recovery, with a recurring EBITDA 96% higher compared to Q4 2021, so we have 20.6% EBITDA margin, so a growth, and post-CapEx operating cash generation of BRL494 million. I think this is the biggest piece of news in 2021, almost BRL500 million. I mean it's more than double compared to the previous year, and that confirms our strategy to concentrate our efforts on cash generation. Also important, I mean student intake is key, but we must have revenue. As we mentioned, student intake and volume has to be followed by revenue. EBITDA is also important, so that's why we are also working to improve cash generation.

Now in terms of leverage, it is kept at a comfortable level with a net debt recurring EBITDA ratio of 2.16 times. It confirms our confidence in the Company's future results. We have recently announced a stock buyback program. Now, three of our executives have also announced individual Cogna stock investment plans. So their investment plans are personal decisions. I mean they are investing their own money without any kind of benefit or a special condition compared to the market. It only shows that our executives are confident in the organization.

In 2021, we also consolidated initiatives related to Cogna ESG. Our practices matured in line with our ESG strategy. So we launched Cogna's commitments for a better world. This is a public manifesto with our goals until 2025 based on three pillars, balance between people and nature, education diversity and human rights, and governance and integrity. So we have not only public goals, but also our own internal goals and they reinforce our commitment with ESG. Now some examples of our goals, percentage of women in leadership position, percentage of ethnically diverse people in leadership positions, inclusion of LGBTQIA plus among many other goals. As I mentioned, we also have public goals which our society can monitor and follow, because it is our commitment to evolve in our environmental, social and governance practices.

Let me now hand it over to Roberto Valerio, today, Kroton CEO; and on Monday, he will be Cogna CEO, who will talk about Kroton operating and financial highlights. Roberto, over to you.

Roberto Valerio Neto {BIO 2243533 <GO>}

Thank you, Rodrigo. Good morning, everyone. I'll begin on Slide 5 to summarize Kroton highlights. In 2020, we started actions to restructure our operations and strengthen our operations and Kroton's balance sheet. These initiatives paved the way to resume profitability and now in 2021, we've begun to capture efficiency gains from these efforts that began in 2020.

From the operating viewpoint, our student base grew pushed by Distance Learning, so student base grew 5% and Distance Learning grew 15% compared to the previous year, which more than offset the drop we had in on-campus. Now, it's important to highlight that the profile of our growth growing Distance Learning is in line with our strategy to focus on hybrid and digital programs and also to prioritize higher lifetime value programs as Rodrigo mentioned. So our goal is to increase profitability from our operations, with higher LTV programs.

Our learning centers, we've implemented almost 1,000 new units, which represented a 63% growth compared to Q4 2020. So now, we have 2,500 units. If we were a franchise network, it would be one of the largest in Brazil. So we've also expanded hybrid programs and only digital programs and that has helped pave our way towards future growth. Why, because they are the basis of pre-contracted programs, not only the programs, but also the use of our learning centers, they are still maturing and they will be able to potentialize our growth.

Another growth avenue for Kroton is medical education. On Cogna Day in 2021, we announced KrotonMed carve out and this operation -- I mean this transaction, our goal was to provide more visibility to the market on this business. So now as of Q1 2020 -- 2022, sorry, we will begin to report some KrotonMed operational and financial indicators separately. Now, in December '21 and February '22, our medical programs were approved in the MEC medical program in cities of Codo and Bacabal. Now activities have already started and the idea is for us to attain 636 medical seats in 2022, and that will help us grow organically this operation in more than 75%. I mean we can have 5,250 students.

Now let me speak a bit more about our turnaround. We now have total number of 75,000 units, so I think it's important to remind you that all of this is in line with our goal. We want to become an asset-light operation and we are going to optimize other operations. So we continue to be present in these cities, but in many cases we have partners. Now we've had great discipline in cost control and that has helped our numbers. So looking for more operating efficiency, we've had a reduction between 13% and 23% in our cost and expense lines. We have also been able to improve collections by 6.2 percentage points even during this challenging environment. And this improvement has helped us generate cash during this period.

So we have improved collections. We are more efficient in timely collections and we believe that, as we can understand our students better, as we can understand student engagement, then we will have -- we'll be more efficient in timely collections. Finally, our financial result had a significant improvement in EBITDA margin going from 3.7% up to 28.7% in 2021, a BRL788 million improvement, and above all, and as Rodrigo mentioned, the most important thing is that this growth brought strong cash generation. So this is quality growth.

On Slide 6, we can see some of our student base indicators, total undergraduate and graduate student base grew 5.2%, especially led by digital following the same trend of the last few quarters, growing 15% during this period. On the other hand, because of our strategy, we had a reduction in our on-campus student base. Now, let me also highlight, our average ticket both -- on both segments, Distance Learning and on-campus, they remain stable in the second half of 2021 despite the fierce competitiveness we've had based on price, I mean price competitiveness on the market. So it means that we have been very careful in our trade cycle. So we've had a bigger penetration of digital, so a slight reduction in the average ticket of digital and a slight increase in on-campus average ticket, showing we are being able to prioritize higher lifetime value programs. So of course, this of course offsets some of the other students.

With this, I would like to turn to Slide 7, in which I will cover our efficiency in enrolling new students. This is the result of our very consistent efforts and it's a sign of the sophistication of our digital marketing strategies. We have other initiatives in the year, we were able to succeed into actions. We had growth of 16% in total student intake, while decreasing marketing expenses used for attracting students. And this led to a reduction in 35% of the student acquisition cost, the so-called CAC. And even in this highly competitive scenario, we were able to do this and I believe that we have reached the lowest student acquisition cost in the industry.

Now moving on to Slide 8 in which we'll discuss -- rather Slide 7 -- he corrects himself. We will talk about the consistency of our accounts receivable. The coverage ratio reached 59.9%, a high level that enhances our security and the average time for receivables in out-of-pocket amounted to 60 days, a reduction of 14 days, and this is very consistent with the improvement in this economic scenario, a reduction of 14 days overall. Several initiatives seek to improve the quality of our student intake. We used analytics during the enrollment -- re-enrollment period.

And as we have mentioned before in previous conference calls and with the increase in efficiency in collection in the last quarters, we had an increase in timely payments of 6.2 percentage points starting in the first quarter '20. Consequently, PDA was reduced and in spite of the effect of out-of-pocket, our PDA decreased BRL379 million, that is 67% in the annual comparison. So with this, the message I would like to highlight, to use the timely payments show a positive trend and we have sound numbers in our figures.

Next on Slide 9, I would like to share with you some more detail on working capital and accounts receivables management. We monitor the level of engagement of our students very consistently. This is done to prevent dropout tendencies and also to recognize dropout as soon as it occurs, because like this, we drop the student from our base to avoid deterioration of our accounts receivable. As we have said in previous quarters, we are now using a new provisioning model. This model was developed with the support of an international consultancy and shows accuracy of 88%. It's also important to underscore that none of the model's criteria were changed in 2021.

Finally, on our financing programs, it's important to remind you that coverage rates are stable and that we have discontinued PEP in the beginning of 2021 for new students. So we see in the graph that there is this increase in accounts receivable. But this is the maturing of the students that were already with us. In addition to this, in the first quarter 2021, we have implemented a change in the PMT model. We are now offering a payments plan along the school year, that is along with the students way they pay, instead of paying at the end of the program. And as a result of this, they are paying in proportion to the number of months they have studied with us. This decreases default rates and has been helping us a lot with the numbers in PMT.

Moving on to Slide 10. Net revenue reduced 12.2% in comparison with the same quarter in the previous year, owing to the reduction in on-campus undergraduate students, which was partially offset by growth in DL. Year-to-date, net revenue was down 13.4% in the fiscal year, but in -- even with this reduction, the changes in the hybrid and digital programs. In spite of this reduction of revenue, have a very positive in margins, because both digital and hybrid premium are more profitable than on-campus programs, as I have mentioned.

Before moving on to my last Slide, I would like to highlight that recurring EBITDA in the Company had an increase of BRL486 million in comparison with 4Q '20 in the comparison and we have reached growth of BRL788 million and margin EBITDA of 28.7% since we are trying to recover our margins. This is something that shows that Kroton is back on track. 28.7% of margin is something that's 25 percentage points higher than in the previous year and even this regarding the PDA adjustments in the fourth quarter 2020, growth represents 59% in EBITDA, with a margin evolution of 12.5% in the quarter. So the evolution on recurring EBITDA and EBITDA margin showed that we have put Kroton back on track. We are pursuing the profitability route after the most significant turnaround in our history. We completely restructured our campi, we expanded our partner centers and invested in a strong digitalization program. With this, I close my presentation, and cash generation and EBITDA shows the quality of the work that has been done.

With this, I hand it over to Mario Ghio, Vasta's CEO, who will now present on the operating and financial results of his Company.

Mario Ghio {BIO 17352490 <GO>}

Good morning, Roberto. Good morning to all. I would like to start on Slide 13 in which we discuss the Vasta result. Since the fourth quarter 2021, a new trade cycle began and we're starting to reap positive results, with revenue up 16%, of which 22% coming from growth in subscription products and services, and in non-subscription, if we not consider PAR, growth amounted to 34% in the comparison with the same quarter in the previous year or BRL72 million more in revenue, in line with fourth quarter '20. The non-subscription business is losing weight, because we follow this strategy and Vasta is becoming ever more resilient and predictable, with subscription business reaching 87% of our revenue.

In recurring EBITDA, Vasta grew 15.4% in the comparison with the same quarter in the previous year, as a result of the growth in net revenue and reduction of marketing and corporate expenses. I would like to finish this Slide by saying that 2021 was a very challenging cycle, especially the first quarter. However, we have demonstrated excellent revenue performance in fourth quarter '21, pointing out to a positive 2022 trade cycle and a guidance that the first quarter '22, whose guidance will be given next, indicates even stronger growth.

Now moving on to Slide 14. I would like to dedicate a few moments to ACV. As I said, 2021 was one of the most challenging years in Vasta's history, but we closed the trade cycle with ACV of BRL1 billion, representing growth of 35% in relation to the subscription revenue recognized in 2021, 22% of this growth driven by organic growth and here I am referring to the acquisition of Eleva in the other 13%.

Complementary Solutions had the highest growth rate among all products. We have captured cross-selling potential strongly, something that we derived from our large client base customer base in the core business. However, only one-fourth of our clients are using one product through cross-sell. So our ACV has grown consistently since 2019, in average 20%. We have an average growth of 20%, so leaving BRL573 million to BRL1 billion this year. This growth is the result of the maturing of our go-to-market, together with the qualification of our multi-brand portfolio and the strength of the Plurall platform, which is now the leader in traffic in Brazil and in support to K-12 schools in Brazil.

Moving to Slide 15. Well for the first time, we'll give some guidance on the next six months. So net revenue for the first quarter of the year 2022 will reach BRL370 million. So the overall growth represents 32% when compared to 1Q '21. However, unlike previous years, ACV is not as concentrated in the fourth and first quarters. We have new products, all the PAR products that were transformed into digital platforms, they are only recognized from the second quarter on. So as a result, there is less concentration in these two first two quarters, and this is very positive for our revenue. There is a better dilution along the year.

So with this, I close my contribution and I hand it over to Fred Villa.

Frederico da Cunha Villa {BIO 18677215 <GO>}

Good morning, everyone. I will start on Slide 17, and I'll try very brief in discussing our operating results. So in the chart, the fourth quarter. Well, we had BRL203 million in net revenue. So our growth represented 56%, BRL50 million or approximately 25%. This was driven by the growth in sales in the National Textbook Program that grew BRL34 million or in the comparison with the previous months. So looking at recurring EBITDA, we also see the effect of -- in our EBITDA with growth in our recurring EBITDA of around 40%, and a growth of 3 percentage point in margins. So our business is growing very significantly in revenue and also in margin. This demonstrates the strength and resilience of our business in Cogna and especially in the National Textbook Program.

So now moving on to the last part of my presentation, I will talk about Cogna. Cogna net revenue both in the quarter look -- looking at the comparison with the fourth quarter and the year of 2021, there was a reduction in our revenue. This was the result of the change in mix in undergraduate, with more participation of hybrid and digital and less on-campus. Something that also helped Cogna was the strong ACV in the beginning of the 2022 trade cycle. By looking at our figures in the fourth quarter 2021, it was a very tough year for Vasta. But at the same time, very strong for Kroton and 2021 is now behind us and it is the inflection point. Looking to 2022, we expect our revenue to resume the growth cycle.

So now moving on to Slide 20. I would like to talk about recurring EBITDA. We see in the two charts, recurring EBITDA and thinking of both the fourth quarter and the year of 2021, recurring EBITDA grew BRL524 million. We started with a negative EBITDA of BRL1 billion [ph] and we are now at BRL524 million. And if we disregard the effect of BRL415 million, our EBITDA grew and reached 27 percentage points in recurring margin. And this happened, like I have already mentioned that there was a change in the undergraduate mix, with a focus on digital and we also work very hard internally to improve our timely payments rate, starting with an improvement -- an adjustment to our PDA and also reduction of the corporate and marketing expenses. This once again is a sign of our resilience and strength, with a strong EBITDA growth, delivering BRL1.355 billion in EBITDA, with a margin of 25 percentage points.

Now moving to Slide 21. From revenue, we start discussing adjusted EBITDA, with the important focus on operating cash generation. We have reached BRL494 million in the year. We actually grew twice as much in 2020. We started with BRL240 million, we reached more than BRL900 million and the conversion here reached 36.5% in 2021. So operating cash generation was the focus in 2021, it will continue to be our focus in 2022. And now with this OCG, we would like to reaffirm our guidance of BRL1 billion in OCG for 2024 and as a consequence of revenue, adjusted EBITDA and operating cash generation.

Let's now turn to leverage and the message here is that, leverage is under control, we are feeling very comfortable with the leverage level we have. Net debt over recurring EBITDA ratio reached 2.16 times. This is in line with 3Q '21, in which we had 2.07. And just to remind, during the fourth quarter, we are not having any waiver adjustments on our covenants. So we have approved as well a strong buyback program in February 2022 maturing with the due date February '23. The program is ongoing, is in execution. So we believe that because of the EBITDA delivered and our commitment to operating cash generation, everything is now balanced for next year.

And now, on the topic of cash flow and indebtedness. On December 31, 2021, we had a solid cash position amounting to BRL4 billion. We have enough to amortize our short-term debt. We have amortization of debt as you can see in the chart -- in the chart of August 2022 of around BRL2 billion. And we're feeling comfortable about our ability to meet these obligations. We can also obtain additional financial lines if needed, but since we have such strong cash with strong cash generation, our net debt represents BRL3 billion.

We have maintained the debt and debt -- net debt in line with the last four quarters. In spite of the interest rate increase, the average interest rate -- interest rate was around 2% and now we are close to 12%. Our average cost of debt is the interbank deposit rate plus 1.78% with a term of 28 months. Our leverage is in very healthy levels. We have a solid cash position and also a commitment to generate operating cash.

So with this, I close my presentation and I turn it over to Mr. Rodrigo Galindo.

Rodrigo Calvo Galindo {BIO 17238232 <GO>}

Thank you very much, Fred. Now moving on to Slide 24. Well in this Slide, we have a summary of the highlights year-to-date and it shows everything that happened in 2021 in the Company. And you can see clearly that the only downside we have noticed is the revenue from on-campus undergraduate students. But this is a result of our strategies, because we're giving more priority to hybrid and digital and courses with high LTV.

Now, I think that this highlight shows that net revenue declined 10.5% in the comparison with 2022, but this was expected. This decrease has also been dwindling, that the trend is for this to reduce and since we have had some student intake cycles with growth, the tendencies that Kroton will resume growth by 2023. And looking to the left, what we can see it's on-campus that's driving this. Now in hybrid and digital, we see revenue growing in Vasta, even stronger 32%, the volume of intakes is going to continue growing with the stable ticket. This is the message.

Now looking at recurring EBITDA. Even with the decrease in revenue, we grew from BRL690 million to BRL1.4 billion and the reasons are listed below. Increase in hybrid and digital education and this brings higher profitability, also lower PDA and higher cash conversion, also the new digital marketing strategy that reduce expenses and also improved our financing efficiency and also reduction in corporate expenses.

Here we're talking about post-CapEx OCG, which amounted to BRL494 million from a base of BRL240 million, as we saw in Fred's presentation a few minutes back. And this was also driven by some relevant factors, positive impact of our operating results that I just mentioned, lower consumption of working capital and higher disciplined capital allocation and also reduction of lease costs. So we have lower revenue, but with much more EBITDA and much more OCG which is very consistent with our plans.

Now on Slide 25, we talk about our outlook, the outlook for our business units. Let's start with Kroton. So what do we envision? We envision double-digit growth in student intake, both in DL and also on-campus. This is what we expect. We won't be disclosing the numbers right now. But you'll get them in the first quarter 2022 as we have done in the past. So we are talking about growth in volume and revenue, another trade cycle with very healthy growth. And looking at our student base, on-campus should show a small reduction, while digital and hybrid will continue growing steadily. On the fourth bullet, we see KrotonMed growing strongly. And as of the first quarter, we'll start disclosing some operating data to the market just to show its strength. And finally, the outlook for Kroton, we expect the post cash generation will continue on the rise.

Now Vasta. As of the first -- as of this quarter, we have the beginning of the trade cycle 2022 and we are now at March 25, and the data has been showing that we have resumed our growth curve. And just to complement, we have another source of growth, the B2C platform for young people and adults, to which we'll be adding new products and services. It's also a very attractive addressable market and we will be announcing those new products very soon. So we're feeling very confident that 2022 will be a great year for Vasta.

And on Slide 26, we will talk about Cogna and its outlook. I would like just to highlight a few points. First of all, the B2C platform for young people and adults is moving ahead according to schedule as presented in Cogna Day. All their services are being developed and everything is moving according to plan. The balance sheet will continue to be sound with leverage at healthy levels, all of our practices in managing working capital will be driving this.

And in addition to this, we have started the buyback program, the stock buyback program and we will continue on and we also have the main officers individually invested. So operating cash generation, this reached almost BRL0.5 billion in 2021 and we expect that cash generation will continue growing and this gives us the comfort to say that our guidance of BRL1 billion by 2024 will be reached.

And finally, as you know, starting on March 28, Mr. Roberto Valerio will take over the position as Cogna's CEO and I will become Chair of Cogna. It was a succession program that started in 2018, in which I communicated the Board that I would like to leave management and focus more on the Board issues and also the digital development of the Company. And then there was a development program, we discussed the topic in 2019. We started defining successors and it became clear to us that Roberto Valerie was the right person for the job. He was invited in May, we did not have a specific date, but we had been expecting something in the first quarter 2020. Then the pandemic hit and then we decided that it was not the time for changes in the administration.

So only when the results were positive and only when the future outlook was positive, this would be the time for change. So the two promises were met recently. So the -- we have the positive environment for the implementation of the change and we announced it in January to the market. So it's very -- it's with a great deal of satisfaction that I give my position to Roberto Valerio, such a great officer of the Company and I would like to express how happy I was along this journey. We were high -- there were highs and lows, but the journey was amazing and I can show you this by two facts, our revenue was BRL600 million and our revenue increase nine times or 22% CAGR for 11 years in a row. EBITDA grew even more, it grew 26%, 34% a year for 11 consecutive years.

So with high peaks and low's, it was a very successful strategy and we impacted the lives of over 1.7 million students that are taking undergraduate programs in Brazil and it's been an honor to participate in this. I would like to thank our 20,000 employees who dedicate their lives to education and who made it possible. Roberto, welcome to the new position. Please know that you can count on my support as Chairman of the Board to lead this organization through another very successful cycle.

With this, I close the presentation and you're all invited to participate in our questions-and-answer session.

Questions And Answers

Operator

We will now start our Q&A just for investors and analysts. (Operator Instructions) Our first question comes from Vinicius Figueiredo from Itau Bank. Vinicius, you may begin.

Q - Vinicius Figueiredo {BIO 20592660 <GO>}

Good morning. Thank you for taking my question. I'd like a bit more color on average ticket for 2022 (technical difficulty)

Operator

We have seen Vinicius line dropped. Let's move on to the second question. Our next question comes from Marcelo Santos from the JP Morgan. Marcelo, you may begin.

Q - Marcelo Santos {BIO 20444938 <GO>}

Good morning, everyone. Thank you for taking my questions. First, Galindo, congratulations for your 12 years building Cogna. I wish you great success in your new function. Now my first question is about the Distance Learning competitive environment. What do you see around on the market? How are the competitors behaving?

And next, I'd like to know about out of pocket students at Kroton, what do you expect on this front? You've had a significant improvement in on-time payments. So what do you expect from now on?

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

Hello, Marcelo. This is Rodrigo. Thank you for your comment. I'll give the floor to Roberto. He will talk about the competitive environment.

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

Hello, Marcelo. Thank you for the question. Well, it is a competitive market, it has been for a while. And maybe more recently, it's become more competitive in terms of pricing, you know, you see price offers that are very aggressive. But it doesn't mean we will move from what we've been doing successfully. We want to become more sophisticated and we will reduce price and do promotions only when it is absolutely necessary. But I confess to you that it is a difficult context. So we will have to continue to work week after week to maintain our average ticket at the level we want. We've been successful so far. The competitive environment was already fierce in the past. But you know to add some more color, I'd say that, yes, I see -- we will see -- I believe we will see more aggressive price offers in the second quarter and third quarters.

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

Hello, this is Fred. This is your question about PDA. Well, I think the answer is that we are improving on-time payments and the PDA is just a result of that. As we improve on-time payments consistently, last year 6 percentage points and in the last two years, we've improved 8 percentage points, so therefore, the effect of this improvement translates into cash. If you look at operating cash generation 2020, BRL240 million and in 2020, BRL484 million, it shows that we should not be more concerned about PDA. Of course, we need a more conservative criteria. This is what we have.

We look not only at on-time payments, but we look at the whole credit score of that student, the whole credit profile of the student and we began to do this in the end of 2020. So every day, we monitor the credit quality of our students. From now on, we will continue to see improvements in on-time payments and so therefore PDA will necessarily be lower, but now and just looking at the first two months of the year, we're keeping the same level of on-time payments which generates operating cash and so that effect can be seen on PDA.

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

Right. This is Rodrigo, let me add. Talking about on-time payments, this was not something we got for free. If we had continued with the same practices as before, we would have higher default levels. However, we've conducted a number of actions. We now have a much more sophisticated process, more accurate systems for collections and for credit profile analysis. So our policies, our renewal policies is now more conservative and accurate, because otherwise we could see a lower quality of student payments. And so many times you have revenue that does not translate into cash. So now we have very strict criteria for renewals. And most important, in my opinion, we now quickly identify detect student's engagement and if the student is no longer engaged, we can exclude from the student base faster.

Otherwise, I mean if we don't recognize that quickly, then it may take months. After some time with the student is not engaged, it's much more difficult to receive payments on time. So now we have a system to identify student engagement and then exclude that student from our student base. And what is the effect of this practice? Lower revenue, lower EBITDA, but a much healthier accounts receivable. So our focus on cash generation is about this, that is why we feel comfortable and we have a lower PDA which is only natural.

Q - Marcelo Santos {BIO 20444938 <GO>}

Yes. Thank you, very clear.

Operator

Our next question comes from Vinicius Figueiredo from Itau Bank. Vinicius, you may begin your question.

Q - Vinicius Figueiredo {BIO 20592660 <GO>}

Hello, good morning. I'm sorry my line dropped. No, I just wanted to hear some more about the last question, talking about average ticket for 2022. You mentioned inflation is being included in payments for senior students, but what do you foresee in terms of pricing? Because as you expect more volume growth and I mean historically sometimes students they join because of a more aggressive price policy and these are more prone to dropout. I'd like to hear you on this.

And the second question if possible, would you please talk about again prices, our average ticket. Especially for KrotonMed, when you talk about 2022, what do you see in terms of base scenario? Are you going to be able to pass inflation rates on to senior students or what's going to happen to these medical programs in terms of pricing and average ticket?

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

Hello, Vinicius. This is Roberto. I will answer your question about average ticket. I think there are two important aspects. When we decided to move digital, we did it knowing that potentially there would be more price competition. And therefore, we have much lower cost for a Distance Learning. So we have more flexibility to work. Even if we have a lower ticket, we can have a higher profitability when compared to on-campus students, because of the cost basically. So this is the first important aspect.

Although price competition is greater on digital, it's also fierce on-campus. But we have more flexibility on digital, because of our lower cost structure. In terms of our strategy, we want to bring students that we believe will be able to pay for the average tickets that we already have on our student base and who will also be able to bear inflation rates. I mean because if I provide very aggressive prices for them to join, and then in the second semester I change my strategy and I want to include inflation which is about 10% and also recover the average ticket and knowing the profile of our students, then we believe we would have a much higher dropout rate.

We've done this before and for us it did not work. That is why we prefer to have maybe a lower volume, but students that will come in paying a reasonable price, so they will be able to bear inflation effects and also average ticket recovery without dropping out. So that's our rationale. It does not mean that we will grow 1%, 2%, 3%, we want to grow double-digits also in volume and this is daily a giant challenge, but we're working for that.

Well, the second point, I think that our brands are very strong regionally. There is a candidate or applicant seat ratio that's very positive. We are able to introduce increases, but there is only a slight change in our more traditional units such as Uniderp and other more consolidated brands and regions that are wealthier and as a result, the average ticket is more -- is higher than the regions where we are breaking new ground. And since we are a new entrant, of course along time we'll be able to introduce price increases, but it's only natural that as we enter this market, we will not have the same prices there as more established players. So we have been able to transfer inflation in our prices as well and we don't expect any difficulty in doing this at least for now.

Q - Vinicius Figueiredo {BIO 20592660 <GO>}

Thank you very much.

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

Thank you.

Operator

Our next question is from Yan Cesquim from BTG Pactual. Yan, you have the floor.

Q - Yan Cesquim

Good morning, everyone. I have actually two questions if I may. The first one is a follow-up from my colleague's question. But focusing on the intake volume I would like to understand and considering what you are allowed to say, we would like to have a little more granularity on the student intake cycle. We understand that the volume is growing in DL and -- and you wrote on the presentation about on-campus that there is in the end an ultimate decrease in the total base. But I would like to understand a little more about the dropout rate with more detail as well.

And my second question is about margin expectations for the year. There has been a very significant improvement year-on-year in spite of the smaller base in 2021. But what can we expect for 2022 margin expansion or are you feeling the pressure of inflation in costs, and as a result of this, will -- will margin be more stable in 2022?

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

Hi, Yan, I am Rodrigo, I'll start and then I'll turn it to -- to Frederico and the impact. Well, yes, unfortunately, we cannot give you much color on the student intake cycle. We have disclosed some information on the release. But we are expecting double-digit both on-campus and DL, even stronger DL than on-campus, but with the same price discipline. We don't want to erode our volume. This is the most we can tell you and with the first quarter results, we'll also give you more color on this.

So the student intake is growing well and -- and it's important to underscore that revenue will grow, this is -- this is what we believe in, Yan. In a student cycle, in a student intake cycle, the important thing is that revenue is always growing. So with a higher ticket with a little more volume, well this will depend on the conditions of the different locations. But the driver or results is always revenue growth, and this will happen in the first semester of 2022.

Now let's make a distinction between Kroton and Vasta. In Vasta, 32% of growth and we've talked about seasonality. The second and third quarter will have a stronger weight and with revenue growth comes increased margins and increased cash generation. So in Vasta, we expect significant growth in margins in the comparison with last year. At Kroton, I'll leave it to Roberto to comment, but we made many restructuring changes. We still have digitalization bringing in more students, so digital will be even more important because it's attracting more students, and this will drive bigger margins.

There is some pressure on revenue in Kroton, very slight, but starting in 2023 when the revenues stops declining, we envision stability or some increase in profitability in Kroton in spite of all the difficulties that Roberto will explain now. And that cause an impact on this challenge, but we want to maintain profitability in Kroton.

So Roberto, could you please tell us a little bit more about the pressures and what we can do to offset them?

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

Yes. Just to complement Rodrigo's answer, at the end of the second half of the year, we were feeling more bullish in relation to Kroton's margins. We believe that we would be able to continue growing consistently. We still believe that this is possible, but as you know, the economic conditions are more adverse with inflation going up. We still believe we -- believe we can pursue some growth in margin rather than a decrease or at least stability, but we will have to fight three pressures. First of all, inflation as you said, nobody was expecting inflation to be as persistent and especially looking to the future. Point number two, a small -- a small decrease in revenue with a recovery expected for 2023. And finally, now that students are going back to campus, there will be more pressure in our unit costs with an increase in utilities costs in general and cleaning, so we'll have to fight those effects in order to deliver our results. But as Rodrigo said, our structure has been reviewed and we know how to maintain our conditions, but we have those three factors to fight against as I said.

Q - Yan Cesquim

Thank you very much for your answers.

Operator

Our next question is from Vitor Tomita, Goldman Sachs. You may proceed, sir.

Q - Vitor Tomita {BIO 19238819 <GO>}

Thank you very much. I have two questions in fact. Firstly, could you give us a little more color about the Ampli partnership and what about the prospective for other partnerships that will help you with your student intake? And also about leverage, considering the current conditions in this industry and possible consolidation moves and the level of indebtedness at the Company, how do you evaluate potential opportunities or other possibilities of buying new companies?

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

Thank you very much. Rodrigo here, Rodrigo Galindo. I'll start with the second question on capital allocation. And then we'll try to explain the partnership to you, the partnerships. Well, Cogna's history has been characterized by M&As as a value driver, so this is part of our DNA in the Company, but we are very disciplined. We only go after an acquisition if it will really add value. You know, if it's just buying for buying, it's not something that we will pursue. We believe that some opportunities may appear in the horizon. However, our focus is in consistency of growing organically, generating more cash, delivering our guidance of BRL1 billion by 2024. This is our basic script, right.

Now, if an M&A can add value to shareholders, and then we might consider it. There are some assets that are under priced right now in their valuation. But we also have this perception of our business, this gives us some room for exploring those opportunities. But at the same time, we cannot really use equity for this. So -- so, of course, we are now with a buyback program, because for us the best way we can allocate capital right now is investing in ourselves. It may occur, but nothing will really deviate us from this idea of generating value with the assets that we have in-house already.

So I hand it over to Valerio.

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

Vitor, to answer your question about Ampli, it's going very well. We are very satisfied with the results. First of all, because it's a disruptive brand in which we conduct several product tests and if it works, we can translate this into other brands. It's our brand with a lot of technology involved and we're doing extremely well.

I'll try to give you a little more color about the first quarter in terms of volume, but I can assure you that Ampli was able to close with several -- several new students. We have a team dedicated to the project. They benefit from the information we have accumulated. We have very good communications channel through SMS and a network of our chain of stores and everything creates very good learning opportunities.

Now the challenge is to find the students who want to take an undergraduate program within this space of 60 million and find -- it's important to find the best approach to talk to them and this is something we have been working on every month. But from the student intake perspective, it's going very well. And we think that the results will be even better in the first quarter. I cannot give you any further details, but well, I -- all I can say is just wait for the next earnings call.

Q - Vitor Tomita {BIO 19238819 <GO>}

Thank you. Thank you, Galindo, and thank you and good luck to Galindo.

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

Thank you, Vitor.

Operator

Our next question comes from Vinicius Ribeiro from UBS. Vinicius, you may begin your question.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Hello, everyone. Good afternoon. Thank you for taking my questions. I've got two. You mentioned about pricing strategy, now could you provide some more details about the impact that hybrid programs have on your strategy? You have been using hybrid programs as a mode, as a system to defend your -- your student base. So I'd like to -- to see some more color on that. I mean, what is the impact of hybrid on revenue and also on cost and margin?

About Vasta and this question goes to Ghio, in 2020, we saw an interruption in the growth trajectory that had been designed by the Company because of external factors, we know. But now looking at the next trade cycles, what do you expect in terms of behavior change and do you think that more -- that programs that have more technology embarked, do you think they could gain more momentum in the next trade cycles? What can we expect in terms of organic consolidation on that front?

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

Nice. Very good question. Thank you. So talking about hybrid, we believe hybrid is a nice alternative. I mean the perfect alternative for on-campus when a student cannot buy on-campus programs. Let's look at the nursing program, almost 70% on-campus activities in the hybrid model and, but of course we have better margins, it's a lower revenue than on-campus, right.

Let me see if I find some numbers, hybrid between 20% and 30% lower cost or lower price than on-campus. But in terms of cost, it has a much lower cost compared to on-campus, especially when you have small classrooms, small groups in each classroom. A few meetings ago, on Cogna Day, I showed you a chart with two curves, one showing margin evolution, so the effect of having more students per class on hybrid and also on-campus.

The conclusion is that when these two curves cross each other, that is when I have too many students in each, like 60 students in each classroom, it is much more profitable to work on-campus because the average ticket is higher and the cost is fixed. However, when you have only 15 or 30 students in the classroom, hybrid is nicer because we have a lower cost. And so, although the revenue is lower, you have less cost that will dilute that revenue.

So now translating into our market, the demand is not so high as it was in the past, when we had lower inflation and no economic crisis. So on average, our classrooms have fewer students than historically. So hybrid is the most profitable solution, because students can pay for that, the price is 20%, 30% lower and it's profitable for us, especially when you have small classrooms, which is the current reality. So if you wanted some more color for hybrid, this is our reasoning. Let me just remind you that in general, our strategy, I mean we provide on-campus and hybrid programs in each marketplace, then we monitor the demand, we look at the number of students per classroom, and then we will try to guide students to hybrid or to on-campus depending on the numbers.

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

Roberto, I think there is something really important which has not been touched and we hear questions about this. When you can be profitable with a cost, when you can -- when you can be profitable even when your average ticket is lower. I mean, look at the number of people, how many people can pay BRL1,000 a month for the nutrition program. How many people can pay BRL500 for the hybrid model, you see. So it is not directly one for the other, we have a lower average ticket, but higher margin and a much bigger addressable market. So you have to consider addressable market.

A - Mario Ghio {BIO 17352490 <GO>}

Thank you. That was a very nice question. First, I want to agree with you you know, in terms of the impact. The schools in general have felt this impact. I mean if you look at our operating indicators in terms of the number of students per school, we have grown consistently, but many of these schools ended up having fewer students and so we had a lower revenue. I think we now are going to overcome this problem in the current cycle and so about the future, Vinicius, what do we expect? First, you have to know that we take students from small and medium sized players who cannot really react and face the technology challenge that schools need and that family needs you know.

So this is not a dog fight between the two big players on the market, but what we see is that smaller players who had nice products, a nice history, they can no longer compete in the current scenario. We are prepared, not only to grow organically using in our own efforts, but please consider that we're ready for cooperation which is competition and cooperation at the same time. Fibonacci is a good example. Mackenzie is a good example. And we will soon see other partners, you know, who will be using our platform for them to grow and that's good for us as well. And that's why we have perhaps less appetite for consolidation. We don't really have to buy any one to continue to add value. Even we add value from the competition, so.

Now in terms of growth, I think that considering the number of students, a bit less than half of the existing student base is still in small and medium-sized players. And so, we will still need some time before we have them. But our -- this is now our second year of supplementary solutions, and this is the segment or the arm of our operations that are growing the most, they are growing fast and we have only reached one-fourth of our client base with only one product.

So there is a lot of room for growth as we prepare for the third cycle, which will be our digital products. That is, we will be using our huge ecosystem to provide private tutoring, adaptive platforms for reinforcement classes, also therapy, we will begin to provide therapeutic services to schools and families. Some of them might even need financial services. Why not provide these financial services to them.

So buying competitors does not really make any more sense now, because we already have access to their students, and we can provide our platform so that our competitors will grow in this competition collaboration and in the other trade cycles as I mentioned, we feel very optimistic. So we believe that the growth we've seen this year will continue to be seen in the future, as we originally planned.

Operator

Our next question comes from Luis (inaudible) from Credit Suisse. Luis, you may begin your question.

Q - Unidentified Participant

Hello. Thank you. Thank you for the information. Thank you for taking my questions. I have a somehow different question. Thank you for this opportunity. As you say, the Company is now concentrated on post-CapEx operating cash generation and so excluding M&As, CapEx that you have you know in operation seems to have been reduced and EBITDA is lower compared to revenue, and it's also nominally lower. So my question is, I mean behind these numbers, you are also generating cash, you have conducted the turnaround. Now, do you believe it might be possible to update your assets, I mean make changes in your Learning centers or your campi?

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

Hello, thank you for your question. This is Rodrigo. Yes, there is some fluctuation you know, comparing the investment of 2020 and the investment in 2021, but it's not really significant. I mean first, we have optimized the use of our capital, capital invested in the Company and we're using capital more smartly and also more in line with our strategy. We never invested so much in technology for example. Let me let me give you some more color. The whole digital transformation process we announced in late 2017, I mean not only has it changed the culture of the Company, we now have a Company that works in education-technology, 30% of our employees are technology professionals or product professionals. It shows we are a technology education Company.

Now in terms of technology, the whole digital transformation, all of the improvements in student experience are based in legacy systems and a proof (technical difficulty) architecture, then technology architecture, we built a technology backbone that can receive and host new applications (technical difficulty) for the whole student journey, I mean the year financial journey, the academic journey and we are already testing and experimenting with these journeys. Now in July, all freshman have actually tested these journeys. So this is not something we're planning for the future. Obviously there is a whole process to migrate students from one system to the other. We don't do that all at once, because we don't want to run those risks.

But this is the type of investment we're making in line with our strategy, which is to provide the best experience of digital education. This is our goal. We said that in 2018 and now we have been successful by replacing our systems and the investment we need to do that has been made. I mean we did not stop any investments just because we wanted to have a good post-CapEx cash generation. We are now more in line with our strategy. I think this is the message.

Q - Unidentified Participant

Thank you. Thank you, very clear.

Operator

(Operator Instructions) Thank you. If there are no further questions, I would like to hand it over to Mr. Rodrigo Galindo for his final remarks. Mr. Galindo, you may proceed.

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

Thank you. This is my last earnings conference call at Cogna as Member of the Administration. But I'm very pleased to hand over the staff to Roberto Valerio and I would like to acknowledge my gratitude to the financial market. We've always shown great respect for the financial market. So we would like to thank the sell side, buy-side, analysts and other members of this market. Thank you very much. And we'll see you in other events of the Company when the Board is involved. Thank you so much.

Operator

Thank you very much. The earnings conference call is now closed. Please disconnect your lines.