Q3 2021 Earnings Call

Company Participants

- Frederico da Cunha Villa, Chief Financial Officer and Investor Relations Officer
- Mario Ghio, Chief Executive Officer & Director, Vasta Platform Limited
- Roberto Valerio Neto, Chief Executive Officer of Kroton
- Rodrigo Calvo Galindo, Chief Executive Officer

Other Participants

- Leandro Bastos, Analyst
- Marcelo Santos, Analyst
- Mauricio Cepeda, Analyst
- Vinicius Ribeiro, Analyst
- Vitor Tomita, Analyst
- Yan Cesquim, Analyst

Presentation

Operator

Good afternoon, and thank you for holding. Please be welcome to the Earnings Conference Call on the Third Quarter 2021 Cogna Education. This event is always being broadcast live over the Internet on a webcast with audio slides, it may be accessed in the Investor Relations website ir.cogna.com.br and then banner/webcast 3Q '21 and then close parenthesis, and through the platform MGIQ. The presentation will also be available to download from the website. We would like to remind you that this event is being recorded and that all participants will be in listen-only mode during the conference call.

After the presentation there will be a Q&A for analysts and investors, at that time, further instructions will be provided. (Operator Instructions)

The following information is available in BRL according to the Brazilian Corporate Law and Brazilian accounting practices, which now conform to International Accounting Standards of the IFRS, except when otherwise indicated. Before proceeding, we would like to clarify that any forward-looking statements that are made during this conference call relative to Cogna Education's business perspectives, projections and operational and financial targets are beliefs and premises of the company and are based on currently available information.

Future considerations are not guarantees of performance because they involve risks, uncertainties and premises as they relate to future events and therefore depend on circumstances that may or may not occur.

Investors should understand that general economic conditions and other operating factors may affect Cogna's future performance leading to results that will differ materially than those expressed in such considerations.

With that we would like to turn it over to Cogna's CEO, Mr. Rodrigo Galindo, who will start the presentation. Mr. Galindo, you may proceed.

Rodrigo Calvo Galindo {BIO 17238232 <GO>}

Good afternoon, everyone. Thank you for participating in today's conference call to discuss the earnings of Q3 '21. With me today in this call Frederico Villa, our Finance VP and the CEOs of our vertical business units Roberto Valerio, Kroton; Mario Ghio, Vasta, also Bruno Giardino, Vasta's CFO; and Eduardo Honzak, our Corporate IRO and CFO.

Now before starting, I have a general comment about the impact of COVID on our operations which was different in each business unit. Now three quarters of '21 it is clear that Kroton was highly impacted by COVID in 2020, and Vasta in 2021. The numbers show that Kroton suffered in 2020. We had a relevant impact. We took the needed measures. We restructured operations and the balance sheet and now we are harvesting the results of this turnaround at Kroton, and the numbers show that. At Vasta we had the impact of the second wave of the pandemic in late 2020, early '21, we had an impact on revenue.

We knew Vasta commercial cycle in '21. We are now closing in Q2, because Vasta commercial year is from Q4 to the next Q3. We knew it was not going to have a good revenue, so we wanted to build a positive commercial cycle in '22 and we will see that we were successful in this effort building a very promising commercial cycle. So Kroton had an impact in 2020, and '21 harvesting the benefits of restructuring.

Vasta will capture the benefits in '22. So beginning today's presentation on Slide 3, we have an overview of Cogna. Cogna results in Q3 show we have recovered performance and concluded the company turnaround. The slide summarizes Cogna business highlights. Kroton on the left, Kroton new enrollments in the second half of '21 grew 37.8% and it's interesting because we had 22% growth on-campus 21.9% and 40.3% growth in Distance Learning totaling 7.8% growth in total student base in the second half of 2021.

I want to emphasize that Ampli partnership with Tim alone contributed 8% growth on digital. We'll give you more color on this data soon after this introduction.

Now in the fourth bullet of the Kroton box we see on-time payments improving 8% compared to Q1 2020 improved on-time payments, together with our new mix and marketing expense reduction led to a 620 basis points growth in our recurring EBITDA margin that reached 23.4% in Q3, and 30.9% in the first nine months of '21. Strong results of Kroton showing the turnaround has been concluded, and the prospects for the future bright.

Finally, let me mention, we will now report higher education and post graduate consolidated numbers for Kroton. For some time it was important to keep Platos as a standalone company because it was a small company. Now, it reached maturity, today with more than 50,000 postgraduate students, as 95% of Platos revenue comes from Kroton customers. It is easier to bring them together to make a better use of Kroton distribution channels.

So for us in the organization as well as for the market we now have Platos results together with Kroton which you will see the postgraduate numbers in a different column, as you see today. Now Vasta in the middle column Q3 close to the commercial year of 2021, we closed the year in the third Q, and this was the most challenging year in the company history.

In Q4, we began a new cycle with a bright outlook. With contracted revenue, we expect a growth of 31% compared to the ACV of 2021. 20% of which is organic growth, 32% is already been contracted, 20% is organic growth and 12% new enrollments.

Now the commercial cycle has not been concluded. We still have more growth to be delivered and new contracts with schools until January and here we have not included students who left schools in 2021 because of the pandemic. Now if they come back, we will have a second block of growth.

So a strong contracted revenue, more upside risk than downside risk, and we will soon give you some more color about this contracted revenue. ACV talks about subscription revenue, our main revenue but non-subscription revenue accounts for a shrinking share of the company revenue, we expect a single digit drop, but this will not impact the strong growth expected in the company total revenue of 2022.

Also important in this quarter we concluded to the acquisition of Eleva totaling five acquisitions in the past year, according to the IPO plan. Finally, on the right column Cogna consolidated numbers. We totalled BRL390 million operating cash generation in the first nine months of 2021 growing a 114% above the BRL182 million. Leverage we maintain at a comfortable level adjusted EBITDA net debt ratio 2.07%. In addition, we had the other and Vasta concluded the sale of our own schools operation Saber to Eleva. With that we have total alignment with the company's strategy to focus on asset light models. From the first I mean, from the third quarter we have stabilized the ERP SAP cloud integrating and optimizing Cogna, Kroton and Platos processes.

Now before I give the floor to Roberto Valerio, if I had to talk about four relevant topics. I would say that we had a strong growth in new enrollments 30% growth in volume, 28% in revenue, a profitability recovery at Kroton and Cogna with a 25% margin at Cogna in the first nine months. Vasta ACV, up 31%, 20% of that is organic and the number may still grow, and cash flow generation in the first nine months of '21 up 114%.

So I believe these highlights strengthen the company commitment to align with our strategy, as mentioned in the last few quarters, we have a mantra in the company improved profitability consistently prioritizing asset light segments and business models that have a better growth potential and higher return on invested capital.

And I'll give the floor to Roberto Valerio Neto, Kroton CEO who will talk about Kroton operating and financial highlights. Over to you, Roberto?

Roberto Valerio Neto {BIO 2243533 <GO>}

Thank you, Rodrigo. Good afternoon, everyone. I'll begin on Slide 5. We have a summary of Kroton highlights in Q3. In previous calls, I stated that 2020 was the year to restructure operations and strengthen Kroton balance sheet.

The first half of '21 would be our turning point for Kroton. I said this a number of times internally also talking about this point of inflection. Today I can tell you that in the first half of 2021, we already show clear signs of performance recovery at Kroton and the numbers in Q3 confirm this positive outlook. Consistently recovering profitability with a smarter capital allocation. Now beginning with new enrollments or new student intake. As Rodrigo mentioned our student intake grew 37.8% in the second half of 2021, of which 21.9% on-campus and more than 40% Distance Learning. On financial terms, our revenue from new enrollments increased, and this is only the enrollment campaign it increased almost 28% indicating a good enrollment campaign revenue which paves our way to recovering growth in total revenue as of 2023.

In addition, our undergraduate student base grew 7.8% this cycle. Also I want to mention our learning centers we have opened 706 new units, which represents a 45% increase compared to Q3, 2020. So it's a quick growth totaling 2,259 units or learning centers. Now about product and customer centricity. We continue to see a consistent improvement in all customer satisfaction indicators, up 14% and in student NPS year-on-year, when we consider the month of September.

Now we are proud to announce that Kroton had the best score in the Customer Complaint Portal, Reclame Aqui of all higher education companies listed. So this is not an internal indicator. This is a market indicator showing our improvement, we are improving student experience.

Our ambitious technological transformation program we announced before these so-called PTK includes not only our architecture but all systems applications and it's advancing according to the road map.

Finally, let me emphasize the successful turnaround we implemented in our campaign our program portfolio optimization by unit helped grow distance learning student enrollment and revenue thus reducing the impact of on-campus student base and revenue reduction during the pandemic. Also highlight our efficiency, we reduced expenses with personnel rentals infrastructure as we mentioned in previous calls, and we'll talk more about that on Cogna Day, we reduced the number of our own learning centers and we optimized the remaining units. We've improved to the credit profile of out-of-pocket students, which helped to improved on-time payments as a result we reduced PDA by 90 million in Q3

2021. We are working proactively to improve on-time payments. In 2021, we reviewed our marketing strategy, today we invest smarter channeling resources to more efficient and especially digital media.

We moved from offline to online media channels thus reducing our marketing and sales expenses coupled to a strong student intake, with that we became much more efficient, reducing Customer Acquisition Cost, you know the CAC which is today the market benchmark, the lowest in our industry. On financial terms, our adjusted EBITDA soured 15.2% in the first nine months of 2021 with 30.9% margin.

On Slide 6, we have some numbers on the student intake, the new enrollments this quarter, not only show that, I mean if you look at all the results we have overcome the worst moment of the pandemic now with more people vaccinated we see the end of sanitary curfews, but above all Kroton is showing its capacity to attract more students than market average even after reducing our investment in marketing and sales.

Student intake in the second half had a strong performance on-campus and distance learning growing 22% and 40% respectively. In addition to the significant improvement in the number of students we want to highlight our revenue has grown. It's not only volume with a discount. We see a growth with quality of ticket

Operator

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Roberto Valerio Neto {BIO 2243533 <GO>}

Hello, everyone. I apologize. I think we had a technical glitch. I will resume from Slide 7. So talking about our student base, the total undergraduate student base had a growth of 7.8% this cycle led by digital, keeping the same trend of the last few quarters growing 19% in this period.

On the other hand on-campus student base dropped 18.6%. Now talking about average ticket out of camp, out of pocket on-campus student average ticket, down 7.2%, and we have already explained this in previous calls. This is because higher ticket senior students were replaced by new students freshmen that had a lower ticket because of market competition. It doesn't mean that our entry ticket is falling, no, it is just a comparison between senior students that had price increases during the program, that's why we see this difference. It is a reflection of the last enrollment campaigns.

In Distance learning we saw an increase in 100% online as well as the graduation of the once a week model when they tickets were higher so we had a decrease of 10% in the average ticket, but growing the volume of new students has partially offset and so we had a growth in revenue of 12.2%.

On Slide 8, I want to highlight that our accounts receivable coverage ratio had a marginal increase compared to Q2 totaling 67.8% still the highest in our industry. Average receivable days reached 50 days, a significant reduction of 56 days compared to Q3, 2020, and 21 days fewer compared to Q2 2021.

Now the initiatives to improve the quality of students, a smarter analytics and the renegotiation for renewals and also more efficiency in collection in the last few quarters has led to an 8% improvement in on-time payments compared to Q1 2020. So PDA was reduced by 43.5% compared to Q3 2020.

Now on Slide 9, I'll give you some more color on what we are doing about working capital and accounts receivable management. We are monitoring student engagement to prevent dropout, and we can early recognize when the engagement is lower to avoid lowering the quality of our accounts receivable. As we mentioned, we have a new provisioning model built together with an international consulting company with an accuracy of 88%. It has been helpful in this process.

Our discount model for on-time payments was implemented, which means an improvement again in on-time payments.

Finally new financing programs. It's important to remember that we discontinued the PEP student installment program for new students in the first half of 2021. So we still have some senior students. But as of 2021we don't open that for new students, and we changed our PMT model, so that students will pay during the program, not after they graduate as we used to do in the past. So that again will improve our on-time payments.

On Slide 10, our net revenue lowered 12.8% compared to Q2 with fewer on-campus undergraduate students that had a higher ticket and also fewer CS students in our base who also had a higher ticket.

All of that was partially offset by a 17% growth in distance Learning revenue. In the first nine months of 2021 net revenue dropped 13.8% with the new mix with hybrid/digital models we saw reduced revenue, yes but we improved margin and cash generation, which was part of our strategy.

So a strong intake campaign, well now this is the third strong intake campaign bringing a strong revenue. So that shows our total revenue will grow as of 2023. About recurring EBITDA on Slide 11, we see an increase of 15.5% compared to Q3 2020. When we look at the first nine months of 2021we see a growth of BRL302 million, almost 70% compared to the same period last year.

This evolution in operations and EBITDA margin shows that our strategy to go digital has added value to Kroton.

On my final Slide 12, let me highlight a few relevant points about our customer centric policy, and the digital transformation process. Our operating model today places the student in the center of all decisions and that has improved our customer experience.

We are happy to talk about these two indicators, I have already mentioned showing clear improvement in services, 14% growth in NPS of undergraduate students compared to the previous year and the best score in the consumer complaint portal, Reclame Aqui the best the benchmark in the industry.

Our ambitious technological transformation program PTK will generate even better experiences for our students. So this improvement and the indicators are more related to process not really to system. But as soon as the new systems are up and running the academic journey as well as the administrative and financial journey for our students will improve even further, and the transformation will make us more agile and innovative to develop new products and services which take longer than we would like today.

With that I want to thank you all, and I'm closing my presentation. I will be answering questions later, and now let me give the floor to Mario Ghio, Vasta, CEO.

Mario Ghio {BIO 17352490 <GO>}

Thank you very much. Good afternoon, everyone. Today, I'll cover the next three slides. Turning to Slide 14 in which we'll talk about Vasta's operational results, even though we have just been through the most challenging year in our history, we close the 2021 commercial cycle that goes to the end of 2021 with growth of 8.7% in subscription products and services revenue. This segment has proven its resilience in a time and of adversity that can't be compared to any other ex-PAR without textbooks this growth reaches 9% or BRL51 million and becomes the highlight of the cycle.

However, in non-subscription products resilience was lower with a reduction of 44.7% in revenue of non-subscription products, that recorded a reduction of 6.7% in the net revenue of the company. As we have announced we are now focusing and giving out strategy to the subscription segment that in 3Q '21 was responsible for 83% of our revenue in this quarter.

We had a better mix of revenues however lower cost dilution coupled with other factors such as the higher overhead after our IPO and the PDA increase have an impact in our profitability. So we finished the '21 commercial cycle with a recurring EBITDA of BRL41 million which is equivalent to a margin of 15.8%. We also reported one-off expenses of BRL20 million from editorial write-offs. If we leave this one-off effect aside, however, recurring EBITDA margin goes to 18%.

In the next slide, slide 15, I would like to highlight our M&A track records. On October 22, CADE[ph] trust agency approved our acquisition of the Eleva, the Eleva learning platform, no restrictions were imposed to the transaction. This transaction broadens Vasta's portfolio and makes us the exclusive distributor of Eleva systems in several long-term agreements that have already been signed.

I would like to thank our teams for everything they have done in the preparation and integrated planning. We are sorry, and that led to the approval of CADE in October 29. This is our fifth acquisition in the last 12 months and we keep on delivering on the commitments we made in our IPO. Our history of growth is still in its early days and our M&A pipeline is robust with great prospects. We are still engaged in several other transactions.

Moving on to the last slide, let's talk about our annual contract value growth and you find this information in Slide 16. So, in Slide 16, I will make a few comments about ACV. So as Rodrigo mentioned in the beginning of the call, we are expecting a very strong commercial campaign for 2022. We're still two months away from the end of the commercial campaign. However, by the end of October our 2022 to ACV already told almost BRL888 million, and this represents an organic growth of 20% over the subscription revenue of the 2021 cycle up to now. If we exclude paper-based card that is physical textbooks growth reaches 28% even more robust, because almost 100% of the new ACV revenue originates from traditional learning systems, or complementary solutions, or even new textbook digital platforms. This is the so-called par-as-a-service. So considering the purchase of Eleva platform our ACV number in 2022 already totals BRL974 million, a 32% increase over the subscription revenue in 2021.

We will continue updating the ACV at the end of the commercial campaign. And it's important to mention that the ACV projections don't include the immediate return of students that dropped out from schools during the pandemic nor the volume of school books that where reused by families in 2021. So we look at those two effects if possible upsides in the future. As we have said that the non-subscription product was hardly hit by the reuse of textbooks.

And we are still expecting a slight drop in revenue. However, considering its low representativeness in total revenue, it does not affect the strong revenue growth, we expect for 2022. I would also like to point out to the substantial increase in partner schools. We have an increase of 19% of the number of schools for 2022 reaching approximately 5,400 partner schools.

So with this, I thank you for your kind attention and hand it over to Fred Villa. Thank you very much.

Frederico da Cunha Villa {BIO 18677215 <GO>}

Thank you very much, Mario. I will start my presentation now, in which I will detail the operating results of Saber. Talking about net revenue in the third quarter, it has remained stable growing 0.5% reaching BRL150,000, however, looking to EBITDA, recurring EBITDA and margin we had EBITDA growth from BRL30 million to BRL37 million and also gross margin reaching 23.8%, performance in spite of the fact that it's stable where we saw growth in EBITDA, and I think it's important to mention that we have completed the sale of schools in October 2021. Now continue with the presentation. We have talked about the new business. So turning to Slide 20, and looking at revenue in the third quarter, '20, we had revenue of BRL180 million, up 13.5%, reaching BRL205 million growing BRL125 million driven by the increase of sales in the National Textbook Program besides that in recurring EBITDA we had also growth of around BRL21 million and margin growth of 42.8%.

We have reached margins in 3Q '21 of around 35%. I think that an important message is that the National Textbook Program will be concentrated in the second semester, and it's going to have the impact of the repurchase of Basic Education one and two and purchase of Basic Education and high school books.

Now moving to Cogna. I will give you a very brief summary of everything that might Mario give and Roberto Valerio have discussed with us. So our net revenue at Cogna there was a reduction of around 7% that reached in the third quarter of '21 BRL1.170 billion and in the year-to-date number, we had a decrease of around 12% reaching, BRL3.7 billion.

Looking to the future. I think it's very important that the new student intake campaigns and Mario you has just made reference to this will be very strong and in Vasta we'll have a resumption of growth in revenue starting in 2022. We have talked about revenue now let's talk about recurring EBITDA in Cogna when consolidating these numbers. The quarter was positive in the comparison of the third quarter '21 to the first quarter, third quarter '20 there was growth of margin of around 2% reaching 20.1%, and growth of around BRL6 million in EBITDA totaling BRL235 million. Recurring EBITDA in the nine months showed growth of margin of 6.5% reaching a margin of almost 25% with recurring EBITDA reached BRL931 million. This growth was driven by the main effects in Kroton with the increase of our efficiencies in costs and operating expenses, and also with the substantial improvement of our default rates and other PDA effects. Additionally, we had intake effects in the next slide. I think that a very important message that we have to make, and that for us internally is also very relevant is operating cash generation. There was growth of OCG in the nine months comparing 2020, September 2020 to September 2021 of 114%. We had positive cash generation of BRL390 million with cash conversion growing 19 percentage points, that is to 42% and in the first quarter 2021, we generated cash of BRL190 million, and now, we generated BRL193 million. So a very significant improvement in both cash generation and cash conversion.

Turning to Slide 25, and speaking of leverage and the effects I have mentioned cost pressure and overhead and the improvement of default rates led to the operating cash generation, I mentioned in nine month we reached BRL290 million, our leverage while there was a slight decrease in leverage in the comparison of the same period in 2020. Now we have a leverage of 207 times, which is very comfortable and we hope that in the coming semesters, we'll be very close to that, and also very comfortable.

The lengthening of our debt profile with debentures mission and the average debt term went from 22 months to 28 months and with the conclusion of those of that transaction we are also in a more comfortable position.

Moving on to the next slide, slide 26. I will detail our solid cash position in our debt. Today the company has a cash position of BRL3.5 billion net debt of BRL3 billion here we can see in the chart to the left below if you add up accounts receivables and the net of cash availabilities of BRL2.9 billion with adjusted EBITDA of the last 12 months of BRL1.4 billion.

This shows our trajectory in deleveraging the company, and in the chart to the right we show our amortization schedule that is proof of the company's ability to pay off its debt in next year, particularly is an election year, there could be some turbulence. However, the company is prepared to pay off its debt in the medium and short-term.

So with this, we have an average duration of 28 months, and a cost of debt of the interbank interest rate plus 1.61%. So with this I close my presentation, and I hand it over back to Rodrigo Galindo.

Rodrigo Calvo Galindo {BIO 17238232 <GO>}

Thank you very much. We are now nearing the end of my presentation. In the next slide, we have the highlights of the last 9 months of 2021. It's a very brief, and objective synthesis. In net revenue, I think we have negative impact, with a decrease of 12.3%. What didn't go as well the on-site graduation revenue and Vasta that was with a performance below the plan, and what mitigated this was digital graduation revenue that partially offset Vasta's on-campus results and continues to show promise for the future.

In terms of recurring EBIT we have positive news with growth of 17.8%, we went from BRL790 million to BRL931 million with several drivers, including the increase in students in hybrid and digital learning and also very strong improvements in on-time payments ARPU now 8 percentage points which leads to lower PDA, and all indicators showing more robustness. Turnaround in the campus operations and the new digital marketing strategy that besides reducing expenses also increased our intake efficiency, also overhead reduction. You can see in the arrows, they are in green and they're pointing up. They're all positive. Those are the five points that enabled us to reach 17.8% of growth in recurring EBITDA in the nine months of 2021. In the block to the right, I think we have the most powerful message and the principal takeaway. We have reached post-CapEx cash generation of BRL182 million and there are three factors the positive impacts of our operating results that I have just mentioned, less working capital consumption and more on-time payments and an all-time low CapEx as a result of the asset light operations we have developed.

So this is the strategy that we are now pursuing, more asset light operations leading to more cash. And as Fred said in his speech, the strong intake campaigns in on-campus and also the very strong OCG lead us to believe that 2022 will be a year for resumption of revenue growth in Cogna. We had two years with shrinking revenue, but everything shows that in the next year, we'll turn this around and will continue to grow with a more asset light base.

Now moving on to the last slide of the presentation, we have the outlook for our business units. We've talked a lot about the past now let's think a little bit about the future. In Kroton, I would like to highlight that the turnaround process of our own units has been completed with structural gains and profitability. We continue trucking along in our growth strategy in digital and on-campus high value courses. The mix from on-campus to hybrid and digital continues to put pressure on our revenue, but the margins will be affected and we have enrollment campaigns with positive volume both on-campus and distance learning.

So the outlook is positive. Also thinking of on-campus courses with higher lifetime value. We have some health courses with great opportunities for growth. We have, for example, medical courses and will open three new medical schools through (inaudible) two of them in 2022. In digital we will continue expanding our learning centers, and we have now opportunities in the product Ampli that will start adding value and for several years in the future will continue to add value. This is also another source of future growth, especially because we already have contracts and besides that Ampli product, and the agreement with Tim also create our good growth prospects.

In addition to this the number of the learning centers will continue to grow. We also see many opportunities to capture through our digital marketing strategy and our main focus now will be on efficiency so that we can drive more intake and more volume. We were able to reduce some costs, and now we have an opportunity to continue growing our intakes. And Roberto has already mentioned, PTK, our ambitious plan is really a very important revolution in terms of student experience all of those student journey will be impacted.

And this will create a very significant effect for Kroton because it will provide the flexibility we need to be able to innovate much more -- much faster than in the past, we have been working on this project for some quarters now and the first students are now enjoying the benefits of this new solution in the first quarter 2022. So there will be gradual increments, but it's no longer a promise the first students are now being on-boarded.

So finally, in the last slide of the presentation slide 29, we expect strong growth in Vasta's net revenue up to now the ACV contracted for the year shows growth of 31%. In addition to this, we have 12% of ACV growth coming from Eleva acquisition. So the growth of 20% inorganic and the Eleva number will continue to grow in the future.

We also have a contract that was signed with Mackenzie showing how strong the Vasta brand is in this industry and that creates us a possibility of distributing the Mackenzie brand. This was not really a target for Vasta but now this creates another opportunity to market our services.

I think that then another very important point to underscore is that we are becoming more resilient with the new go to market that is really focused on subscription agreements, practically all new agreements for ACV 2022 were subscription agreements, and this will have -- this has a potential to increase our the share that in the cycle 2021 was already 83%.

So our digital services offerings B2B2C such as Plurall the tutoring, private tutoring solution are Plurall adaptor are already in operation. They create opportunities of selling products directly to students. So this also paves the way for new growth with this EBITDA and OCG for Vasta should grow very vibrantly in 2022.

And moving on to the left block, speaking of Cogna's outlook well, they are very positive because Cogna of course is the combination of the two business units, we have just talked about but not only in financial terms, it was a very intense here in the -- I would like to highlight this to you. We have created an ESG agenda in the company, and we worked a lot on this topic. We set up working groups. We involve hundreds of people into discussions. We created affinity groups defined and implemented action plans. We developed leadership programs including middle level leaders to the Board, and we also worked on the definition of social, environmental and governance commitments together with short, medium and long-term targets that will be made public at the end of November. So that society can track our progress.

We are really engaged in ESG, and everyone in the organization is contributing. So our ESG manifesto will be announced in a public event and everyone will be invited probably in the month of November. So in relation to the year of 2022, we also expect positive financial results from Cogna. It will be the year for resumption of revenue growth at Cogna excluding the revenue from Saber schools and this revenue growth will come coupled with continuing a EBIDTA growth and also strong cash generation. So we continue striving to become more asset light and also to give more return on investment. I think that the results of the third quarter point out to a good outlook for the future.

With this I close this presentation. I would like to thank you all for your participation. You're all invited for our Q&A. Thank you very much.

Questions And Answers

Operator

(Operator Instructions) Our first question is from Leandro Bastos, Citibank.

Q - Leandro Bastos {BIO 21416405 <GO>}

Good afternoon, everyone. Thank you. I have two questions. One about on-time payments. It seems like you've had an improvement. So, what about the trend for the future? This would be my first question.

The second question about marketing expenses. You now have a lower CAC or cost for acquired student. So now, do you have plans to invest more in digital channels or you don't believe it is necessary to have higher investments in marketing?

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

Hello. Leandro. Thank you. This is Rodrigo. I'll answer the first question, and then Roberto will add to my answer. On-time payments, yes, we have improved this by 8%, and I will highlight three important points on present on the release and also a fourth driver that is not included in the release.

First, we had a more rigorous process to accept students. We can identify students who enrolled, and paid the first monthly payment, but they did not engage and so we do not generate -- we do not count that students in our base. So we do not deteriorate the quality of payments. We can also identify senior students who do not have a high engagement, and then we do not recognize their payments as revenue. They have renewed. They signed a six-months contract. So we could continue to bill these students. But we know that we cannot really convert this revenue into cash. So we identify lower engagement. We remove them from the revenue base. So we have lower revenue, but accounts receivable have a higher quality.

Now we offer a discount for on payment for on-time payments, and that has also helped. Now, the first thing I'd like to mention, which is not in the release. Our collection systems have improved in 2021, and that has also added value. We don't know how much benefit came from each one of these four initiatives but together these four added important value, 8% improvement in on-time payments, even with this macroeconomic scenario.

Now Roberto Valerio about marketing.

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

I agree with you, Rodrigo. It was important that you spoke about improved processes, you know in collection and ensuring that the bill is correct that the student received the bill to be able to pay. Now talking about marketing, I would highlight, our strategy is not only look at marketing budget as a whole. But we also look at investment based on CAC because we want to attract students with a high LTV on the investment we make to acquire that student.

So we have smarter marketing investments with a lot of discipline in that we believe we still have room to improve ACV CAC ratio not only moving from offline to online media but also using some innovative channels. You know, different student intake channels that we are detecting. So we believe we can still make improvements. But I agree with you. You know you will actually see more about this in Q4. We may have more marketing investment to grow, to accelerate student intake.

Now in Q4, we are preparing for our enrollment cycle. So you will already see higher marketing investments in Q4. However, I would tell you that we have more volume invested, but always looking at ACV compared to CAC.

Q - Leandro Bastos {BIO 21416405 <GO>}

Perfect. Thank you, Galindo and Roberto.

Operator

Our next question Marcelo Santos from the JP Morgan Bank.

Q - Marcelo Santos {BIO 20444938 <GO>}

Good afternoon, everyone. Thank you for taking my questions. These are two questions on my side as well. First, can you talk a bit more about the significant improvement in dropout rate of on-campus students. It's dropped by half even with the challenging economic environment, may be it's related to the drivers of on-time payments, you mentioned, but I'd like to hear more about that.

Next, the Ampli project economics. I'd like to see more color on that. It has helped digital. What about the marketing revenue? These would be my two questions today.

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

Hello, Marcelo. How are you today? Roberto will answer both questions.

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

Hello, Marcelo. Thanks for your questions. The first about a better dropout rate for on-campus students. I think there are two drivers, of course more engagement, we are closer to students. We ensure that they can renew their enrollments. We are always focusing students who are more engaged, who have a better credit profile, and on-campus is still relevant, and on-campus is growing less than digital.

So, it is only natural that on-campus has a lower dropout rate. So, but you will also see a growing dropout in the next cycle because we had a very strong growth in distance learning. I think you know these dynamics, when we have a very strong student intake then we also have a growth in the dropout rate.

However here we have less pressure, you know, because on-campus grew less in the last campaigns and more engagement improves, not only on-time payments, but it also helps improve the dropout rate.

Now talking about Ampli. Ampli as you know, we are very enthusiastic about this initiative. We see a big potential, but it's a new initiative. So we continue to make efforts for student intake. We continue to invest on the brand, but always using the platforms we already have with other brands. So the same contracts, the same digital media marketing, which is the main channel you know to attract students for Ampli.

So, but the marginal cost is much lower. In addition, we also have expenses by team, I mean we are trying with different initiatives, and Tim is also investing you know, and this is not shown in our results because these are Tim investment, but the investment that we make is in our numbers, but they are still marginal investments, and we're also looking at ACV CAC ratio here.

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

Now, this is Rodrigo. Let me add, today we cannot talk about the specific number of students that Ampli, but we have already told you that it has contributed 8 percentage points for student intake, that is the Ampli contribution. So we can tell you that in one year they have already attracted 10s of thousands of students that is more than some of the leading distance learning groups in Brazil. So it's already a relevant operation, and we feel optimistic. Of course, the beginning of the process still has a lot of trial and error. So we are trying to understand how to have a positive impact on this very rich student base, so that we have positive impact and, but we are already harvesting good results. But I think we have a huge potential ahead.

Q - Marcelo Santos {BIO 20444938 <GO>}

Let me just follow up on Ampli. So comparing Ampli student to a digital student, how do you compare the LTV and the profitability comparing these two student profiles?

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

A good question, I'm sorry, I forgot to answer when we negotiated this initiative with Tim, we have the distance learning units, and that is kind of equivalent to what we have with Tim. Of course, these are different models, but when you think about LTV, how much of the LTV, will go to Tim, and how much will go to the partner for us, it's the same as the LTV of a digital student at (inaudible) or Ampli. These would be about the same for us.

Q - Marcelo Santos {BIO 20444938 <GO>}

Perfect. Thank you very much. It's clear

Operator

Our next question is from Yan Cesquim BTG Pactual.

Q - Yan Cesquim

Good afternoon, everyone. I have just one question. On the recurring margin level for higher education in Kroton. We have been monitoring the substantial improvement of margin year-on-year, but we also observe decrease quarter-on-quarter. And now with the come back of on-campus (inaudible) and with the faculty rollout, what should we envision in relation to the recurrence of margin. I'm not pretty sure whether you can share a number with us. How much of the on-campus students have now gone back to the campus? So should we think of a number? So what's the projection for the margin in the future? If you can give us a little color.

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

Hello, Yan Rodrigo here. Well, it's one question. But we'll give you two answers. I'll start, but basically, in addition to going back to schools we have seasonality between quarters. So Kroton will close the year with the margin between 18% to 15%, no rather 15% to 28%. This is the very safe level that we can say for the closing of the year 2021 for 2022, we can either maintain or grow this margin.

So now let's see what other opportunities we have. Thank you very much for this question, Yan.

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

Well, you know, Rodrigo has mentioned seasonality so the fourth quarter, as I mentioned in the previous question, we will invest a little more in marketing. This will create a momentary pressure in margins especially considering the CAC concept. So margins have been recovering significantly and they are structural. There are some gains that you have mentioned a stronger gains in the first quarter because there are fewer people on the campus, but 37% margins that we have in the first quarter is something that's off the charts, it's not something that we can sustain this shows that people were not on campus in its the margin between 25 and 28 that Rodrigo mentioned is something healthy and more representative of the company.

Now for 2022, we have seen a very positive about it, but we have some pressures as well. Inflation is very high and these will be challenges we'll have to overcome, but we have made also some concrete actions in the Kroton recovery. For example, we have shown our ability to think differently, of doing things differently and this is the mentality we will use in 2022.

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

Just to reinforce something Roberto said about doing things it's about doing things differently. Everything we did deliver so much value for the company and we are doing things much better than in the past. So this is the spirit of using opportunities to counter inflation without taking anything away from the student experience. This is what we'll do. So margin 25% to 28% and to the end of 2022 to 2021 and we don't expect a decrease of margins in the comparison of '22 and '21.

Q - Yan Cesquim

Okay. Thank you very much. It's clear.

Operator

Our next question comes from Vinicius Ribeiro, UBS.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Good afternoon. Thank you for taking my question. Well, just going back to what Rodrigo has just commented. We see that the macroeconomic variables are changing a lot especially inflation. So can you give us a little color considering the pipeline and also costs, what gives you this security to say that you'll be able to do the cost reallocations and keep the margins in Kroton? And also considering the next student intake cycle and considering the change in macroeconomic conditions, what's your intake strategy, retention strategy for next year?

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

Rodrigo here, I'll start and then I'll hand it over to Roberto. Well, I think it's best to use conceptual discussion here because we don't want to give you any guidance. There are two drivers pushing against each other and we have some hypothesis. Well, first, we have the economy. Brazil is living in a certain scenario, and we are of course living in Brazil and we will suffer the impacts just like any other corporation.

However, at the same time it's a time of change in our specific business and this creates huge growth opportunities. For example two years ago, there was just one option. If you wanted to study business administration, you have to go on campus. You would pay

BRL600. Now with the pandemic, you realize, okay, I can take business administration course, an online programs paying a lot less. So a high number of students, you know can pay BRL200. So our addressable market has increased very significantly. Our intake has grown 40%. This is a very positive indication for me that with the increase of the addressable market this really offset a deteriorating macroeconomic environment. And so that's why we're feeling optimistic in spite of the macroeconomic scenario.

And I'll turn it over now to Roberto to complement my answer.

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

Thank you, Vinicius for your answer. I agree with Rodrigo in relation to student intake. Google recently made a survey to identify, how many Brazilians wants to take a higher education program. According to Google 15 million Brazilians want to go to university in the next six months. So, 15 million even if half of them can't afford it, we have still 7 million addressable market. So we need to use innovation and find a way to get a piece of that pie, and this is the mentality that we adopted in this cycle, and this is how we were able to keep our growth rate. Of course, it's a very competitive market, and we have to live and see what the future holds week after week, but we're feeling you know excited because people are going back to on-campus and there are several initiatives under way that our maturing.

So, also in relation to retention and also re-enrollments, we have a much healthier student base with a better credit score. So we don't really see any reason for dropout rates to spiral, especially if we continue to bring in quality students. Of course, there's always some level of uncertainty, because there is a lot going on with the end of the pandemic, but we're feeling optimistic because we think that the recovery is consistent, and we'll be able to seize a good part of it.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Very well. Thank you for your answer.

Operator

Our next question from Vitor Tomita.

Q - Vitor Tomita {BIO 19238819 <GO>}

Good afternoon, everyone. Thanks for taking our questions. We have two of them. First, could you elaborate on the Kroton's on-campus ticket pressure? And what about the competitive scenario in general? About Vasta we understand that with the lower or smaller course portfolio this should help, but considering the same brand portfolio did you have a problem transferring the inflation to your schools?

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

Thank you, Vitor, I will start Rodrigo here, and then Roberto and Ghoi will pitch in. In relation to the ticket, there are two main events driving the ticket down and they are very clear and easy to understand. First, PET. We discontinued this payment plan for new students and the ticket was naturally higher than out of pocket. So in itself drives down the average ticket. And finally PMT. PMT is the payment plan for late enrollment students. For example, they join in April. So, instead of paying for example for preceding months, the three preceding months we give them a better plan.

So up to then would they paid the full tuition without any discounts. Now, we are making the payment plan giving them a discount intuition starting in the fourth month. This simplifies the process of communication, lowers the debt level and improves the credit quality, but at the same time, it reduces the average ticket.

So those are a typical factors that led to diminishment of the ticket, but leaving those two factors aside the ticket is stable. So we are feeling very comfortable with the on-campus ticket. So, please feel free to complement me, Roberto.

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

No, I think you explained perfectly. Victor, I have nothing to add. The intake scenario hasn't really change that much. I think, I've said that in the last two cycles. In distance learning we've reached the point, which is the lowest average ticket with programs that around BRL150, BRL170 unless there is a change in regulation, or in business model, we think that's the level we see some more aggressive offers, especially when a new program is launched in a different region but in on-campus there was actually some recovery of the average ticket because on-campus as we know has a more costs involved. So the competitors as a graduations occur with the more advanced students the classes become less profitable, and there is no way out except adjusting prices.

So they are doing this. And then let me turn over to Ghio for his comments.

A - Mario Ghio {BIO 17352490 <GO>}

Thank you, Vitor for your question. This year inflation, well usually, we are able to introduce real increases over the inflation, but this year we will be able just to match inflation because it's really grew in the final years of the -- in the final month of the year, but we won't be losing anything to inflation. As for Rev, and I think that you raise an interesting point because our Rev who know has very solid mix because we are reducing the paper-based contribution because of the behavior is now, is really more significant in subscription in the way of looking at this is that when we announce growth of 19% in schools, and a growth of 32% in average in revenue, this shows that we have a good price mix and a good average ticket.

To give you a little color in relation to the current campaign, our premium brands are the ones performing the best in their campaigns, and even though this is a tough year the most premium brands are the ones that are able to attract more students because schools want to reposition themselves in their respective markets. And I think that the last thing I would like to add, Vitor we also have complementary services and cross-selling opportunities that have been growing very positively.

So schools are willing to offer a wider range of services to families and this of course creates higher tickets too.

Q - Vitor Tomita {BIO 19238819 <GO>}

Perfect. Thank you Roberto, Rodrigo, Ghio.

Operator

Next question Mauricio Cepeda from Credit Suisse.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Hello, good afternoon. Thank you for taking my question. I believe that you are optimistic in terms of student base in the future, but on-campus-hybrid is recovering slower, not only for you, also in the whole market. Do you think maybe you will need to restructure your campaign when hybrid programs are a bigger and on-campus is growing slower?

And about inflation you know also interest rates are high and looking at your debt, are you looking at divesting so as to reduce your leverage now that we have higher interest?

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

Hello, Cepeda. Thank you for the questions. This is Rodrigo, and then I'll hand it over to Fred. Our leverage is not at the top level. It's two times, not three which would be the maximum level. We feel comfortable at the current leverage. We have no plans to sell assets to reduce leverage. Well, of course, maybe we can sell small assets because they are no longer strategic but not even that we have in our current plan.

We are not considering selling assets to manage leverage. We have been managing leverage doing what we had to do, which was to generate cash grow EBITDA. So, today we feel pretty comfortable at the current level of leverage. Next year between 2 and 2.3 this is the level that we aim at.

The other question about our campaign, I will ask Roberto to answer that. And then I may have final considerations.

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

Thank you, Mauricio for the question. Yes you are right, maybe we will make small adjustments, but not baked around closing units, no just you know adjustments that are only natural during the process we have a number of premium programs. So that is the hybrid, or once a week model when students come to our campaign to use the labs, including digital labs. So, yes, there can be some adjustments, which is only natural but we are not planning at closing units, or any turnaround in our campaign today.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Okay. Thank you. Perfect, thank you for answering.

Operator

Thank you. If we do not have any further questions, I would like to give the floor to Mr. Galindo for his final considerations. Mr. Galindo your final considerations, please.

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

Okay. Ladies and gentlemen, I want to thank you all for being with us this afternoon. We feel happy with the earnings. 2020 was a difficult year. 2021 was a better year for Kroton. We harvested results, but Vasta we needed to restructure. So we're happy with the results, but we have a lot of focus to ensure a 2022 that can deliver all of this optimism that we conveyed to you today.

I want to thank you, and I want to thank my whole team. These have been two very difficult years. We worked hard to overcome the challenges posed by the COVID-19 pandemic. But we have proven resilient, delivering consistent numbers and have a robust basis for next year. Thank you all very much, and good afternoon.

Operator

Thank you. Today's Cogna conference call is now closed. Please disconnect your lines now, and have a great afternoon.