Q3 2019 Earnings Call

Company Participants

- Carlos Alberto B. Lazar, Investor Relations Officer
- Jamil Saud Marques, Chief Financial Officer
- Mario Ghio Junior, Vasta Executive Officer
- Roberto Valerio Neto, Kroton Executive Officer
- Rodrigo Galindo, Chief Executive Officer

Other Participants

- Bruno Saraiva, Analyst
- Leandro Bastos, Analyst
- Marcelo Peev dos Santos, Analyst
- Roberto Waissmann, Analyst
- Samuel Alves, Analyst
- Susana Salaru, Susana Salaru
- Thiago A. Bortoluci, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everyone to Cogna Educacao Third Quarter 2019 Earnings Conference Call. We will like to inform you that this event is being recorded and all participants will be in listen-only mode during the Company's presentation. After the Company's remarks are completed, there will be a question-and-answer session for analysts and investors. At this time, further instructions will be given. (Operator Instructions) Also today's live webcast, both audio and slide show, may be accessed through Cogna Educacao's Investor Relations website at ri.cogna.com.br by clicking on the banner 3Q '19 webcast. The presentation is also available to download on the Company's website.

The following information is available in Brazilian reais in accordance with Brazilian corporate law and generally accepted accounting principles, which now conform with International Financial Reporting Standards except where otherwise indicated. Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Cogna management and on information currently available to the Company. As a result of that, they involve risks, uncertainties, and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of the Company and could cause results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference over to Cogna's CEO, Mr. Rodrigo Galindo, who will begin the presentation. Mr. Galindo, you may begin your conference.

Rodrigo Galindo {BIO 17238232 <GO>}

Good morning, everyone. Thank you for participating in our first earnings conference call as Cogna. We will discuss the results of Q3 '19. With me Carlos Lazar, IR Officer; Jamil Marques, our Finance VP; and Managing Directors of each business vertical; Valerio from Kroton, Tarso from Platos, (inaudible) from Saber, and Ghio from Vasta. Let's begin some relevant information, which is Vasta 2020 ACV, annual contract value, for the commercial cycle of 2020 and our subscription model. This is from the third Q of the previous year to the -- from the first Q of the previous year to the third Q of this year. So, this slide is the expected revenue between October '19 and September '20. ACV represents our subscription model or 90% of Vasta's total EBITDA. As announced previously, many changes were made to Vasta B2B. So, now Vasta is an integrated service platform. One of the most important and relevant changes was the complete restructuring of our go-to-market policy.

We're very happy to announce we've been able to accelerate our growth and deliver a 20% ACV growth, but the cycle has not ended. The commercial cycle is about to be completed, but we still have enough sight until the end of this commercial cycle. This was possible because of the quality and good reputation of our brands and educational solutions. In addition to the new commercial approach adopted in '19-'20, we restructured and expanded the sales team. We changed the commercial team mindset placing school needs first and marketing all our products and services from a platform-as-a-service. We have a unique position in the market because we offer traditional learning systems as well as solutions based on textbook, both under a subscription model. Why is this important? Because we can access a significantly larger addressable market because now we can reach all Brazilian school profiles regardless of the pedagogical model adopted.

We become a true one stop partner for any private school in Brazil maintaining our subscription model, which represents 90% of Vasta EBITDA. For the next few years, we have an excellent growth prospect with current services and new services to be included. Organically if they're created in house, but also we are looking into the acquisition of companies that provide services to school to grow our cross sell and upsell opportunities as Vasta consolidates as the most complete and the Number 1 partner of Brazilian private schools. We'll give you more details on B2C of post- secondary and K-12. But the numbers presented for Vasta already show the Company is unlocking the transformational value of Somos acquisition placing us in an uptrend.

I'll invite Carlos Lazar, IR and Venture Capital Director, to talk about the financial highlights in this quarter.

Carlos Alberto B. Lazar {BIO 17238206 <GO>}

Thank you, Rodrigo. Good morning, everyone. Slide 7, talk about the performance of the post-secondary segment. In line with the last quarter, we had a 3.2% drop in the net revenue of this segment, BRL1.2 billion in Q3 '19. We had a reduction in the student base because of the profile change, a large volume of graduation of FIES students. The dropout was pressured by the challenging macroeconomic scenario and high unemployment, which impacted our (technical difficulty) this year. In Distance learning until the last quarter dropout, including premium once-a-week model and 100% web was coming down. But because 100% web has grown in this Q, the dropout became stable which is good news for us. We could also see a falling dropout rate in other segments such as premium and the once a week model. We had a recovery in Distance Learning average ticket as of the second Q.

Now gross profit down 7.8%, gross margin down 330 bps. Lower net income, maturation of our own units launched in 2018 and '19, and the maturity of programs that have a higher cost especially engineering and healthcare, both in on-premise but also in Distance Learning Premium. Also consolidation of SETS number, a business that belongs to Somos and it is now in post-secondary, also pressuring our gross margin. Operating result totaled BRL552 million, down 19.3% vis-a-vis Q3 '18, a drop of 910 bps in operating margin. Also an increase in PDA because we changed the profile of our student base and higher marketing expenses connected to the intake of 2019 second half and also 2020 first half and the seasonality of quarters and other lines of cost and expense. For the Q4 '19, we expect marketing expenses to have a downward trend. So, we believe to have gains.

Slide 9, the performance of K-12 segment and here I'll begin saying that as in previous quarters, the numbers of Q3 '18 and nine months '18 are pro forma, adding Somos numbers after the convergence of accounting practices in line with the Cogna standard. We also made a pro forma adjustment in the Q3 and also in the year-to-date '19 to neutralize the seasonality of receivables from the National Textbook. As we mentioned, the calendar changed in 2018 following the historic standard, 30% of all orders of textbook repurchased or delivered in the second Q, the remainder in the third Q. So, the revenue of repurchase was posted in these Qs. But in 2019, the orders were postponed to the end of Q3 so only BRL20 million revenue was posted in Q3 and almost all the revenue will be posted in Q4. So, we believe and we recommend the quarterly analysis is conducted with more care that's why focus in the year to September considering the revenues of repurchase recognized in the first nine months of '18. So, assuming the same seasonality.

These contracts of the National Textbook Program have already been signed so there's no additional risk. Now net revenue focusing on the first nine months of 2019, we reached BRL1.5 billion, up 8.7% year-on-year. Good performance of school management in K-12 platform. We have a new go-to-market after the acquisition of Somos and very good initial results as presented by the Rodrigo, the annual contract value. Now gross profit up 16.1%, very relevant and gross margin gains of 350 bps due to synergy gain and efficiency gain. Post-marketing operating result BRL512 million in the year-to-date, up 34.7% or 670 bps in the operating margin due to more efficiency and synergy levers. Now Slide 11, I'll focus on the pro forma comparison, the number of Somos in the first nine months of '18 and revenue connected to the repurchase of the National Textbook Program in the year to September.

Consolidated net revenue BRL5.3 billion, 3% down year-on-year because of a smaller student base partially offset by the improvement in net revenue from K-12. 72.4% of the guidance for this line, remembering that in the last Q we always have a stronger performance in K-12. Our EBITDA after non-recurring expenses reached BRL2 billion year-to-date, up 3% in comparison to the nine months of '18 with an increase of 207 basis points in margin. This is reflecting the capture of new synergy levers and efficiency. So with this reduction, we reached 66% of the guidance for this line remembering that net revenue for K-12 in the fourth quarter will bring an even stronger impact on EBITDA since the margins are higher. Finally, net income adjusted for inventory growth value in (inaudible) totaled BRL794 million in the nine months of '19, down 26.1% and this reflects the higher financial expenses because of the higher debt level and also the increase of depreciation and investments made in recent years. So, we were able to deliver 56% of the guidance in this line.

With this, I finish this section and invite now our CFO, Jamil Marques, to continue.

Jamil Saud Marques {BIO 21416820 <GO>}

Thank you very much. In this next section I will talk about the provisioning for losses and also the evolution of average receivable terms. Starting with Slide 13. If you look to the left side of the slide, the total provision for post-secondary was 13.9%, up 120 basis points in the annual comparison especially because of the provisioning for out-of-pocket. The provisioning for out-of-pocket students reached 9.4% this quarter, up 90 basis points compared to 3Q '18. This growth is something that has been following the trend in previous quarters and reflects the increases of what we're doing to protect ourself from higher default rates considering the challenging macroeconomic scenario with high unemployment rates. Now moving to the right side of the slide. PDA for K-12 recorded 2.2% in 3Q '19, an increase of 140 basis points in the annual comparison and 700 basis points in the quarterly comparison.

This is owing to the incorporation of Somos mostly and additionally we have an extraordinary situation, which was the provisioning that was made to cover the lower credit quality of bookstores in financial distress totaling BRL2 million. Now moving to Slide 14, we'll take a look at the average term for receivables and once again I would like to start my analysis with post-secondary education. Our average term of receivables in all reached 196 days in third Q '19, 50 days -- 53 days above the annual comparison. This is explained by the maturing of our installment plans, PEP and PMT, besides the increase in the average out-of-pocket terms. This in fact totaled 128 days in the quarter, flat in the quarterly comparison with the reduction of 1 day and this points to a reversal trend in spite of the increase of 29 days in the comparison with 3Q '18. We have seen several improvements as a result of the actions we have put into practice this year and with the stringent policies we have in place.

These improvements more than offset the difficulties we may find in collecting the fees from default -- students in default. So, our expectation is that this trend will continue on the fourth quarter, a reduction of the average term of receivables. If we look at the FIES average term, it's now at 70 days, 8 days below in the annual comparison. This reflects the normal flow of receivables from this program. And finally, the PEP and PMT programs reached 644 days in this quarter, up 165 days in the comparison with the previous year and following also the maturity curve expected for these products. If we look now to K-12, the average term was 45 days in 3Q '19, a very significant reduction of 39 days in the comparison with 3Q '18. This of course shows the shorter term of receivables after the acquisition of Somos besides the efficiency gains and collection and improvement of the client base profile through our Integrated K-12 platform where term is now 33 days down in the comparison with 3Q '18.

Now I would like to invite you all to turn to the next section in which I will talk about CapEx, investments in expansion, and cash generation in the quarter. Starting with the left side of the slide. CapEx was BRL133 million in the quarter, equivalent to 8.8% of the net revenue in this period. This is down 90 basis points in the annual comparison. From this CapEx, around 90% were invested in the development of content and systems expansion and also a refurbishment of our units and editorial CapEx. In relation to expansion investments, including the opening of new units, this totaled BRL37 million in 3Q '19. Year-to-date we invested BRL135 million in expansion initiatives. This is a reduction of 37% with -- if compared to the previous year in the initial nine months. An explanation is that most of the units that we want to create in this organic expansion phase have now been launched and therefore our investments are now geared to the maturing of these units.

Now moving to the right side of the slide with the analysis of our post-CapEx operating cash generation. It's important to note that for comparison purposes, we are presenting the analysis of 3Q '18 excluding the one-off amount relative to PN23 in 2018 and we also include the receivables that are related to the repurchases under the National Textbook Program 2020 in 3Q '19. This reflects the natural seasonality for those receivables. So, looking at our pro forma operating cash generation in the consolidated Cogna vision. We generated BRL279 million in 3Q '19. This is an evolution of 125% in the annual comparison with an EBITDA-to-cash of 45%. In the vision that excludes Somos, the Company presented an increase of 81% with the conversion of EBITDA-to-cash of 45.1%, which reinforces the focus on growth of our cash generation. It's important to highlight that in the previous quarter we had expectations for the second half of the year of 2019 of BRL600 million additional to the first half of the year.

Those BRL600 million will be coming from government programs and BRL200 million from reimbursement in lower levels than in the first half of the year. So in the pro forma analysis, we have now record the BRL225 million in this additional generation, of which BRL250 million coming from the additional receivables from the Textbook Program and fees and BRL75 million from the smaller disbursements. Considering the historical flow of receivables for PNLD and FIES, we see that we are converging and we will probably deliver on the guidance for CapEx for the Company. Now moving on to our debt level, let's take a look at that area. We closed 3Q '19 with a total cash availability of BRL436 million, down 57% in comparison to the second quarter especially because of the disbursements for amortization of interest and the debentures totaling BRL553 million in the third quarter besides the investments in expansion and M&A that reached BRL105 million.

If we add to this our short end term obligations, our net debt was BRL7.6 billion in 3Q '19. It's important also to underscore that we have short-term and long-term receivables that comprehend the second part of the payment for the sale of Uniasselvi and also the payment for the sale of FAIR and FAC/FAMAT concluded in August 2017. Considering these factors, our net debt in 3Q '19 reached BRL7.4 billion, basically in line with the previous quarter and also maintaining the adequate leverage level and in line with the expectations after the acquisition of Somos.

With this, I close this section of the presentation and I invite Rodrigo for his final remarks.

Rodrigo Galindo {BIO 17238232 <GO>}

Thank you, Jamil. In closing, Slide 19, quick update from the main opportunities in each business vertical. Beginning from Kroton, the B2C post-secondary vertical, intake for the first half of 2020 has already started focusing on value generation. We want to build a robust base of students with higher revenue and cash generation. In the second half of 2019, the revenue from new students increased 19%. We will still see a large volume of FIES student graduation until the end of 2020. So, we will now have a more profitable student base to mitigate the graduation of FIES students and then Kroton will resume growth as we will have revenue growth and no more pressure of FIES students graduation. In addition, our focus at Kroton is operating cash generation so post CapEx operating cash generation. This is about post-secondary B2C.

At Platos, post-secondary B2B, we will grow enrollments by 30% year-over-year in post grad. This is the result of 22 new program improvements in the marketing funnel plus commercial actions. We'll have 40 new programs in 2020 and continue to grow. High growth is the name of the game for Platos, our post-secondary B2B platform. Now Saber, our B2C and B2Gov business vertical, we see intake and renewals above the moving average and additionally, we're launching a digital platform to support complementary activities in our own schools in 2020. Finally, in K-12 B2B or Vasta, we had a 20% ACV growth for 2020 and although we're still in the commercial cycle, we want to deliver some upside. We're negotiating the acquisition of small and mid-size companies that provide solutions to partner schools so they can be part of Vasta integrated platform thus increasing our offer and providing for more opportunities of cross-sell and up-sell.

Now all of these initiatives show we are prepared for 2020. Our permanent focus is to generate value to all stakeholders ensuring autonomy and focus. So, each one of our business verticals can address its challenges and opportunity presenting more robust results in the new face of the Company. Always in line with our purpose to transform the future through education.

Thank you all for participating. We'll now begin the Q&A.

Questions And Answers

Operator

Thank you very much. Now we'll open for the Q&A. (Operator Instructions) Our first question is from Mr. Thiago Bortoluci, Goldman Sachs. You may proceed.

Q - Thiago A. Bortoluci {BIO 17950069 <GO>}

Hello. Congratulations on the results and thank you for taking our questions. We have two questions. First of all, about the Vasta Somos booking, this indication of 20% is something we welcome. Thank you for that information. Besides that, can you share with us what was the ACV growth in the comparable period in the previous year? And considering the 20% growth, what was the breakdown? Was it more systems -- educational systems? And also in relation to the default rating, we have seen different trends in different companies. So you ended up increasing the PDA for out-of-pocket this year and I would like to know what was the reason for this deterioration and what to expect for the future? And in parallel, does the Company have appetite for have -- to have more discount in renegotiations during the fourth quarter?

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

Thank you. This is Ghio. Thank you for the question. Talking about ACV In the past, the Company didn't have this integrated characteristic. But if we try to rebuild the past based on what we see now, ACV would have represented 15%. So in the '18 to '19 cycle, ACV would be 15%. Now in relation to the second part of your question. For us, PAR and other educational systems, there are educational systems either based on textbooks or other methods. They have systems and they contribute to the revenue for each contract. So both -- in both of them whether it's textbook or not, we incorporate our historical knowledge. About the conversion, how many students convert to sales? So, the ACV we have disclosed is totally comparable because it incorporated the non-sale curve that we see whether in traditional or non-traditional educational systems that we operate with.

A - Rodrigo Galindo {BIO 17238232 <GO>}

This is Galindo, I would just like to complement the answer. I wanted to make clear that the ACV for '18 to '19 was 15% and it can be compared with the ACV at the end of the process or cycle, which is something that comes in in 2020. So, we still have some room for improving the ACV for 2020. So, the number comes at the end of the cycle. And another question that I think is important to reinforce is that to build the Vasta model, it's important to understand the subscription model. It's the subscription model. If the content was sold to schools as a textbook or a learning system. This is just a method something that is the choice of the Company, but it doesn't impact the business model. So, the Vasta model from the business model point of view is based on subscription.

So both, in fact from the point of view of the business model, are structured on the subscription model regardless of the shape this takes. I would say about Vasta, of course I think that the purpose of the question was to understand if the EBITDA would be growing in 2020 considering the mix of products that you see. EBITDA coming from ACV represents 90% of the Company. So, 90% of the EBITDA comes from the 20% growth in ACV. So, we cannot really give you much more light on this because if the 10% less so has higher or lower EBITDA. Thiago, I think that in fact trying to understand the spirit of your question, maybe it's important to comment that gross margin whether from the learning system based on booklets or the learning system based on textbooks are very close.

There's no huge gap of gross margin between the two products and this I think will help you model.

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

Thank you, Thiago. About the question on default rates, we have two scenarios; one that's more negative [ph], one that's more positive. In the positive scenario, we have seen an improvement with more punctual payments. The volume of receivables that is punctual has been increasing partly in the third quarter both On-Campus with Distance Learning. This is a trend that has been coming from the past and this is highly positive. It's difficult for us to segregate this from the macroeconomic point of view because we don't know yet if this is something that is resulting from our own efficiency or if it's coming from the macroeconomic scenario. Now on the other side, we have high volume of students with that and collection for those students is a little more difficult. So, the important thing in this semester is that we have seen the positive side offsetting the negative and this is why we see a reversal in the average terms of receivables, but we don't see a clear improvement. That's why we have to maintain the increased trajectory. About your second question on doubtful accounts, we do have an appetite to be more aggressive in the Q4. The answer is no. Our expectation is to maintain the same policy now.

Q - Thiago A. Bortoluci {BIO 17950069 <GO>}

Thank you very much Rodrigo and Jamil. Thanks for the answers.

Operator

Our next question comes from Samuel Alves from BTG Pactual. Mr. Samuel, you can begin.

Q - Samuel Alves {BIO 18720076 <GO>}

Good morning, Rodrigo, Lazar, Jamil, and other officers. Two questions. First, follow-up on ACV. Could you please give us more color on the quality of this ACV if it was driven by price or if it was more driven by the conversion of new students or new schools to the subscription model? This is the first question and the second question, if you allow me. When we look at the Distance Learning growth in this quarter, I mean if we look at revenue, it's grown more than 20% year-on-year even though the student base was lower and the price was up 3%. I'd like to understand what's behind this growth of net revenue that was so strong in distance learning. Thank you.

A - Rodrigo Galindo {BIO 17238232 <GO>}

Samuel, thank you for the question. Well, basically the ACV is volume that is it shows our original proposition to integrate all products and services of the Company in a single platform and then the school can choose its methodology. It's its own decision and then we use the decisions of schools to expand our upsell and cross-sell because our go-to-market is not only a restructuring of the commercial force. No, there is a whole concept of integration behind that. And we have actually seen that the schools to whom we talked were highly interested in this proposition and so therefore ACV shows volume. I mean, as we mentioned, these are the contracts we signed until now for next year, but we still have another 30 days ahead of us to work and reach the final ACV.

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

Samuel, this is Roberto Valerio, try to answer your question about Distance Learning. The higher ticket neutralizes the smaller student base. So, you have these two offsetting effects and these are good for the revenue from distance learning partners. So, you also have this mix between online and the once-a-week model, 36% of once-a-week model. So as you know, you remember we had an increase in the intake, 19.2 was -- is the penetration of online students, but that also happened in previous cycles. And so the fact that we have more online in this mix means that we have more revenue for Kroton because less is being passed on to partners. Next (inaudible) performance model, we provisioned 36% to be passed on to partners, but not all centers have attained their goals according to the model. So, you have this delta that comes back as revenue to us. So, this is the mix of programs and the performance of (inaudible) centers that have helped our result.

Q - Samuel Alves {BIO 18720076 <GO>}

Thank you, Valerio. Was really clear.

Operator

Our next question comes from Roberto Waissmann from Bradesco BBI. So you can begin.

Q - Roberto Waissmann {BIO 20589306 <GO>}

Good morning, everyone. Thank you for the questions. First -- thank you for taking my questions. First about ACV, I want to understand the mechanism of discount. When you provide a discount, is that directly in the first year so you already see the effect in the ACV of the first year or is that diluted throughout the program? Second question about your own schools. We saw the number of own schools going up, but the student base is still falling. Can you explain why this effect? And also about that, if you have felt some kind of rejection because now the schools would belong to a large group and no longer to families if that also has an effect. Thank you.

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

Roberto, good morning. This is Mario Ghio. Now the ACV includes -- I mean every time a school signs a contract with us, we include the number of students and the average ticket contracted. Also the fact of purchase profile by the total number of students and then we already deduct any discounts included in the contract. So, therefore the ACV is net of any discounts. The ACV -- the percentage we announced refers to the net revenue from contracts. Is it clear?

Q - Roberto Waissmann {BIO 20589306 <GO>}

Yes, clear.

A - Rodrigo Galindo {BIO 17238232 <GO>}

Now Roberto, talking about our own schools. We had new contracts that came in and was compared to 2018 an increase from 52 to 54. Now in terms of student base, you don't see a significant growth. It is that curve of growth you see and intake last year with this is the resulting student base.

Q - Roberto Waissmann {BIO 20589306 <GO>}

Thank you. It's clear.

Operator

Our next question is from Mr. Marcelo Santos from JPMorgan. Mr. Marcelo, you may proceed.

Q - Marcelo Peev dos Santos {BIO 20444938 <GO>}

Good morning, everyone. Thank you for taking my question. My first question. Well, first of all, you mentioned an improvement in the competitive environment. Could you give me a little more color? Was it a regional improvement? How do you see this improvement? And also the marketing seasonality aspect, you mentioned that your efforts in marketing were stronger and that this has an impact on the intake for next year. So, could you tell us -- well, here I'm referring to post-secondary education, what's the behavior to expect and what changed in comparison to other years?

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

Well, this is Roberto speaking, Marcelo. About the competitive environment, what we observe is that there's more rationality especially considering the pricing being practiced by our competitors. We saw this in 2Q '19 and especially in Distance Learning, we were able to halt the drop in prices. We had average prices in the market of BRL150 for the 100% web or online courses with a strong declining trend in prices and offers are now less aggressive. And I think that we have now established the pricing floor, margins are better structured. And so, I think that the competitors are trying to improve how they work with pricing. We see some discounts, but that are being offered on a more one-off basis in some regions. In the medium term, we have an expectation of an improvement. What we see -- it's still too early to see the results for '20-'21 cycle. Because we have only 10% of the intake so far, it's hard to qualify.

But what we see is that the competitors are being more rational and in the final conversion, we see that also much better efficiency. Our perception is therefore that if there is an improvement. In relation to marketing, maybe you remember that in the first quarter we also invested more heavily in marketing with higher expenses. Now we decelerated this in the second quarter and we once again have stepped up expenses in the third quarter and in the fourth quarter once again we see a reduction in the comparison. So this is a change of seasonality, it's a change of communication strategy, and also we have been working with our suppliers to make this adjustment based on seasonality. Marketing should not exceed 5% to 6% in growth in the comparison year and if you look in the previous quarter, you see that there is this trend of first quarter more investment, second quarter less, third quarter more investment, and the fourth there will be a reduction again.

Q - Marcelo Peev dos Santos {BIO 20444938 <GO>}

Thank you very much.

Operator

(Operator Instructions) Our next question is from Ms. Susana Salaru from Banco Itau. You may continue.

Q - Susana Salaru {BIO 16170633 <GO>}

Good morning, everyone. Well, thank you for taking my question. Could we please revisit the ACV? Can you give us some light on what was the share of wallet in the ACV and how did you consider for the new clients that you captured in the market? This is the first question. And the second question about DL. With strong results, how much of the revenue generated on this quarter just as a percentage was coming from DL?

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

Thank you very much, Susana. Thank you for your question about the ACV. Well, overall ACV is made up of new clients in a very large proportion. So in this campaign we were able to penetrate what we call the complementary education product segment, but they still represent a very small share of the ACV. So, our focus is to increase the share of wallet in coming years. But essentially our ACV is made up of the increase in volume with new students with new clients.

A - Rodrigo Galindo {BIO 17238232 <GO>}

Here is Galindo speaking. Well, this of course represents an additional opportunity because we're growing our client base in learning systems and we also have a huge opportunity for upsell and cross sell using those complementary learning solutions considering the new and existing clients in the platform.

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

Well, the next question, Susana, about the provisioning of revenue and maybe -- well, this of course has an impact on the other semesters because so we have to make the adjustments as the quarters progress.

Q - Susana Salaru {BIO 16170633 <GO>}

No, my question is how much of the revenues came from reversal of provisions for transfers and how much was really revenue?

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

From the 21% growth, around 15% came from transfers.

Q - Susana Salaru {BIO 16170633 <GO>}

Thank you.

Operator

Our next question comes from Leandro Bastos from Citi. You may begin.

Q - Leandro Bastos {BIO 21416405 <GO>}

Hello, good morning. Thank you. I will insist on the ACV. If we -- I mean would you share with us how much you expect as revenue in Q4? This is the first question. And the second question talking about out-of-pocket. In On-Campus, you had a good growth in the last Q. Is this the trend for 2020 also because of the new commercial strategy? Thank you.

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

Leandro, thank you for the question. We will update the numbers of ACV in the near future and in the next update, we'll provide more color of how it's going to be distributed among the different quarters. What we call ACV is different from the fiscal year because it's from the fourth quarter of one year to the third quarter of the following year, which is our true commercial cycle for sales to schools. In the next ACV, we'll provide more color about your question, okay?

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

Leandro, I did not really understand your question about On-Campus. Can you repeat the question? This is Roberto Valerio.

Q - Leandro Bastos {BIO 21416405 <GO>}

Yes, of course. We saw the out-of-pocket ticket in graduation has grown a lot by 6% this quarter. So, is this the trend for the next year as well? Thank you.

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

Well, yes, we are trying to maximize average ticket. Our strategy as we mentioned for this intake process, we want to work on dynamic pricing and the pricing base in the beginning of the cycle will be very intelligent. That is we will be tracking the prices of the competition and during the commercial cycle we will use analytics to provide discount only when needed. So qualitatively and in a very targeted way, we'll continue to improve the ticket for On-Campus. We still have room for that. Of course if we gain more efficiency, it becomes more difficult. But we will continue with this strategy of prioritizing a higher ticket because then you have higher quality students as well and that reflects in lower doubtful accounts. So, we want to use the average ticket also to maximize revenue, which is our ultimate goal.

A - Rodrigo Galindo {BIO 17238232 <GO>}

Adding to that, Leandro, that reinforces what I said early on. Our strategy in the last year when we had more robust incoming students is now more visible. So, we are now in the third intake process where this strategy has been implemented and we will see more of this effect in the future.

Q - Leandro Bastos {BIO 21416405 <GO>}

Thank you very much.

Operator

Our next question comes from Mr. (inaudible) from UBS. (inaudible), you can begin.

Q - Unidentified Participant

Hello, good morning. Thank you for taking my question. I have two questions. The first goes to Mario Ghio. As you restructured Somos commercial team, to what extent do you still have to -- to what extent you can still improve this commercial structure as a whole and also Vasta project? I mean the results you reported today come from this process, right. And now about corporate expense with the holding you announced on Cogna Day, can we expect more pressure on expenses or do you have savings to offset that? Thank you.

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

(inaudible), good morning. All we have announced comes as a result of the commercial restructuring we conducted. I mean, a lot has been implemented already this year. A new commercial team working in a new way. Obviously we expect this team to have a better performance next year because the team will be more experienced. But I believe that many opportunities are here already for the next commercial cycle, clear opportunities. Like this year we empowered the team, we invested in the team; but with the current results, we want to invest even further in the next intake campaign. Inside sales brought very interesting results. It was a great support for the commercial team on the field and it also generated more sales in schools which were not receiving visits so often. And so this is an opportunity we'll pursue even more in the next commercial cycle. You also asked about product. Let me remind you that this year the product we brought to our go-to-market were the products we already had in the Company. But now in 2019 we were able to include new products. They are now perfectly adequate to the national syllabus and now we will begin to sell them in the next commercial cycle. Thank you.

A - Rodrigo Galindo {BIO 17238232 <GO>}

Now this is Galindo, I just wanted to add in answering the second question. Obviously we have restructured our commercial teams. We've implemented this new concept of platform-as-a-service, we have the new Vasta go-to-market, and this was done between October 2018 when we took control of the company and March and the go-to-market started in April '19. So, this is the first year that this new machine is operational. Of course we will be able to improve the efficiency of what we're doing, you always have a learning curve. So yes, we believe this machine can be perfected. So, we have a good prospect. About the pressure caused by the holding structure, at Cogna we had a number one assumption. The holding could not bring anti-synergies to the organization.

So all the process of separating what was in the company, what was in the business vertical, and what's now going to be in the holding; every move considered this assumption. In some cases, we kept services at the holding because if we were to divide them, we would lose synergies. Our holding is not a pure holding. Whenever a service is more efficiently performed by the holding, then we will do so and then the cost will be pro-rated by the four business verticals. So, we cannot afford to lose efficiency. Now about the synergies, the synergies we found and we're now capturing for Vasta are a good portion of this growth we presented in Vasta guidance and all of these synergies are being captured according to the plan. That's why we feel very confident we will deliver Vasta guidance because the synergies are being captured.

Q - Unidentified Participant

Thank you very much, Ghio and Rodrigo, very clear.

Operator

(Operator Instructions) Our next question is Mr. Bruno Saraiva from Bank of America.

Q - Bruno Saraiva {BIO 17559468 <GO>}

Hello, good morning. I have a question about the debenture from Saber to holding. What was the rationale behind this and is there the risk of losing any tax benefits? And also in relation to the strategies for Vasta, do you believe that the results you're delivering, does it create a possibility of being more aggressively in the capital markets, maybe an IPO? And also in relation to the On-Campus ticket, what's the improvement year-on-year if it was not for the ENP [ph] increase in the third semester?

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

Hello. In relation to the rationale for the change, of course we have improvements in the management and we hope to have this debenture for all the Cogna businesses. For Saber, we have the debenture above the K-12 business. For the PNLD -- and going up to Cogna, we can releverage all of the companies of the Group not only Saber and Vasta, but also Kroton and eventually Platos. Obviously Kroton operates with marginal rate that's much higher than Saber; but at the end of the day, we are -- they also paying taxes on operating interest and of course this justifies the leverage. So, of course this is going to give us more flexibility so that we can use private debentures and benefit all companies in the Group.

A - Rodrigo Galindo {BIO 17238232 <GO>}

Here's Galindo speaking, Bruno, I would like to answer your last question. I think what we have been building at VASTA is the story of long-term sustainable growth and we are very happy with the first delivery, which is the ACV for this year, which we hope to see increase by the end of the year. So, this is a high growth company that has already reached its -- has shown its potential for growth without mentioning the potential through acquisitions and the cross selling opportunities. 20% is for the first year under the new platform concept growing only organically and with this machine that we adjusted so there's a lot of potential for the future.

We built a company that has shown to be high growth and that 20% of the EBITDA is under the subscription model so with recurring revenue and those are very interesting features that will add value to the organization. Whether we're going to use those features for any strategic move, this is of course a decision we have to evaluate in the Company. We published relevant facts saying exactly that, that all to strategic options are being considered in our organization. So, this is the clearest answer we can give you. What matters to us is to build a company that will really add value in the short and long term. If this creates other opportunities, well, they will be considered at the appropriate time.

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

Bruno, about the average ticket in post-secondary On-Campus, it's closer to zero. And with Vasta in the third quarter and in the fourth quarter, with the new changes that are coming, we expect that this ticket will see some improvement.

Q - Bruno Saraiva {BIO 17559468 <GO>}

Thank you very much for your answers.

Operator

Now I would like to hand it over to Cogna for their final remarks.

A - Rodrigo Galindo {BIO 17238232 <GO>}

Thank you very much for participating in this earnings conference call and our Investor Relations department is at your service should you need anything else.

Operator

We now conclude the Cogna earnings conference call. Thank you all for participating. Have a great day.