Q2 2021 Earnings Call

Company Participants

- Frederico da Cunha Villa, Vice President of Finance, Chief Financial Officer and Investor Relations Officer
- Mario Ghio, Chief Executive Officer, Vasta Platform Ltd
- Paulo de Tarso Moraes, Chief Executive Officer, Platos Educacao
- Roberto Valerio Neto, Chief Executive Officer of Kroton
- Rodrigo Calvo Galindo, Chief Executive Officer of Cogna

Other Participants

- Leandro Bastos
- Marcelo Santos
- Mauricio Cepeda
- Samuel Alves
- Vinicius Ribeiro
- Vitor Tomita

Presentation

Operator

(Call Starts Abruptly) Please activate your microphone. And the industry and other operating factors may affect the future performance and made leads to results that differ materially to those expressed in these statements.

Now, let me give the floor to Cogna CEO, Mr.Rodrigo Galindo, who will begin the presentation. Mr.Galindo, you may begin.

Rodrigo Calvo Galindo {BIO 17238232 <GO>}

Hello, good afternoon, everyone. Thank you for participating in today's conference call about this second Q '21. With me today, Frederico Villa, CFO and IRO; and our four CEOs, Roberto Valerio, Kroton; Mario Ghio, Vasta; Paulo de Tarso, Platos; also Bruno Giardino, Vasta's CFO; and Eduardo Honzak, our Corporate CFO and IRO.

Want to begin, today's presentation on Slides 3 with an overview about what Cogna has been doing so far. How we have translated the strategy we announced into actions. I will summarize our main messages on the left. Kroton has had continued growth on digital, and on-campus, although we had a lower volume, we see a 12% growth in the average ticket. Roberto will talk about this.

On-time payments in the first six months continues to improve, 4% in distance learning and 7% on campus improvement. Now coupled with a bigger share of digital students and our base, that has brought the consolidated recurring EBITDA margin to 37.8% in the second Q. This is not the recurring margin. In the second half of the year, we still see lower revenue because of this change in EBITDA. So the margin will be structurally lower, but we will see a higher level than in previous years.

Finally let me highlight the recent and relevant partnership between Ampli and TIM. Ampli is an edtech we built inside Cogna about a year ago, providing digital undergraduate, postgraduate and other programs specifically developed to be consumed using a smartphone, and this is a partnership with a telecom. Now we will talk more about this partnership that will bring a number of opportunities in the last -- in the next few months.

With Vasta we saw an increase in the number of partner schools, revenue growth in all segments, especially subscription products. We'll show you more results. Mario Giho will talk about that. As in previous quarters, we are promoting a continued expansion of solutions offered by Plurall, our platform that provides services to partner schools, and we're doing that by developing new products, partnerships with companies all over the world, and also acquisition of companies. So all these three avenues of expansion were taken in the last six months, so creating new products doing acquisitions and partnerships. So Plurall is a more complete platform for our partner schools.

For the 2022 cycle, we prepared a new go-to-market focused on subscription products. We could see that subscription was more resilient so our go-to-market is focusing on that. Today we have 50% of the commercial cycle already concluded and we feel optimistic about organic growth in the 2022 ACV, which will be added to our growth on a lever. Giho will talk about organic growth in ACV for 2022.

Now, Cogna, on the right side, the consolidated numbers, we had a positive cash generation. Let me say, but -- because we had cash movements between the first and the second half of the year, we are conducting a six-month review -- a six months analysis. And in this analysis, we had 2 million cash consumption in 2020, and now we have BRL197 million in 2021. So we closed the second quarter 2021 with a solid cash generation BRL197 million and 2.13x is the net debt adjusted EBITDA ratio. So we expect to conclude the process to stretch the company's short-term liabilities.

And finally, I'd like to highlight, we had the SAP cloud ERP go-live. It was successfully concluded, it's now integrated to optimize our processes at Cogna, Kroton and Platos. ERP is a critical process and we were successfully in this go-live. It has already happened, no problem, so that will allow for us to become more efficient. We believe these highlights show the company's commitment and alignment to the strategy that we mentioned to you to increase our profitability consistently prioritizing asset light business segment and models that have a greater growth potential and higher return on invested capital.

I'll give the floor to Roberto Valerio, he will talk about Kroton, operational and financial highlights.

Roberto Valerio Neto {BIO 2243533 <GO>}

Thank you, Rodrigo. Good afternoon, everyone. I'll begin on Slide 5 with Kroton highlights in the second Q '21. In previous calls, we said 2020 was the time that we would have a point of inflection in Kroton results because of the turnaround in on-campus Kroton that we reviewed and also the growth of digital Kroton. So these two initiatives would be the basis for us to improve our performance in 2021.

In the first Q '21, we already saw signs that we were recovering the performance and now the numbers in Q2 '21 clearly show that Kroton restructuring proved to be sustainable. And we are improving our performance. I mean, despite the pressure in revenue reduction and higher cost for on-campus programs that was impacted by the pandemic. Now, I want to begin talking about this analysis beginning in 2020 where we looked at cost per unit, per learning center. We've optimized our program portfolio to improve our price competitiveness on the market, and so we focused on campus for programs of a high LTV, and so we migrated lower lifetime value programs to digital. I believe you remember this strategy.

Our focus has allowed for us to grow the student base and also digital, and that has partially offset the drop that we had in on-campus students. The new mix has allowed for us to grow on digital. Of course, the change in the program mix has made us rethink about our learning centers and our spaces. So we had a full restructuring in rentals, other expenses and payroll. In addition to these initiatives, we also had an improvement in on-time payment, on-campus and also on distance learning.

I also wanted to highlight on Cogna Day, I spoke about a marketing strategy focusing more on online and less offline marketing to reduce the cost of attracting new enrollments. And so reduce the marketing budget in the first two quarters. So now that we already have the results of the second quarter, we had a relevant reduction in this expense without losing commercial power, as well as you can see in the new enrollments. So we have this new strategy of marketing investment, which brings real performance gains. We closed the second queue with recovering EBITDA margin of 37.8, growth of 26 percentage points compared to the same period last year.

Let me also highlight, as we mentioned on Cogna Day, we continue with our strategy to expand our learning centers. We've grown our learning centers by 40%, a bit more than 1,500 learning centers. Today, we have 2,168 learning centers. So -- and these were active centers attracting new students.

We also want to highlight the partnership that Rodrigo mentioned, it's a strategic partnership between Ampli and TIM. Ampli, which was this initiative we launched a year ago, Ampli innovates. As we allow weekly enrollments in short-term programs between 18 and 36 months, and all products were developed to be consumed on smartphones. This is an innovative approach. I think you have seen a massive marketing campaign launched by TIM telecom operator, offering our products using their own sales channels, opening a new communication channel with 50 million TIM users. So we will keep you posted in the next quarters about this partnership.

In addition, I want to highlight, we have started Kroton technological transformation program. It's an ambitious initiative to improve service delivery using technology, and we expect to provide a better experience to our students, both on-campus and digital. Looking ahead, we see good prospects for new enrollments. We are optimistic. Despite prudent, we are in the mid-point of the commercial cycle and optimistic on both, on-campus and digital new enrollments. In the last six months of the year, we believe on-campus activities will be resumed in almost all learning centers, not only in our practical laboratories, but also in lectures.

Let me also highlight that we are making intense efforts to improve productivity and performance. We still face challenges ahead in the last six months of this month. And also in 2022, for the reasons you already know, a drop in revenue. But we will continue to see more digital students, and because we are still going through the pandemic, which generates pressure on margins. Now, because we are going back -- most students are going back to school, we will see higher cost. And again, well that's pressure on margins. In closing, my comments about Slide five, digital for us as a structural business model, places the company back on a growth track with profitability and a smarter capital allocation. So very soon, we will go back to our growth path.

On Slide 6, let me highlight that our accounts receivable coverage ratio has remained stable compared to the last quarter and remains as the highest in the industry, as you know. Average out-of-pocket students payment term reached 71 days, marginal increase compared to Q1 '21, and that's due to seasonal effects. And there are more renegotiations at this time of the year. So as we move on, we will see less seasonal effects. That's why we had this slight increase in the average payment term, but compared to Q2 2020, we had a drop of 50 days. The quality of our students, their engagement, and more efficient collection this quarter led to an improvement of 7.4 percentage points in on-campus, on-time payments, and 3.5 percentage points in distance learning, which translates into BRL90 million improvement Kroton total PDA.

Out-of-pocket students PDA net revenue ratio reached 11.9% with a reduction of 12.4% versus Q2, 2020, and that's again, as Rodrigo mentioned. We believe Kroton PDA and accounts receivable after the improvements that we conducted in 2020 are exactly right for the company level of revenue.

On Slide 7, now, let me talk about our student base. Our student base has grown consistently on digital, up 12% and closed the second quarter representing 75% of Kroton total student base, in line with our strategy. Now on-campus students, we had a drop in challenges of the pandemic in the last three cycles of new enrollments. However, let me highlight that new enrollments show a good quality of students. We expect to have on-time payments going up, and we have higher LTV programs.

Let me also highlight, our exposure is lower to installment products as PEP has been interrupted as of the second half of 2020. Now, about the average ticket, we had a growth of 12% in this quarter, that's 11% in the first six months, 12% in the last quarter. Using this strategy of having on-campus programs, when they have a higher LTV. We saw a change in the product mix impacting the average ticket by 6% in the first six months of the year. We expected a higher impact, but well, this is what we had, the impact on ticket, 6% drop. And that's because we have 100% penetration of online programs so --

Despite all that, a big growth in new enrollments offset a lower ticket. So our revenue has grown 7%. Looking ahead, I hope -- I continue to expect growth in 100% online, also in distance learning premium, for example, engineering programs or healthcare programs that have a higher LTV as well.

My final slide, Slide 8, I want to share with you a summary of Kroton operating results. So despite the pressure of the pandemic on on-campus activities, the reduction of FIES, the end of PEP, our digital student base has grown and it has partially offset our revenue drop. This growing digital revenue, in addition to operational restructuring, also coupled to our new marketing strategy and on-time payments, has improved our recurring EBITDA that reached BRL354 million or 37.8% margin. Well with that, I'd like to thank you, and I close my presentation. I want to give the floor to Mario Ghio from Vasta now.

Mario Ghio {BIO 17352490 <GO>}

Thank you very much. Good afternoon to all. Let's start in Slide 10 in which we analyze Vasta operating numbers. Starting with subscription revenue, Vasta funds the delivered growth of 12% in the sales cycle 2021, that is from the fourth quarter '20 to the second quarter '21, underscoring the ex-PAR subscription revenue coming from the traditional learning systems and complementary solutions, growing 16% in the period and also with the growth of revenue of around 50% in this sales cycle.

As for the non-subscription and PAR business, that depend on traditional textbooks. We observe the impact coming from great to -- or reuse of textbooks. And this of course created a break in the conversion of ACV, and caused a reduction in total revenue. However, in spite of this impact in adjusted EBITDA, Vasta continues following its expansion trend and we are expecting to grow two digits and we'll expand our participation in total revenues to more than 80%.

In Slide 11, I would like to tell you some of the news for the sales cycle 2021. 2021, even though it was a year that was hit by the pandemic, was used to develop our platform, complement our solutions and offerings going into new markets. And I would like to comment about it starting with B2B Core, in which we have -- the news here in this go-to-market conversion of PAR customers to learning systems customers or Digital PAR, which is a subscription product and that also helps us in the conversion of ACV in the same way that traditional learning systems. And this is one of the priorities in this go to market.

We have also extended our B2B Core portfolio with the launch of the Fibonacci Learning System. This is a brand that's top 10 in education in Brazil for over 10 years. In complementary B2B2C, we are rolling out the Plurall Store, it's a marketplace with partnerships with edtechs from around the world. And we also went in to B2B2C with the launch of Plurall Meu Prof, this is our private tutoring platform connecting 1.3 million students with our 100,000 tutors for private lessons.

We also went into adaptive learning with Plurall Adapta. This is a platform based on artificial intelligence. As for digital services, those that are important for schools, we have launched solutions, and we have other solutions in digital services that are being offered together with SEL, the acquisition we did last quarter, and EMME, which we have acquired. Now with this, we have now five acquisitions since the IPO, and of course, the most relevant of them is Eleva and we expect that CADE will approve that transaction by the end of this year.

Finally, I would like to comment that and now at the half the sales cycle gone, with half the go to market also finished, we are feeling very optimistic about the results and the go-to-market strategies, they are working out and our products in the portfolio, whether B2B Core or B2B Complementary, are meeting the results we have expected.

So with this, I close my presentation and I turn it over Paulo de Tarso, he would talk about Platos' operating results.

Paulo de Tarso Moraes {BIO 17133639 <GO>}

Thank you very much, Ghio. I start Platos' presentation in Slide 13, in which I will comment about the operating results of the company. As we can observe, we have shown growth in enrollments of 18% in this semester, in comparison to the same period last year. This result, of course, we took the decision of not offering on campus post graduate and to focus on digital. It's important to highlight that we have also started providing services to external clients OPM in 2021. This requires greater investment in the beginning, and the revenue of course is maturing and yet to come. With the combination of greater investments in OPM and with the higher provisioning in PDA, our EBITDA margin however continues on healthy levels. I would like to highlight that post graduate enrollments in the second half of '21 started at a very fast pace above the same period in 2020.

Let's move on now to Slide 15, in which we analyze the results of the other business vertical. Looking to the chart, to the left, we can observe that the net revenue in 2Q '21 reached BRL45 million, up 35% in comparison to the same period last year. This was driven by the sales in the National Textbook Program and also sales of books to the private market. Profitability of this business unit was adversely affected by the publicity costs relating to teacher guide books for the public schools. This factor contributed to the delivery of a recurring EBITDA negative BRL15 million into 2Q '21. And it's important to remember that the national textbook program will have greater participation in recognized revenue in the second half of the year, owing to the repurchase of elementary school books and also purchases of high school and elementary education.

Thank you very much. And now, I'll turn it over to Fred Villa who will talk about Saber.

Frederico da Cunha Villa {BIO 18677215 <GO>}

Thank you very much, Paulo. Good afternoon to all. Will start on Slide 17 talking about Saber operating results. In the second quarter, we had net revenue of BRL156 million, down 3%. This shows the impact of the second wave of COVID in K-12. And we also had an impact on the reduction of students. In the same Slide number 17, and now talking about recurring EBITDA in the second quarter '21, it reached BRL2 million. This represents a reduction, and it can be explained basically by provisioning we made for school material, inventories and also greater expenses with personnel with the end of -- and also with the partial return of on-campus lessons.

Now, I go to Slide 19 in which I will discuss Cogna's operating results as my colleagues have mentioned. The Cogna results will of course reflect some of the results. We have already discussed starting with net revenue. It had the impact, a reduction from BRL1.373 billion to BRL1.301 billion. This reduction can be explained also by the pandemic leading to a reduction in on-campus, higher education revenues, but this was partially offset by growth in the digital segment of Kroton. We also see faster growing in revenue and also in Platos and in our other businesses.

And on the same slide, we were talking about recurring EBITDA. We saw growth of around BRL210 million in recurring EBITDA at Cogna or 173%. So our EBITDA that was of BRL330 million this came from the cost reduction in our verticals and also from the improvement in revenue in some of our units and also improvement of on-time payments that helped us with PDA provisioning. Also in the same slide and looking to the last chart to our adjusted net income, there was an improvement in 2Q '20, we posted losses of BRL140 million and now BRL20 million, this was the impact of the of the improvement in income tax and also the result of the turnaround we made at Kroton reducing the number of campuses. And looking now to our EBITDA, what we see is that Kroton is being restructured in a sustainable way, and will continue to add value.

Now moving on to the next slide, I will talk about operating cash generation. And I will detail the results for the first semester of the year, because there were some mismatches between the first and second half of -- rather the first quarter and the second quarter, we had BRL170 million, but there was a mismatch, because of the time period of BRL108 million, because of this mismatch. I would like to show you in the slide to the left, the recurring EBITDA in the semester, we saw growth of BRL134 million with margin EBITDA of 27%. So our EBITDA in the first semester was BRL195 [ph] million in the accumulated figures.

And also going back to this issue of the mismatch, I can demonstrate that in the first semester of '20, cash consumed was BRL2 million and post CapEx cash generation -- so we improved our cash conversion, converting 128% in the first semester of the year.

Now going to Slide 21. I would like to discuss leverage and I will also talk about our cash position. The leverage of the company, well, the message is that we have finished with a net debt over EBITDA of 2.13x, including any extraordinary adjustments, and our Cogna limits are 3x. So this shows that we still have space of 0.75% approximately before we reach the 3x relationship. So we're feeling very comfortable. There was a variation that was only marginal.

And going to the last slide in my presentation, I would like to highlight the solid cash position and debt in Slides 22, as we saw our position in terms of debt, is our -- growth that is seen on the slide, and however, we have a cash position equivalent to BRL3.7 billion. This demonstrates, as I said before, that our leverage level is 2.13x, this shows the solid cash position. And also that looking to the slide to the right in which we see the cash position that is equivalent to BRL3.7 billion, and our amortization schedule of the debt in the first half of the year, we'll amortize BRL1.3 million, this operation is being rolled out, and we will complete this operation by the end of August.

So this is nothing to concern us. And as you can see, this is the payment schedule for the future. So the company leverage is under control and moving to an inflection point. Moreover, we have a solid cash position that demonstrates that the company is ready and has a very strong balance sheet. With this, I conclude my brief presentation and I turn it over to Galindo.

Rodrigo Calvo Galindo {BIO 17238232 <GO>}

Thank you very much, Fred. Going to Slide 23, we tried to summarize in just a single slide in a very objective way everything thing that affected the company from a financial standpoint in this quarter. It's just a summary of everything, the executives have just said. Net revenue dropped 5% and I would like to explain this in very simple ways. The movements that led to this decrease, first of all, a change in mix with the decrease in on-campus graduations, but with growth in digital and growth in Vasta, however, not enough to offset everything, but mitigating -- but having a very strong mitigating effect leading to 5% drop in net revenue, in recovery.

EBITDA, we had an expressive increase of 173%, growing from BRL121 million to BRL320 million in 2Q '21. And the reasons were, first of all, the increase in digital students that are more profitable for the company, and improvement in on time payments of -- that of course leads to lesser need of provisioning in PDA. The campus turnaround also led to less expenditures and constant [ph] expenses and finally digital marketing strategies. I think that clearly, the main impacts that led to this rose and EBITDA.

And when we think of post CapEx operating cash generation, we are using the six-month analysis, because they're of this time period mismatched. So this is the more representative analysis. So from a consumption of BRL2 million, we go to a positive generation and the main factors are first of all the positive impact of operating results that I have just mentioned. Less use of working capital, more receivables from our students, less spends -- less spend in CapEx because of our operations are now more asset light. I think this is a very good summary of everything we have seen in the second quarter '21. So with this, we move to the last slide in this presentation.

And before I open for questions, I would like to make just a few remarks about the company's outlook. We can talk about perspectives of course. At Kroton, we'll continue to grow in digital and will be asset light with very well-controlled receivables. We're still seeing some pressure in revenues in the second half of the year because of the change in the mix, and also the return to on-site lessons. This of course, will put pressure on the margins 37% is not we expect for the next quarters, but overall in 2021, it will be in a much healthier level. So it's been a very sustainable process of improvement.

And finally, with 50% of the sales cycle for Kroton gone, we have strong indications that there will be a relevant growth in enrollments both on-campus and DL, distance learning. And the Kroton transformation program that began in '21 is a very important program that began this year and that will lead to the replacement of all of our applications supporting Kroton activities, putting the Kroton students' experience in another level. It's a change that will be not so evident, but that will generate a lot of values, especially by reducing attrition and dropout rates.

So those are the main messages for Kroton, strong digital growth, signs of new enrollments growing strongly, and also improvement in the students' journey from everything, from the academic side to also the administrative aspects. In Vasta, we are now with 50% of the sales cycle gone and we also see signs of strong organic growth for the ACV 2022, and integration with Eleva will boost this even further.

We have recently completed three acquisitions and two relevant partnerships, besides services we developed internally to reinforce the Plurall platform and the complementary services offered to our 4,200 schools. We continue to focus on our strategy to keep on adding new services to the platform by acquisition partnerships or development. And finally, in Vasta, we have a new go-to-market that's focused on subscription contracts. So they are giving priority to these agreements, because this increases predictability of revenue.

And finally, the main messages in Cogna. We hope to complete the sale of Saber to Eleva by the end of 2021. And finally, our B2C education platform continues to be restructured, we have made new hires, and part of the platform is already in operation. And we hope to make the go-to-market in the first half of 2021. So we are sure that the company is right on track. We are planting in 2020, and we're reaping the results in 2021.

With this, I finish my presentation, and thank you all for your participation. I would like to invite you to our Q&A.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we'll now start the Q&A for only analysts and investors. (Operator Instructions) We have a question from Marcelo from the JP Morgan.

Q - Marcelo Santos {BIO 3999459 <GO>}

Good afternoon, everyone. Good afternoon, Galindo, all officers. I have two questions. First, you mentioned that you are optimistic that we will have a growth in new enrollments, but on on-campus, I'd like to understand, a two digit growth. I'd like to hear from you. Because we still have hard winds as looking at your cost reduction program. Also what about the 40% distance learning and how our students accepting the new programs?

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

Hello, Marcelo, this is Galindo. Thank you for your question. I will answer the first one and then Roberto will help you with the other questions. When we talk about a strong commercial cycle, we are in the mid-point of the sales cycle. So this is only a prospect. But for on campus, we had a smaller base, the 2020 student base, and yes, we are talking about a double-digit growth. This is the information we can disclose now. Digital is also doing very well. DL premium, great, 100% online is doing great. That is why we are optimistic with new enrollments Roberto will now talk more about that.

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

Hello, Marcelo. How are you thank you for Thank you for your question. I don't really have anything to add, I mean to what Galindo mentioned, but for on campus, we are already using 100% of those 40% now this year. I mean so we will capture all of that in 2021, I mean.

Q - Marcelo Santos {BIO 3999459 <GO>}

So did you start in 2021 or were you doing that already in 2020?

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

No. In 2020, we did not capture 100%. Remember there was a change and we implemented the change in the second half of 2020. So no, it was not in 2020, but it will be in 2021. Thank you.

Operator

Second question is by Vitor Tomita from the Goldman Sachs.

Q - Vitor Tomita {BIO 19238819 <GO>}

Good afternoon. Thank you for taking my questions. I have two questions on our side. First about the PTK, the Kroton technological transformation. Can you give us some more information on timing and the main changes for students? And also what about cost efficiency, if you aim at that with the PTK? Second question on our side, thinking about launching the Fibonacci Learning System, is this an isolated initiative or will Vasta also become a platform to provide scale to this methodology in other Brazilian schools so as to complete your portfolio. Thank you.

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

Hello, Vitor. How are you? This is Galindo. Thank you for your questions. I'll talk about your first question, talk about strategy. Then Roberto and Ghio well, answer the second question. Let me go back in time. When we spoke about our digital transformation journey in the company, it had a number of cycles or fronts. So more operational initiatives such as the implementation of the cloud SAP, ERP, and also new platforms such as the new B2C that will be up and running in 2022. All of this is part of the digital transformation journey, including a cultural change aiming at a better experience for consumers.

We want to have a customer centric approach, and PTK, is yet one more step in this journey, how can we make the student journey simpler and increasingly more digital. So it talks about the enrollment, the administrative journey, the academic journey, and the financial journey reducing pain points to improve the quality of consumer experience. Now, Roberto will continue to talk about timing, but all these changes, these are changes, these are big changes. So they happen in time, except for when we have like a new ERP, that should need a go-live, it's something that happens from one day to the next.

But here, you build a platform and you start adding groups of students to make the needed adjustments. So the risk is kept low because of this methodology of implementation. And Roberto will talk about timing, but this is a big project that involves the whole company and it is silent. It cannot be seen, but we are making all the needed investments at the same level as last year. We are allocating capital more smartly instead of correcting legacy systems.

We are leaving behind the legacy to have a lighter operation, more adequate infrastructure, and this is what we will be focusing on now, and we'll bring you this information about the revolution of PTK, it's really important including to reduce dropout rates. Now, Roberto will talk about the timing.

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

Yes. Well, our timing will be between two and three years, more closer to two years for the migration, to begin the migration and then beginning with new enrollments and then more senior students. We are developing that based on a new corporate architecture. This was a technical decision trying to unplug legacy. So this is something we build in time, it will be tested with small groups. First, with new enrollments that is students that did not have any experience with us. As soon as they come in, they will already be on this new platform. But yes, our expectation -- I mean, if we are surprised, if the developments are consistent and quicker, maybe we can do it in two years. And that's why I said between two and three years, and we will begin to see the student experience and integrated experience regardless of whether it is on campus or DL student. So we want to improve their journey in general.

And despite the project will be completed in two or three years, we have now some students who are already experimenting with the new applications in the first half of 2022, because, we know, it takes a while for us to leave the legacy systems behind and it's great to have some of the students trying them out in the first half of 2022. I would like to turn it over now to Ghio for his comments.

A - Mario Ghio {BIO 17352490 <GO>}

Thank you very much for your question. I think it's a very interesting question, we're very happy with the Fibonacci partnership. We didn't see it, but of course, Fibonacci is of course a consequence, not a cause. The cause for those partnerships was the recognition that our commercial team works in full integration, and our integrated platform can add a lot of value when we bring in another brand. So for this go-to-market, those two characteristics integrated sales team and the integrated platform will add value to Fibonacci and could add -- also add value to other brands.

Q - Vitor Tomita {BIO 19238819 <GO>}

It's very clear. Thank you very much. Galindo and Mr.Ghio.

Operator

The next question is from Leandro Bastos, Citibank.

Q - Leandro Bastos {BIO 21416405 <GO>}

Thank you very much. Good afternoon. Could you please explore or give us a little more color on the magnitude of the impact on margin that we can expect in Kroton as classes on campus resume. I think that the question is, what is the normal margin that you expect for the operation today?

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

Leandro, I think that we can give you in very broad strokes, but it's only a perspective number, which -- we have to publish this as guidance. We cannot give you the number. So it's a combination of two impacts. First of all, the pressure on revenue because of the change in mix in the second half and also the increase in costs. What we can say is that by analyzing the year-end combination, there would be a significant reduction in margin. And secondly, we can say that 37.8% is not by any means the structural margin at this moment of the company. For a few years, it will be, because the company is going digital, but we are midway along this process. We will reduce on-campus units with a reduction in on-campus revenue, and eventually, on-campus will plateau, and after that, will start growing again. So then there will be a significant increase in the margins. And I didn't answer your question objectively, because we cannot really get give you a number on it.

Q - Leandro Bastos {BIO 21416405 <GO>}

Thank you very much. Mr.Galindo.

Operator

The next question is from Mr.Samuel Alves, BTG Pactual.

Q - Samuel Alves {BIO 18720076 <GO>}

Good afternoon. Galindo, Fred, officers. Well, there are two things here. First of all, the receivables age, you have explained to us that the current provisioning is adequate considering the improvement in on time payments. Could you tell us a little bit about PEP in comparison to 2020? Have you observed an improvement in receiving those payments or do you think that more provisioning will be needed? The second question, I know that the company has a great deal of experience in this sector, but I would love to hear your opinion about this huge drop in the high school examination numbers. What do you think about it? The ENEM numbers have dropped.

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

Galindo here. Thank you for your questions. I will start with the first one. I think that the short answer is we don't foresee any additional provisioning for PEP. This product was discontinued two or three cycles ago. So we have this leftover PEP. We did a provisioning in 2020, and now with the coverage rate of 65% for PEP, this is more than enough for our receivables.

So the numbers show now that we are on track and we're feeling comfortable, especially after the adjustments in 2020. We did them all at once, so that we don't have to go piecemeal. So we don't foresee any additional provisioning for PEP. If we see that the default rates are decreasing in relation to our models, then we'll grow them, but we don't see that happening at all. There are no indications. Fred, would you like to say something? Otherwise we'll move on to the second question, Roberto can comment on it.

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

Well, thank you very much. Fred here. Just to add to what Frederico was saying. We have no expectations, no change in criteria is in the plans. We don't see any movement in this semester that leads to -- needs to update our provisioning. And also by the same token, in addition to this, we are 100% looking at the post to bills in PPP and this shows that our coverage rate is more than adequate. And by the way, a question about PEP, we have the same perception on PMD and out-of-pocket, 80% coverage for PMD and 58% for out of pocket. So we're feeling very comfortable if we need an adjustment. Well, we did everything in 2020, so that we are comfortable now terms of provisioning. So we're feeling very confident about it. I'll hand it over now to Roberto for the second question about the ENEM examination.

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

Well, about the ENEM, I think it's important -- yes, my vision is first of all, we don't believe that this is a structural change. There couldn't be a loss of interest in such a short time in higher education. Secondly, the students thinking the ENEM examination, usually get enrolled in on-campus programs.

The participation of any students in on-campus is higher than in DL program. So clearly the pandemic has a very strong impact because of the profile. And finally, the Ministry of Education has changed the process, and now the -- there are more entry barriers, and this led to this sharp drop in volume. I believe, yes, just to add that in spite of this decrease in ENEM, we have signs that enrollment is on the rise very strongly. So there are no red flags right now. Just 50% of the process has been completed. But right now, what we see is strong indication of growth above two digits. So we're feeling very optimistic about enrollments.

Q - Samuel Alves {BIO 18720076 <GO>}

Thank you very much, Galindo, Fred, Valerio. Thanks a lot.

Operator

Our next question is from Vinicius Ribeiro, UBS.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Good afternoon, everyone. Thanks for taking our questions. We have two of them. I think something that we haven't talked much about is pricing. In the sales cycle and in the upcoming one, what can you say about price aggressiveness? Just to give you -- just to give us a little flavor on the competition, in relation to cash, when we think about the conversion of EBITDA in cash, what is the structural FOS [ph], the mix changes. Should we expect any short-term changes? And finally on the same topic, when should we expect that you go back to inorganic consolidation which is a very clear trend in this industry.

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

Thank you very much, Galindo here. I will leave the first question for Roberto to answer, and I'll comment on the second and the third one, GCO and inorganic growth. Of course, we cannot give you any prospective information about conversion, but we can talk about trends. And if we tell you that the trend is to build a more asset light, more digital company, and we know that structurally, digital brings more margin with lower revenue, because -- so structurally, along the years, the expectation of margin and both conversion of EBITDA in cash tends to grow.

So this is the company we're trying to build an asset light digital company with more margin and more conversion of EBITDA in cash. And from the M&A perspective, of course, we have some acquisitions about which we are being very cautious, and it has to make sense in relation to our strategy. But in that regard, there are some classes of assets that seem to make more sense to us. It doesn't mean that we're going to start to make acquisitions in all classes. We like, for example, medical assays, because they are very sure in terms of revenue.

So when you find the right buy at the right time and when you know that you can capture synergies, assets with lower margins, and that we know that we can expand those margins bringing them into our operations, then it makes sense. It means that the acquisition is being considered. Now, in relation to the assets and related to our B2C platforms, more investments, but they could be some key pieces in our acceleration of the B2C platform or accelerated.

And there are some acquisitions that make sense for example like the ones we're making in Vasta with smaller assets for Plurall services or complementary services that we can plug to Plurall. We have made five acquisitions, EMME, Merit, SEL, several assets have been acquired, and this will continue. The beauty of the concept is that you buy a smaller company that you can plug to your platform and distribute to 4,500 schools the following day.

So those are the types of M&A that we are considering, but always very prudently because our game is called recovering margins, recovering -- and of course, this of course, could complement our growth strategy. So I'll turn it over now to Roberto, so he can answer the first question.

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

Thank you for your question about market pricing. Let me begin by saying, this is a competitive market. Many players, when new enrollments is not easy, so I can tell you this, it's competitive and there are nuances. First, we can observe, especially in the last few weeks, there was a reduction in the number of discount scholarships that we could see for on-campus programs. We already spoke about this, that we did not want to lower prices, because we did not believe the problem is price.

We believe the problem was a lower demand for on-campus programs. Despite all that, we saw other players providing rebates, discount, things we have never seen. And now that has stopped. So I believe they all realized lowering prices will not attract new enrollments.

Now, DL average ticket. I mean, this is a competitive market, it's a huge market. Many marketplaces in some markets. I mean a week ago, for example, we could have some price increases in some specific markets. So I would say it is a more stable ticket BRL150, BRL160 or BRL190 a month depending on the marketplace. But talking about Kroton, let me emphasize. I have said this three or four cycles ago, we're not focusing only on volume. We always look at how much that cycle of enrollment has contributed for revenue.

So not only price, but price and volume, despite we see a competitive market, our figures are stable and in some cases going up a bit. So I'd say there are stable and that the market is competitive. So we can see in the average ticket for on-campus programs that's going up, yes, also because we have higher value new enrollments.

Q - Vinicius Ribeiro {BIO 19720178 <GO>}

Perfect. Galindo and Roberto, thank you for your answers.

Operator

The next question comes from Mauricio Cepeda from Credit Suisse.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Hello, everyone, Galindo, officers. Thank you for taking my comments. I have a number of questions. I'd like to look more at the quality of funding. We know that the curve is a little bit behind compared to previous years. So until when can we see new enrollments? What kind of products are students looking for? I mean, how has the student profile changed in that sense? So this is my first question.

The second question is about the cost of on-campus programs. You said it's possible that costs may go up. So what kind of fixed cost do you think can go up as students go back to school to one campus. Next dropout, it's a bit higher. So why are students dropping out? What's the reason why they are leaving? And next, you've published last year. I mean, how do you see that? Thank you.

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

Hello Mauricio, this is Galindo, thank you for your questions. I'll talk a bit about your questions and Roberto will add other comments. Now, the curve is not behind schedule. It is as planned. We call it a moving target; the same day of this cycle compared to the same day of the previous cycle. And that is why we say, we are a growing double digits as we mentioned earlier today. So we are doing really well in the new enrollments, and growing.

Students' profile, we don't see a significant change compared to students in previous years. There is a portion, a share of students that have migrated to DL, that's why on-campus is growing less, and digital is going more. But about the student profile, we have not seen big change. On-campus, the cost that will go up, teachers and facilities. So Roberto may talk a bit more about that. On dropout, DL has more dropout, because we have more new enrollments, and newcomers dropout more than senior students. I mean senior students have already proven that they have no operating issues, they are simply continuing.

But because we have many new enrollments, as we see a higher dropout, but the guidance is kept. The guidance we informed earlier on. Let me now hand it over to Roberto, he will add a few more comments.

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

Yes. I think these are the general messages, maybe you thought we were late, because we said we were at the midpoint of the sales cycle. But we're doing great as planned. So yes but additional cost, cleaning, maintenance, security agents, doorman; so yes, we will have higher cost, we will have higher cost in payroll. Part of the classes were being provided digitally, so now we will have people working in the schools. So we will have higher costs on that.

And about the dropout, as Rodrigo mentioned, when you look at on-campus students dropout, and that's when we have more senior students, because we don't have so many new enrollments, then dropout number is positive or it has a positive trend. But if you look at DL students only, because we have higher new enrollments, we have many new students, and you can see that also in other industries in telecom. For example, when you have new students or new customers, you have a higher dropout rate. But again, this dropout is concentrated in freshman, in new students. They are experimenting, they're trying it out. So they are testing, and maybe they do not adapt. So we are not concerned about this dropout rate that we currently have. We don't think it is an outlier. Thank you. Thank you so much.

Operator

Ladies and gentlemen, if we do not have any more questions, let me now give the floor to Mr.Rodrigo Galindo for his final considerations.

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

Let me thank you all for being with us today. Our Investor Relation officers are available to answer any further questions. Thank you. Have a great afternoon.

Operator

This concludes the question-and-answer session. Thank you. This concludes today's presentation. We thank you all for being with us. Have a great afternoon. You may now disconnect.