Q3 2020 Earnings Call

Company Participants

- Bruno Giardino, Director of Investor Relations
- Jamil Saud Marque, Chief Financial Officer
- Jamil Saud Marques, Chief Financial Officer
- Paulo Serino, Chief Executive Officer, Saber
- Rodrigo Calvo Galindo, Chief Executive Officer

Other Participants

- Analyst
- Leandro Bastos
- Marcelo Santos
- Pedro Mariani
- Suzana Yara
- Thiago Bortoluci
- Yan Cesquim

Presentation

Operator

Good afternoon, ladies and gentlemen, and thank you for standing-by. At this time, we would like to welcome everyone to Cogna Educacao Third Quarter 2020 Earnings Conference Call. We would 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 complete, there will be a question-and-answer session. (Operator Instructions) Also, today's live webcast, both audio and slideshow may be accessed through Cogna Educacao's Investor Relations website at ir.cogna.com.br, by clicking on the banner 2020 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 BRGAAP, which now conform with International Financial Reporting Standards, IFRS, except where otherwise indicated.

Before proceeding, we would like to mention that, forward-looking statements are based on the beliefs and assumptions of Cogna management and on the information currently available to the company. 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 the results to differ materially from those expressed in such forward-looking statements.

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

Rodrigo Calvo Galindo {BIO 17238232 <GO>}

Good morning, everyone, and thank you for participating in today's earnings conference call of Q3 2020. With us today Bruno Giardino, our Director of IR; Jamil Marques, our Financial VP; and the CEOs of our four vertical units Roberto Valerio, Kroton, Paulo de Tarso, Platos; Paulo Serino, Saber; and Mario Ghio, Vasta.

Beginning on Slide 4 with a quick overview of our performance in the first nine months of 2020. Quite challenging year as expected aggravated by the impact of COVID-19. However, under these difficult circumstances, I want to discuss highlights showing the resilience of the company. Looking at recurring EBITDA, we delivered growth in three vertical units this year, except Kroton. In addition to the impact of FIES students' graduation, which was expected Kroton was most affected division by the pandemia, especially in student intake. But, we delivered a post-CapEx operating cash flow of 183 million this quarter, which represented 80% conversion over recurring EBITDA. We believe this is relevant data considering all the pressure on the operating result. Finally, we've maintained a solid cash position with BRL5.3 billion at the end of Q2 2020 with an elongated debt profile. In the middle of the Slide, you see a table showing net revenue and recurring debt -- EBITDA in the nine months of 2020 in a vertical breakdown.

In addition to the recovering EBITDA margin in the case of Kroton, we had a relevant impact of FIES students, impact on student intake and retention, which were strongly impacted by the pandemia, coupled to higher provisions. Also as a result of the pandemia, so we posted a reduction of 27% net revenue and 73% recovering EBITDA, with a drop also in EBITDA margin. Platos had a 12% net revenue increase, 23% recurring EBITDA growth. Saber had a net revenue drop of 7% especially in K-12, but we had a relevant growth in EBITDA and EBITDA margin. Vasta had a growth in revenue, EBITDA and EBITDA margin. So we had an impact of Kroton, which is a big weight. The other verticals performed very well even under difficult circumstances with the pandemic.

Now Slide 5. We see more details on Kroton. As mentioned, Kroton performance was impacted in 2020 by the volume of FIES students graduation and the pandemic. And so we had to lower student intake and retention coupled with a higher need for provisions. The impact is clear in the chart on the left showing different factors that influenced the EBITDA variation in the first nine months of 2020. It's also clear on the charge the company obtained a significant number of efficiency gains and savings, totaling BRL314 million, reduction in G&A expenses, which helped amortize the impact of almost 1 billion net revenue, plus 400 million in provisions and negative operating result.

But it's important to see that even with a drop in revenue, we could increase students payments both in nominal numbers and in relative terms. As you can see on the right, the ratio of receivables in the net revenue grew from 91% in Q3 '19 to 114% in Q3 '20, and the same is true about the first nine months of 2020. Kroton revenue was lower but solid and capable to generate cash. Finally, out-of-pocket average ticket grew 9% this quarter, showing our improved commercial discipline.

Now Slide 6, we share results of student intake in the second half of 2020. Student intake fell only 2% compared to the second half of 2019, which we consider a good result given the circumstances. Distance learning students intake sort 32%. We had a drop on campus programs, which means that we see a trend towards more hybrid programs accelerated by the pandemic. We saw the same behavior last year and now we see it again.

Now in terms of on-campus intake. First, FIES was very small. In addition, we reduced PEP, which was offered for the last time, so it will no longer be offered in the second half of the year, and it represented only 6% of our intake in 2020 second half. We could see a drop in demand for this product, and in most cases, there was a migration of these students to the equivalent digital, especially premium digital program. So, we see a trend towards more hybrid programs accelerated by the pandemic.

The second point, I think is important is a lower intake of on-campus and but we have more sustainable practices. We are not offering exemption in the first installments in the installment program, also, our focus on revenue and cash. We had an increase in the average ticket of 6%. So the on-campus student intake average ticket went up 6%. Now with this trend towards more hybrid programs, we believe the new breakdown by percentage of on-campus content will help us provide a more accurate view of the current market trends.

So as of this quarter and in line with our view towards the future, we will look at high on-campus content versus low on-campus content. So the intake of students in high on-campus content so on-campus programs plus premium digital had a drop of 38% or excluding FIES and PEP 31%. As you can see on the left corner the volume of new enrollments in digital premium almost doubled partially offsetting the drop in on-campus intake. This product already mirrors our complete on-campus undergraduate offering, except when not allowed by the current legislation. Otherwise, we have equivalent digital programs. And we're now implementing a plan to significantly increase our product distribution, especially of premium products in our partners network.

Now regarding programs of low campus content, once a week model or a distance learning hub and also the 100% on-live programs. In this group of programs, we had a visible intake growth of 25% and relevant gains in the participation of the 100% digital program. The high dropout from on-campus programs reflects a deterioration in our students payment capacity and also the company's more conservative behavior to accept renewals of students with delinquent payments or high risk profile. As we said in the beginning, our revenue received from students went up, showing that we did see a higher dropout, but the remaining students have lower risk and more payment capacity. So, our position is more solid and more capable to generate cash. In digital programs, we had a dropout rate falling 0.5%, which is good considering the circumstances.

Now Slide 7, we will be talking about Vasta commercial cycle. In the beginning of this year before the pandemic, Vasta announced an annual contract value for 2020 of BRL716 million, which represented a 25% growth over the 2019 AVC due to the pandemic, we announced a BRL40 million reduction, driven by higher dropout rate in partner schools, especially in the early years, younger students.

In Q3, Vasta completed its commercial year of 2020 and posted BRL692 million subscription revenue, only 3% less than the previously announced AVC. So, we are proud of the result. It was a bit better than announced. So the reduction was not BRL40 million, but only BRL24 million.

So the effective revenue BRL692 million and based on that, we are building our ACV. And we're proud to disclose, the preliminary ACV for 2021 now, to-date, Vasta has secured a total BRL835 million in contracts for school year 2021, which represents 21% increase compared to the subscription revenue posted in the 2020 commercial cycle. Therefore, the ACV 21% higher. And please note, the ACV building process will continue until January. So we expect an even higher volume. But regardless of the numbers, the result shows Vasta platform competitive differential. We're very well positioned to support the digital transformation of Brazilian schools as presented to the market.

With that, I conclude my initial presentation and hand it over to Bruno Giardino. He will talk about our financial highlights in Q3 2020.

Bruno Giardino {BIO 21658408 <GO>}

Thank you very much, Rodrigo. Please let's turn to Slide 9, in which we'll talk about the operating results. Starting with Kroton, our results in the third quarter were impacted by the same impact with a sharp drop of 30% in revenue.

Now moving on to Platos, what we observed in the lower part of the slide is that, Platos continues to deliver very good revenue, 12% once again, this reflects the company focus on digital products and with very solid intakes. But as for EBITDA, in this quarter we suffered the impact of the reclassification of corporate expenses in the first half of the year and also higher marketing expenses. This is justified, because of the continuous growth of revenue. So we had a decrease of 5% in EBITDA, but in the year, we saw growth of 13% quite healthy considering the times.

Moving on to Slide 10, in which we talk about Vasta. Here we are using a pro forma analysis for EBITDA, because it adjusts the effects from '19 and '20 that could distort comparability. So what we see is, growth of 3% in revenue, this is made up by the recovery of the non-subscription revenue, since the economic activity is picking up again and despite of revenue is being captured once again, and this is also offset by the decrease in subscription revenue, because there was an anticipation in the recognition of revenues in the cycle starting in 2020. Those two effects offset themselves.

So with Vasta, we saw a small growth in revenue. In relation to EBITDA, here we see substantial improvement in EBITDA. Owing to the lower operating expenses and lower

PDA as well in this quarter. And in the year, using the same pro forma view, we have very solid results with 8% and 8% growth in EBITDA and recurring EBITDA.

And in the lower part of the slide, we see the impacts of COVID putting pressure on Saber, especially in the early years, plus the compulsory discounts, which is something we have announced in the previous quarter. And also the discounts on Saber's net revenue that had been launched on discounts in the previous quarter. This is an impact of 8 million and so of course it affects the net revenue and also the EBITDA comparison, so Saber shows a decrease in EBITDA with also high comparability because of the contingency credits that increased the base for 3Q '19. It's important to mention that EBITDA for Saber in the year grew 11% with the notable exception of 4 percentage points in margin.

And now moving on to my last Slide number 11. We see other revenues, all the results that had the impact of the start of the cycle of sales. So we closed an agreement in an amount of BRL306 million of sales in the national textbook program this year. This is program related only to renewals and we're starting to capturing -- to capture those results in the first quarter. And the rest of the agreement will be recognized in coming months. In the comparison of course, there is a distortion because of the other results, but in the lower part Cogna, which is the summation of everything we see a decrease of 17% in net revenue with a decrease of 51% in recurring EBITDA because of the weight of Kroton in our business.

So with this, I turn it over now to Jamil Marques. He will discuss the financial highlights.

Jamil Saud Marques {BIO 21416820 <GO>}

Thank you very much, Bruno. Good afternoon to all. Please let's turn to Slide 13, I would like to talk about our receivables, average term of receivables and coverage. In short we have an adequate coverage ratio for each specific operation, looking to the blue part we see Kroton with an increase of 11 days in the receivables term, especially in the payment plans and PEP. This was partially offset by the significant reduction in P and the average term of receivables of out-of-pocket. We also had an increase of 133 days in Vasta, because we are extending the term for payment for schools. In other businesses we had either a decrease in the case of Platos or stability in the case of Saber. This led the average term of receivables of Cogna to remain basically in the same level as in the third quarter '19.

Now moving on to Slide 14, I would like to highlight some of the highlights in out-of-pocket students. Giving you further information about the impacts we saw in this quarter. I would like to call your attention to the robustness of our results. In this semester we had a high coverage ratio of out-of-pocket that went from 19% to 41.9%. This is to fight the aging of the portfolio, in the center of the page we also see an improvement in the current student base. We are converting a much higher share of new revenue into cash, if you compare it to the previous year, in combination of those two factors led to a sharp decrease in net receivables of 15% and of 15 days in the average receivable term of out-of-pocket and this of course is a sign of our robustness in cash conversion.

Moving on to Slide 15, I would like to talk a little more about cash generation in the quarter. In spite of the decrease in EBITDA, our cash generation post CapEx and expansion investment was BRL183 million, an increase of over 100% in the comparison with the same period last year. This is highly positive; it reflects the lower consumption of working capital and the improvement in the quality of revenues. This led to a conversion of 80% of -- into cash this semester.

Now moving on to Slide 16, I will talk a little more about our debt, our cash position. Net debt over EBITDA is still under control. We see the position that's very solid, solid cash position at BRL5.3 billion. This was favored by the resources coming from Vasta without considering the potential anticipated redemption of debentures we have announced earlier this month. On the right side we see our amortization profile with the next disbursement occurring only in August 2021 the most substantial one. So long debt payment profile and our debt is under control, net debt over EBITDA is at 2.2 times by the end of this quarter.

So with this, I close my presentation and I hand it over to Rodrigo.

Rodrigo Calvo Galindo {BIO 17238232 <GO>}

Thank you, Jamil. In closing, I'd like to make a few final considerations about our four verticals on Slide 18. Beginning from other business lines, I'd like to highlight the BRL368 million contract signed for the 2021 national textbook program, as announced in October. This amount includes only the replenishment of book titles purchased in previous years, where we had a 4% market share gain in the first years of K-12 as we were successful in adapting our book titles to the new common curricular base. The selection of high school book titles was postponed for 2021. Saber began really well with 100% approval of the book titles enrolled for selection.

Now, talking about Platos. We still have very good results in student intake as a result of our focus on digital. Showing the trend towards digital is present also in graduate programs. Our expansion in customer base at Platos, ex-Kroton contract negotiations with third-party institutions is ongoing with services planned to begin in 2021.

At Saber, our highlight is renewals for 2021 that has started and brings exciting results, reinforcing our thesis that students tend to go back to school next year. As their parents go back to work out of their house. Our internal process to capture synergies and efficiencies is evolving as expected, resulting in expressive margin gains compared to 2019, even considering the impact of the pandemia. About Vasta in addition to a great commercial performance that is being captured for 2021. It is worth noting that the pipeline of M&A continues to advance. We have ongoing negotiations as announced during the process of IPO, 50% of the resources from the IPO are available for acquisitions. And as controllers of Vasta, we reinforce our commitment to deliver the expansion plan as it was announced to investors.

Finally at Kroton, the restructuring of on-campus Kroton programs has made significant progress in this quarter. And a relevant portion of this restructuring will be concluded before year-end. More details about the restructuring of on-campus programs and the digital transformation of higher education and building a B2C platform will be announced during in the next Cogna Day on December 14. So, let me now invite you all to participate in our Cogna Day on December 14.

With that, I close our presentation today. Thank you all for participating, and we now open the Q&A session. Thank you.

Questions And Answers

Operator

(Question And Answer)

Thank you. Mr.Rodrigo. Now, we'll open the Q&A session. (Operator Instructions) Our first question is from Suzana Yara, Itau.

Q - Suzana Yara

Good afternoon. Thank you very much for taking our questions. We have two questions in fact, first of all, about digital education. Well, besides the premium programs that require higher CapEx and the DL centers, what are you envisaging for next year? This is my first question. And secondly, in relation to Kroton in the on-campus, did any of the factors affect the intake in the cycle? There was no discounts and also the average -- the payment plan was suspended. So I would like to know if you have enough support with the current offering structures, or if you're going to restrict it more and also in Vasta next year. Do you think that this will change as the economy changes?

Operator

Hello, Susana, here's Roberto speaking. Thank you very much for your question. In relation to the premium education programs in the DL Centers we've had this expansion program quite ambitious one in our centers with several initiatives providing support and helps us that they can build the labs, but besides anything, what we have been trying to do is to review our portfolio of labs and we try to support them in buying equipment just to give you an idea.

Our nursing labs in 2015 when we launched nursing programs for the first time, where we took BRL1 billion to build one of them. Today, their cost is BRL150,000 and sometimes even lower. So it's a helping them rethink the portfolio in part and also helping them with the financing. So it's a very ambitious program that we have for the first semester '21, so that we can grow 20%, 25% in the number of premium distance learning programs offerings.

And just to organize concepts a little bit, I think that there are 6 important points for me to mention that have affected our intake in on-campus. First of all, the impact of the pandemic, we saw that there was a reduction in the demand for on-campus programs, also in distance learning. As secondly, you're right reduction of the offering of on-site programs of 19% to 22%. This is because of one of the practices that we have after three cycles, if we cannot build classrooms after three cycles, we abandon the program. So every semester we do the same. So there was a reduction -- every semester in fact, we reduce the number of offerings. But this time, it was 30% reduction.

Another very important point that we have highlighted in previous calls is that we have mirror offerings for distance learning, both premium distance learning and 100% on-campus for all on-campus programs offered in our units. We never offer nursing only on campus, there's always DL and on-campus. So this mirroring is something that's growing and add a lower pricing point. There is a natural migration to distance learning. Fourthly, pricing. Pricing is something we have been talking about for at least three calls, we are izn this price war and this -- our tickets shows that we are growing 6% in enrollment, because with a healthy ticket, we believe that we'll be able to attract those students that can generate cash in the long-term. So this is the fourth item in our strategy.

And number five and number six reduction of tap offerings. You probably have seen that we used to have 25% bridge 6% in the last cycle. We won't have it in the next cycle. This will affect our revenue in general because the PEP brings more revenue, but with the end of full payment plan PMT, what I'm referring to here is the fact that we don't have any students that are enrolling without paying an initial tuition fee. This is a natural filter because we believe, well, if the student is unwilling to pay the initial fee, of course, I think that they want to have the ability to continue to pay in the future. So it's the combination of the six elements that caused the reduction in on-campus.

Q - Suzana Yara

Thank you very much. Just to make sure I understood, so the reduction of on-campus programs this semester year-on-year was 30%, is that what you said?

Operator

Yes. That's correct. Year-on-year 30%, and the comparison of this semester with the previous one it's lower. I think it represents 10%.

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

Suzana Galindo here, thank you very much for your question. Just to add something in relation to our future practices. This is something that we have flexibility to adjust as the market presents itself, we make (Technical Difficulty) but the strategy of pursuing high-quality revenue, something that we'll insist on. We're less concerned with volume and low quality revenue. What we want is revenue that will convert into cash. So that's the pillar in all of our strategies.

So with that, we took the decision that was announced last quarter to discontinue this. It was a very important tool in the past. It has helped us a lot, but with time, it lost its relevance and then it was down to 6%. And even for the 6%, we have an equivalent solution in premium DL and it's cheaper for the students. So we created alternative so that we could let go of those offerings. So this is what we're pursuing.

Operator

Just to add Galindo, I think that there is something that's interesting for you to know, Suzana. When we talk about two programs in the same unit, I'm going to talk about two nursing programs in the same unit. We use a pricing strategy based on a curve. And this means that, with the number of enrollments coming from on-campus DL, while the profitability at the base of the curve is always higher. So we are less concerned with the number of enrollments, we're more concerned with the revenue that this enrollment could create by converting to cash.

So the revenue when converted into cash and considering the differences between on-campus and DL, what we analyze is what we really drive our cash. So we price based on this curve, the two products, trying always to maximize receivables of cash not in the number of students at the lowest cost possible to increase our cash generation.

Q - Suzana Yara

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

Operator

Our next question comes from Mr.Friedman [ph] from Bradesco BBI.

Q - Analyst

Good afternoon, everyone. Thank you for taking my questions. I have two questions. The first one, I want to understand, now that you have this change from 80/20 down to 60/40, and you captured gains. Do you still have more to capture in 2021 or are we coming to the end of this process?

Now on Vasta, my second question. We know that this was different year, and now you're talking about the cycle for 2021, but do you think that you can have a volume even higher than what you have and significantly higher? And in 2021, what about out of shift programs? Will they gain more share of the overall revenue?

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

Hello. This is Rodrigo. I'll just make a comment and then I'll hand it over Roberto and Ghio for Vasta. But let's just align a concept, if we look at the ACV announced last year, the growth was 17%, but we had already announced a reduction because of the pandemic. This is in a typical year. We had announced BRL40 million reduction in revenue, and it didn't happen. We only lost BRL16 million. And so, they revenue is BRL 690 million.

In our interpretation, this must be the basis for the construction of contracts in the following year. So the ACV grew 21%. It's not right or wrong. It's just different ways of looking at the same information. So we believe it is the revenue of the previous year that should be the basis to build ACV. And based on what was effectively received in the previous year, we base our growth of the following year. So this is the difference between 17% and 21%.

Now let me hand it over to Ghio, he will answer about Vasta.

Operator

Hello. This is Ghio. Now, as Rodrigo mentioned, this growth of 21%, we already have a good penetration of complementary products, which was part of your question on Vasta. So this year because it is a very a typical year, our commercial campaign not only is a bit late, I would say, which allows for us to have work contracts being closed now at year-end much more than we had in previous years, because of this delay that I mentioned. So we expect to have -- yes, it's a significant growth. That's why we announced this as a partial ACV.

Actually, we can even announce new contracts in January, which wouldn't be normal in a typical year. But -- so we see that we already have a bigger penetration of complementary, we're out of shift products, but the Plurall store, we don't see its launch, because these would be new products that will generate revenue only next year and they're not actually included in this ACV. So everything that comes from Plurall store we're launching now, will be revenues that will be added to the ACV we announced, okay.

Fred, this is Roberto talking about your question on the distance learning hourly load. Well, we are very conservative in the use of 40%, we still have more space for that actually. We have -- we are continuously evolving. So yes, we still have some things to capture on this front.

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

Now, this is Galindo, just to add, Fred. If in terms of hourly load, we are already very efficient and we still have more to capture, I believe that the restructuring of the campus, which we will announce in Cogna Day will be extremely relevant because that's where we have a lot of space for optimization.

Q - Analyst

Okay. Perfect, Galindo. Thank you. Thank you all.

Operator

Our next question is from Marcelo Santos, JP Morgan.

Q - Marcelo Santos {BIO 17186991 <GO>}

Good afternoon, everyone. Thank you for answering our questions. I have two. First of all, in relation to Kroton. Well, in addition to PDA and out-of-pocket, could you give us any perspective in terms of revenue? I think that there is an inflection in receivables, so what's the conduct for Vasta? And the growth was concentrated on learning systems, but was there a change in profile? What explains the higher growth in the segment?

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

Marcelo. Hi, Jamil here. First of all, thank you for your question, in relation to the PDA line. What do we expect for Kroton? First of all, with less PP, there is a decreasing trend but when we considered isolated it out-of-pocket, we expect higher levels in the first quarter similar to what we saw in the second quarter, but for next year, the trend will revert. So I'll hand it over now to Ghio for the second question.

Operator

Thank you very much Marcelo for your question.

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

Sorry. Well in relation to average term of receivables, that's the same trend basically. We are converting to 106 on out-of-pocked and 103 days a very similar level to what you see out there in the market and the trend for next year is to decrease that even further. Thank you very much.

Operator

No problem. Marcelo, Ghio here. Well, I think that the snapshot right now in terms of the partial ACV is just 20% of new agreements coming from PAR. I think that there are two factors that explain this, schools usually that tend to use an agreement like PAR -- the schools that postpone their decisions. So in our schools pipeline by the end of the year, we see us a very expressive number of schools that could convert to PAR later Another reason is that this was a campaign in which we got schools from other learning system players and that were not part of our base yet, and this represented a more solid performance in the traditional learning system segment. And of course, this comes from the fact that we gave all supports in the digital education for our partners and this of course became something that attracted other clients using other brands that do not compete with our current partners, and this allowed us to make even more rapid progress in gaining market share with learning systems.

Q - Marcelo Santos {BIO 17186991 <GO>}

Thank you very much.

Operator

Our next question comes from Yan Cesquim from BTG Pactual.

Q - Yan Cesquim

Good morning. How are you? Three questions on my side. The first about distance learning average ticket. How do you feel the pressure? What about the competitive scenario? And what can we expect for the future? Second question is about the prospects for the visible light admission exam in 2021. What can you tell us about this process? Will there be a delay? What do you expect?

And finally I don't want to insist on this point and I understand if you cannot disclose, but you mentioned in the end of the presentation about the transformation of Kroton on-campus programs, and you said, you have already made progress and there will be new announcements until year end. Now I'd like to hear from you on qualitative aspects. Have you began to change things already or whatever you can disclose about this? Thank you.

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

Hello, Yan. This is Rodrigo. Thank you for the questions up again from the last question. Yes, we are limited to disclose data about this, but we will give you details on Cogna Day. Basically, we see a broad front for restructuring our units. We are trying to optimize our hubs without discontinuing any services to students, the services they currently have. So, this restructuring may include unifying two or more hubs, or instead of having our own unit in some locations, maybe use a partners UNH [ph] or a Partner's hub. So we'll see more integration with our partners. This is the kind of thing we are doing.

Why did I say we have made progress? Because this process begins from negotiations signing contracts, but the implementation is usually on vacation. At the end of the year, you cannot do that in the middle of the school term. So we already have a few negotiations closed, some ongoing negotiations, but the real movements will happen after we close the school term of 2020 and before we begin the school term of 2021. That's why will provide more details on Cogna Day. This is what I can tell you today about this item three.

I'll give the floor to Roberto, he'll talk about distance learning ticket and the admission exam for next year.

Operator

Hello, Yan, how are you? So, thank you for the question about the distance learning ticket. This question has generated a number of questions. So I'll tell you what happens in our base and the market view. The drop of ticket we see in the mix, I mean if you look at the data today more than more than 60% of our distance learning intake is for 100% digital programs. Until last year it was less than 20 %. So we saw a displacement towards a lower ticket product. So that's why we have lower average tickets. This is the main explanation.

But also, let me tell you that even in 100% online programs are average ticket has gone up compared to the previous cycle and also to the second half of 2019. We have a minimum price for a 100% digital products, this is where we see a lot of competition. So but last year we increased the price and then the Once a Week model is now lower and know we are now looking at different degrees of on-campus content and premium is stable, because it's also growing in our bigger campus.

Now for the future, what do we expect? As we compare the mix of 20.1 to 21.1 or 20.2 to 21.2, the ticket -- the average ticket drop will be smaller. Why? Because the mix is will be more similar. So we will have more comparable numbers. So I don't see the average ticket will continue to fall. This was just a natural movement we saw this year towards 100% online programs, as we mentioned during the presentation.

Now about the competition, I think, that in this specific scenario, we see a number of things, many people offering distance learning programs. So there is surprise competition, but because we saw a big migration from on-campus to distance learning there was not so much pressure. I think that we are at the minimum level of average ticket, which is a BRL150, it's very difficult that we go below this number, so.

Now about the admission exam. Yes, we know that the enrollments will be late in the next cycle, not only because of the pandemic but also because of the NM exam. So internally, we -- our commercial teams are working to continue the intake process on both online as well as on campus and we may have two different admission dates in the semester, which is something we already do in distance learning. But now we want to do that also in on-campus programs. So that we can continue to capture intake and this is a point of attention for the whole segment. I think I've answered our all your questions, right? Also about the campus of the future.

Q - Yan Cesquim

Okay. Thank you very much.

Operator

Our next question is from Mr.Thiago Bortoluci, Goldman Sachs.

Q - Thiago Bortoluci {BIO 20909105 <GO>}

Good afternoon, everyone. Thank you for taking our question. We have two follow-up questions on Rodrigo's comment. In relation to Vasta, we know that we looked at there are some company, I would like to try to understand the situation of the capacitors Cogna, could this be as an impairment for an M&A movement in Vasta? And also in relation to, I believe that there are some improvements underway and I would like to know what we should expect in terms of non-recurring EBITDA and it's part of this will affect -- is affecting already the third quarter results. Thank you.

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

Thank you, Thiago. Thank you for your questions. First of all, yes there's probably some non-recurring in the first quarter. Some related to cash and other non-accounting effects. When we decide not to operate in a campus and we need to accelerate the depreciation of this campus, this is only an accounting effect that does not use cash. The impact in cash is related to contractual penalties, and we do a case-by-case analysis to check whether it makes sense to do that. So there should be this effect of -- non-cash effect is higher in the fourth quarter, in relation to Vasta.

As the controller in all of our debt level analysis, we consider Vasta's resources that are earmarked for Vasta's has own acquisitions. We won't stop acquisitions in Vasta in the short-term because there is room in the balance sheet for this to be done and while respecting the principles we have committed to during the IPO. So the commitment is still valid and in -- so Vasta will continue pursuing other M&As and they have enough resources available for that.

Q - Thiago Bortoluci {BIO 20909105 <GO>}

Rodrigo, what about the pipeline? Are there any opportunities in medium and large scale?

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

Unfortunately, we cannot discuss the M&A pipeline. What I can say is that we're feeling optimistic that the plan that we committed to deliver during the IPO will be delivered on. Thank you.

Operator

Our next question comes from Mr.Leandro Bastos from the Citibank.

Q - Leandro Bastos {BIO 21416405 <GO>}

Hello, how are you? Good afternoon. Thank you. I have two questions. The first about the on-campus ticket, Kroton, you mentioned that in the intake the ticket grew 6% in the last cycle at the same time we saw a change in the programs. So maybe there was an impact of the mix change. So I'd like to understand this a bit matter and how would these two tickets be comparable? And what do you expect for the future? Even now that you're no longer going to have installment projects, what do you expect for on-campus ticket in the future?

The second question about capital. Can you give us some more color on the rational of the capital change you have announced a few days ago?

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

Okay. Leandro, thank you. Jamil will begin from the second question and Roberto will answer the first one.

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

Leandro, thanks for the question. You asked about debentures. Basically, this was a commitment we had to -- when we issued the debentures when we created Vasta back then during the IPO process. So our commitment was that up to BRL1.5 billion of the resources that came to Vasta, half of that would be earmarked for M&A. So, and or we would give that back to shareholder. So we're now doing what we're now doing as committed.

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

And Leandro, this is Rodrigo. Let me add that the risk is in perfect alignment with what we said in the IPO. The IPO procedures already talked about this movement.

Operator

Hello, Leandro Thanks for the question about the ticket of on-campus programs. Yes, you are right, the mix has influenced this increase of 6% in the average ticket, but half of that is effect from the mix and half of that is real ticket increase because of pricing strategies.

However, I don't believe that we will continue to see this ticket real gain, if we can do that, then the migration of programs we see that this migration will continue from on-campus to distance learning. As we look at the future, these gains are more from the mix than real gains.

Q - Leandro Bastos {BIO 21416405 <GO>}

Okay. Thank you very much.

Operator

Our next question is from Mr.Pedro Mariani from Bank of America.

Q - Pedro Mariani {BIO 20203305 <GO>}

Hello everyone. Thank you very much for this opportunity. I had a connection problem. So I would like to apologize in advance, if somebody asked a similar question, but I have two questions, in fact. First of all, I would like to understand that you changed the collection rules this quarter. So what do you expect in terms of receivables from now on? And how did this affect negotiations of the new cycle? And could you give us a little more flavor about the P&L cycle as well.

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

Hi, Pedro, Rodrigo here. I'll hand it over to Jamil and Serino will answer the second question.

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

Hello, Pedro. Thank you for your question. Basically, there were no drastic changes in collection. Since the last cycle, we reviewed the re-enrollment cycle with a revision of class test taken into consideration and the cash generation -- generated last year and also the academic performance together with the size of the debt. So we are being very strict with students with more deteriorated profile with high risk and that have brought us less cash and showed less engagement.

So the drop out for us is concentrated on this type of student and we have seen an improvement in the profile of the students that continue to bring us revenue, continue to be enrolled.

So, what will happen in the future now? We see that there is an aging of the portfolio. But the portfolio that remains has higher quality and this give us comfort for next year in terms of PDA.

A - Paulo Serino

Well, Paulo Serino here in relation to the cycle, PNLD, there was repurchase of the initial years of elementary school and also high school with market share increase. Looking at '21, we will have the ability to choose object one or two, which are part of the high school books, and it's a purchase operation, not a repurchase and also the choice of basic education, and that is now something new that's being added to the National Textbook Program.

Q - Pedro Mariani {BIO 20203305 <GO>}

Thank you very much everyone.

Operator

(Operator Instructions) Now I'll turn it over to Cogna for their final remarks.

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

Okay. I'd like to thank you all for being with us in this earnings call and I invite you all to participate on Cogna Day on December 14 at 2 0'clock p.m. It's going to be a virtual event and you're all invited. Thank you so much, and have a good afternoon.

Operator

Cogna earnings call is here by closed. We thank you all for participating and have a good afternoon.