Y 2020 Earnings Call

Company Participants

- Frederico da Cunha Villa, Chief Financial Officer
- Mario Ghio, Vasta Executive Officer
- Paulo Serino, Saber Executive Officer
- Paulo de Tarso, Platos Executive Officer
- Roberto Valerio, Kroton Executive Officer
- Rodrigo Calvo Galindo, Chief Executive Officer

Other Participants

- Analyst
- Andres Coello, Analyst
- Marcelo Santos, Analyst
- Yan Cesquim, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for holding. Welcome to Cogna's Fourth Quarter 2020 Earnings Conference Call. We would like to inform you that this event is being recorded and that 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. And at that 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 Relation website ir.cogna.com.br by clicking on the banner 4Q20 webcast.

The presentation is also available to download on the company's website. The following information is available in Brazilian reals in accordance with Brazilian Corporate Law and Generally Accepted Accounting Principles, BR GAAP, which now conform with IFRS Reporting Standards except with 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 information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events and therefore they 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, CEO, Mr. Rodrigo Galindo, who will begin the presentation. Mr. Galindo, you may start.

Rodrigo Calvo Galindo {BIO 17238232 <GO>}

Good morning, everyone. Thank you for joining us in the earning conference call for the fourth quarter 2020, and I hope that you're all well and healthy. Together with me, I have Bruno Giardino, our IR Officer; Frederico da Cunha Villa and the Chief Executive Officers of each of our verticals. Mr. Roberto Valerio, Kroton; Paolo de Tarso, Platos and Palo Serino, Saber and Mario Ghio.

Let me start today with Slide 3, I think that the first message is 2020 was a difficult year but it was also a year in which we made all the necessary adjustments to resume our profitability levels. We have been very vocal in announcing our business strategy, which is about increasing our profitability and also focusing on the areas with greater growth potential and this is what we are pursuing. In all of our -- the latest developments, we see that we are in line to become more asset light and deliver on the strategy. We have for example, the acquisition of Eleva and the sale of Eleva's K-12 schools and a participation of stake in Eleva so that we don't leave K-12 but at the same time, we have an opportunity to grow in this segment without allocating capital and especially the restructuring -- major restructuring of Kroton and also in accounts receivables.

All of this show that we are pursuing this strategy very strongly. Now looking at post-secondary education, Kroton. We took several measures, including Kroton's most extensive restructuring in history that was completely in 4Q '20. We announced the project in the last Cogna Day, and we see that it's now generating value as of '21 and Roberto Valerio, Kroton's CEO will talk about the investments and the benefits that this project will generate, and in addition to several indicators such as NPV and IRR. Besides that the restructuring of the campy. We also went through administrative optimization, increasing digitalization and taking out measures to gain more competitiveness in this market. And I think that the highest impact on -- in relation to Kroton's initiatives was in the area of account receivables. We revisited all of our accounts receivables blocks and we had an opportunity to make all the necessary adjustments.

The results are very impressive. We will show them in the presentation. But just as an example. Our average term of receivables dropped from 127 days to 74 days and our rate of coverage went from 17% to 57%. One of the largest in the segment. The adjustments are now complete. There is no need for additional provisioning in any of the blocks and we start 2021 with a much lighter balance poised for a cycle of profitability that's led by digital education growth and by the room for expansion in medical studies.

So those were the initial comments about Kroton and soon, we'll see their operating and financial results being disclosed by Roberto Valerio. Now talking about Vasta. Vasta was a very positive year. For Vasta, it grew in spite of the pandemic and today, more than 80%

of the company's revenues come from the subscription model. So the model is now eminently based on subscriptions. We also complemented the platform by adding other offerings and we also had the acquisition of Eleva, one of the most respected in the country that comes with an exclusive agreement for a period of 10 years in content provision including the Eleva schools and any other schools that are acquired and this was also a very positive development for this deal.

Now moving to Platos. We are happy to report relevant organic growth in revenue and student base, especially in digital and a new OPM contract with external clients, which Paulo Tarso will detail later. We -- he will also have a presentation on Vasta results. We also made a very important decision of selling this operation of K-12 schools to Eleva because growth in K-12 is something that requires capital to make the push, and so this is totally in line with our strategy, but we decided, however to receive part of the payment in shares of Eleva, because we believe that there is an opportunity for the consolidation of the K-12 market in Brazil and as such will be able to benefit from the consolidation and the value that will be generating without allocating capital.

I think that those were the most important remarks. And very soon, we'll see in more details the operating results. Now, in Slide 4, I think this is the most important slide in this call. We have committed to deliver $230 million in guidance. We have delivered in 2020. I think that the key message here is growth of 70% in relation to cash generation in the comparison with 2019.

So in spite of all the relevant impacts as -- as most of the adjustments that led to losses have non-cash effects. In spite of this, we were able to grow operating cash generation, and this is a very sound indicator of the robustness of the company. Also now looking to the chart of the right. I want to emphasize cash conversion level. At a level of 35%. This means an improvement of 26 percentage point in the comparison with '19. Now, by excluding the PDA adjustments made along the year and we will talk a lot about them.

Our conversion increases to 22%, which represents 13 percentage points up vis-a-vis the last year. So GCO in value, our absolute values were even more expressive in terms of cash conversion.

Going to Slide 5. We have two important messages to you, guidance and leverage. As you can observe in the chart, recurring EBITDA was 690 million in 2020. It was impacted by the PDA complement made in 4Q '20. The last one, the blocks of adjustments I was referring to representing 415 million. If we exclude from the results this complement, our EBITDA would have been 10% higher than the 1 billion announced as guidance, so we posted 690 million, but this, of course, has to be considered in the light of the adjustment of PDA of 415 million. Otherwise, we would have been 10% higher than 1 billion.

And owing to these adjustment leverage of the company, as measured by net debt over EBITDA in the last 12 month reached 3.23 times. This is the second non-consecutive time it goes beyond the ceiling of three times, which is established in our debenture rules. But this is not a breach of covenants and because, of course, in the deed, it's established that only after three exceeding of this ceiling, we would have a breach of covenant. And this is not the case even though the company believes it's prudent to start negotiations with debenture holders in order to adjust some criteria relative to covenants currently in force.

We made this decision of making adjustments and starting the renegotiation of certain criteria that allow me to mention and that there is no cash effect in the PDA adjustments. This does not affect our cash, and that's a sign of this is that we deliver the 17% higher cash than in the comparison year. Another point, if we exclude the PDA adjustments - extraordinary PDA adjustments that were made in two blocks, one, 229 million in the second quarter, '20 and BRL415 million that we made in the fourth quarter '20 and considering only extraordinary PDA adjustments, our net debt over EBITDA indicator would be at 1.89.

So we would not be exceeding the limit and there is no expectation that we will go over the 3 times multiple again. And another point, we have a very solid cash position, we closed 2020 with BRL4.6 billion in cash, and there is no expectation that our operating cash generation outlook will change with this, I hand it over to Roberto Valerio, CEO of Kroton, who will now lead the presentation focusing on some operating and financial highlights of his vertical.

Roberto Valerio

Good morning, everyone. I start my presentation in Slide 7. I hope you're following. There we will detail the moves and impacts of the -- our largest and most compelling restructuring we promoted at Kroton as announced in the last -- as announced in the last Cogna Day. Kroton completed the largest restructuring in its histories with several savings obtained in cost expenses and expansion by making changes to 45 units. This represents one-fourth of our basis.

So we made changes to 45 units, but at the same time, we reviewed 100% of our costs and expenses. This will lead to significant savings in costs, expenses and expansion especially considering the units that were part of the expansion plan. But at the same time, we were able to preserve Kroton services in virtually all cities targeted by the restructuring. So we are not leaving any locations behind. As we can observe on the graph on the the left from the 45 changes, 16 were camp unifications, 29 were migrations to partner operations, as you know, we have a very large network with experienced partners some of them with over 20 years of collaboration.

In addition, we had some changes in address and lease renegotiations and also negotiations of services. According to our estimates, we believe that the changes will result as you can see in the right side of this slide, in savings of 18% in rental, 17 in utilities and facilities, 20% in maintenance CapEx and (inaudible) of the units and it will also bring a 27% reduction in general costs and expenses.

Therefore, we understand that Kroton is right on track to deliver EBITDA growth still in 2021, even with all the challenges that we face with the pandemic. For example, student enrollment for on-site, which is quite challenging to date.Going to Slide 8, we see in details the rationale for the NPV and IRR behind the restructuring, it's important to highlight that the impacts of non-recurring expenditures as natural in a restructuring process represent more than 40% of the total.

In terms of the project and they consist of accounting adjustments, write-offs with a non-cash nature. As we can observe in the table to the left, expenditures not representing cash disbursements totaled 187 million in 4Q '20 and these risks refer to the previously mentioned write-offs. We expect an impact of 143 million on non-recurring items considering that 58 million, have no cash effect for the company.

Finally, from the economic and financial point of view, which is our decision criteria, we can observe, to the right of the slide that the restructuring makes total sense. There is a payback of -- of little more than one year with an NPV with BRL0.5 billion and IRR of 87%, compelling numbers, which supported and confirmed our feasibility analysis. It will -- they will put it on a new trajectory.

Now, I would like to hand it over to Frederico Villa so that he can comment on accounts receivables at Kroton.

Frederico da Cunha Villa {BIO 18677215 <GO>}

Thank you very much, Roberto. Good morning to all. I will continue discussing accounts receivables. We can turn to Slide 9. It's impossible to give you some details on the behavior of account receivable coverage ratio and the average term of receivables. As we can observe in the charts below, Kroton once again had a quarter of continuous improvement in receivable indicators for out of pocket, our coverage ratio reached 57.2%. Looking at the second half of the year in December 31, this level was 29% only.

Besides that, we saw a reduction in the average term of receivables. We are now at 74 days. If we look to the chart to the right, in the second quarter of '19, we had an average term of 127 days. And now, we're down to 74 and the fourth quarter '19 in the comparison for the -- to the fourth quarter, this is a very significant drop. In addition, our balance, receivables balance has reached BRL726 million. We believe that this leaves Kroton in a very adequate level considering the adjustments that we made this half year. So as we can also observe in the table, the impact of the PDA adjustment in this quarter represented 415 million coming from increased provisioning for out of pocket students.

We updated our provisioning model for the different ranges of students in the past, the criteria took into consideration the billing and now, we consider also credit, always considering the level of default or the number of days of default and this is, of course, an evolution in our criteria. The company is managing as of the fourth quarter our accounts receivable with even greater discipline.

The update of criteria for out of pocket totaled 185 million with in terms of coverage ratio and also improved our average term of receivables. We also reviewed the premises for provisioning related to PEP students and PMT students with adjustments respectively of 77 million and with a coverage ratio reaching 78% in PMT -- 78% and 63% and we believe now that the coverage ratio for all of our accounts receivables for all blocks are now adequate. So we conclude still in the fourth quarter of '20, the cycle of PDA adjustments involving all of our blocks of receivables for Kroton.

We can now turn to Slide 10, to show the effects and the completion of the cycle of adjustments and how they put Kroton in a safer -- one of the safest levels in the industry in relation to accounts receivables. So as we can see in this slide, our coverage ratio for out of pocket is the top level in the industry, 57% in comparison to our peers and looking at our coverage ratio, we have 67% observed in the chart to the right that the coverage ratio of 57% of out of pocket is 18% higher than peer A and this consolidates Kroton with the highest level of coverage among the industry peers. We also see that Kroton has the lowest average term of receivables for out of pocket, with an average term of 74 days.

This represents in average 16 days sooner than the most efficient player in the comparison. Our provisioning has reached very safe levels and we are very confident about the coverage ratios and the average term of receivables. With this, I close this quick presentation and I hand it over back to Roberto Valerio.

Roberto Valerio

Thank you. Thank you very much, Frederic. Just that we -- we had a technical issue with the presentation. But it's now available to download from the website. Just go to our IR website and you will be able to see it. So continuing, let's move on now with Slide 11, in which, I'll discuss Kroton's operating results starting with net revenue.

There was a relevant decrease in the annual comparison coming from the significant reduction in FIES student numbers. There is an impact still in '21, but 2020 was a year in which this effect was felt hardest. In addition, of course, to this long pandemic effect on on-site education that had an impact that was higher than expected. In spite of the positive news, which was the resumption of growth in DL students reminding you that we had an expansion of 18% in 2020 and we continue with very positive expectations.

So with the cycle of FIES graduations and with the pandemic, we had a significant impact on revenue. However, the decrease in EBITDA, in addition to the revenue effects also had the contribution of the extraordinary adjustments in PDA of which we had 229 million in 2Q '20 and 415 million in 4Q '20 of which 185% for out of pocket, 152 million for PMT and 77 million for PEP, this led to recurring EBITDA of 754 million with a margin of 27.7%. We believe that with implementation of our rationale for the turnaround, we will be poised for growth and profitability in '21. As we said, this is the inflection point for Kroton's operation. This year, and as a result of this will become aligned to this new growth cycle that is pursued by our holding covenant.

With this I close my participation. Turning to Slide 12 in which we -- I would like to make a very short summary of what we have accomplished at Kroton and our perspective for 2021. In 2021 as I said, we had a decrease in revenue coming from the last cycle of FIES graduations and the worsening of the pandemic, but we were able to complete the revision of 45 units, one fourth of our units of our campy. And this is very, very substantial.

And we also are expecting some contracts to come through and like this, we'll be able to continue reducing costs from now on.

In parallel to this, we made a complete adjustment in our account receivables, our balance is now in a much lighter financial level. We also can -- mentioned the organic growth of the DL student base, and even more importantly, an increase of 30% in student recruitment. So we have a very positive outlook of growing rates in student recruitment for DL. There is also the increase in satisfaction of our students, as measured by the NPS. It's up 17 percentage points this year as a result of the very important changes in systems and processes in-house.

This will create even greater opportunities for growth. Besides that, we saw an increase of 19 percentage points in NPS with the partners, I always say that the strength of our hub -- hubs and networks is not to be toss lightly. It's very important and because they also have a very low churn rate for '21, we expect a challenging scenario for on-site also because of social distancing measures that are still in place. But we also believe that the growth trend for digital student recruitment will continue in line with the digitalization of the sector and the change of paradigm. More concentration in digital is what we expect. This will help us grow the number of hubs and we hope to close 2021 with more than 2000 hubs and centers. This, of course, will create a very important distribution channel for us.

It's important also to highlight that we see or that we have been gaining traction in premium DL programs with over 20% growth in the number of centers that offer this type of program and this of course is a very substantial increase above our expectations for recruitment in 2021, mostly engineering and medical studies program that use the partner network.

We also see re-enrollment of veterans, marginally above expectations. This shows that the work we have been doing in the last cycles to really work hard on the negotiations with the students is increasing the health of our student base, and it's important to highlight as well that we see a trend towards recovery of profitability of campy in January and February. That is after the restructuring and turnaround, we are starting to observe very clear signs of this trend, which is very exciting.

And let me repeat that '20 and '21 are the inflection inflection points for the organization and we have very positive expectations for the medical programs. We had some visits that had been scheduled for our units, but because of the pandemic, we had to reschedule them. But we hope to have admission exams being open still in '21 in ponta, pura [ph]. We also have the perspective of opening operations in '22.

With this, I thank you for your attention and I hand it over to Mario Ghio, CEO of Vasta for his remarks. Thank you very much.

Mario Ghio {BIO 17352490 <GO>}

Thank you, Roberto. Good morning, everyone. I would like to start my presentation with Slide 14. So we are repeat Slide 14. Here we have the highlights of our Eleva's transaction that we had diligence and an independent evaluation by the company. It was an independent evaluation conducted by the independent Board members of Vasta. As you can see, the transaction amounted to BRL580 million, which represents a multiple REE [ph] over EBITDA in 2020 of 16.6 times below the actual multiple Vasta, which is a transaction that generates value. On the right hand side, I would like to mention some important KPIs like the base of 177,000 [ph] students that come together with the Eleva learning system and part of these students are attending Eleva's own schools. So this will generate zero churn from now on.

And the rest of the students will also be Eleva's students. We also want to highlight the synergies that can potentially be captured through the integration process, certainly everything is subject to Cadi's approval, but that amounts to about BRL20 million, which would increase the actual multiple of the transaction to 10.10 times over the EBITDA of 2020.

Finally, I would like to say that the growth that we expect to have with Eleva's learning system is also related to a 10-year contract that we signed with the -- with Eleva's network of schools including Saber schools and then we will be able to count with organic and inorganic growth of Eleva schools. All the schools that are going to be inaugurated or acquired by Eleva are also included in this 10-year commercial agreement.

Now I'm moving to Slide 15. And I would like to explain ACV of 2021. So ACV stands for the summation of all contracts signed for a given commercial year, net of returns, cancellations, net of churn meaning that ACV given historical curves, it accounts for what we do believe the revenue of a school will be.When we look at the left-hand side of the slide, our organic growth of ACV in 2021 was very robust. We reached BRL853 million accounting for 23% higher than the subscription revenue recognized in the 2020 cycle.

It's important to highlight that our commercial cycle consists of the fourth quarter of a year until the third quarter of the following year, meaning that the fourth quarter of 2020 represents the new quarter of the new commercial year, which this ACV refers to. I would like to also say that the growth in the period was very robust due to the increment of new schools, schools that were not our subscription client. So in this area alone, we were able to add a 189,000 new students, meaning more than Eleva and 450 new schools. There is a 189,000 students are attending 450 new schools that did not have a contract with us in the previous cycle. There is a -- this space stemmed from a very successful commercial campaign as demonstrated in the chart that also had a very relevant growth in cross sale, meaning the penetration of our additional solutions into the partnering schools and there was an important contribution of upselling, meaning that that's when a school hires a new Education segment that was not previously there.

So new school's cross selling and up-selling leads us to that 23% figure. Now, moving to Slide 16. Here I would like to analyze Vasta's operating results. And let me begin with net revenue. Vasta had a top-line growth, growing 14% vis-a-vis 2019 totaling BRL998 million. Totally organic growth and the main driver of this revenue growth was ACV's growth. When you look at the right-hand side of the chart. Looking at EBITDA, when we make an adjustment to a comparable base, I feel [ph] extraordinary expenses and tax credits, the favor of the results of 2019, if we remove expenses with the IPO and removing from the 2019 numbers, extraordinary credits that were part of that year's results. The recurring EBITDA of Vasta totaled BRL281 million, meaning a growth of 25% year-on-year, growing 3.6 percentage points in the margin. This margin expansion in 2020 represents 29.2% and this is basically related to efficiency gains, dilution of costs and fixed expenses.

Now moving to Slide 17, which is the last slide of my presentation. I would like to highlight that in 2020, the revenues, organic growth was driven by Vasta subscription business that already accounts for over 75% of the total revenue. Moreover, we would like to highlight all the acquisitions carried out throughout the year to increase our service offering in the platform and the implementation of our B2B2C model with the launching of Plurall store that incorporates also our platform of private tutoring classes (inaudible) that also increase the addressable market of the company.

Also we have to add the Eleva platform, one of the largest and more respected systems of education in the country that came together with that long-term contract that I mentioned before that also includes Eleva's current schools, Saber schools and also other schools to be acquired or inaugurated.

Finally for 2021, we have an outlook for another good year of robust ACV with long duration contracts and the average tenor of new contracts of ACV '21 is 3.5 years and the average of retention in the customer base -- clients that were already in the base is slightly lower than 14 years. The pandemic also generates some challenges in terms of converting ACV into revenue.

But we do believe that this -- this bridging revenue in 2021 will probably be higher than the drop in revenue experienced in 2021. And in this regard, I am referring to converting ACV into revenue. They are pretty much associated to textbooks and including the PI -- PAR learning system, which is our learning system based on textbooks.

With that, I conclude my presentation and now immediately give the floor to Paulo de Tarso, who will talk about Platos.

Paulo de Tarso {BIO 19704670 <GO>}

Good morning. Thank you, Ghio. Good morning, everyone. I would like to start my presentation on Slide 19, when we will talk about Platos operating results. As we can see in 2020, the company posted net revenue growth of 12% reaching 91 million, stemming from the expansion of student intake for digital graduate education that grew 35% year-on-year.

I would like to emphasize that this revenue is already due to Kroton's transfer, so this does not contemplate the transfer that remains at Kroton, but once we reclassify EBITDA from 2019 and 2020 looking at a comparable base and according to the new provisioning level, there Platos recurring revenue in 2020 totaled BRL32 million with a margin of 35.4% and growing 4% vis-a-vis 2019.

I would also like to note that as of April 2020, we interrupted our offering of on campus graduate education so that growth in digital more than offset these offering. EBITDA margin was high, despite higher investments in sales and marketing, and also the additional provisioning of the Lattison's product.

In 2020, here on the Slide 20. We have a summary of 2020 and our outlook for 2021. At the end of 2020, we made some important deliveries in the company such as revenue growth in EBITDA despite the effects of the pandemic. The expansion of the digital product of 35% that reflects our assertiveness in focusing in this modality and the continuous improvement in cost and student satisfaction measured by student NPS had an increment of 33 percentage points versus 2018 with a delivery of NPLs of partnering hubs. Also, I would like to highlight the signature of our first -- three initial OPM contracts from other organizations of higher education with our -- with where we see great potential.

Now looking at our OPM dimension in our OPM opportunities, we see the possibility of increasing student intake in addition to increasing our digital portfolio for graduate students and increasing -- the increasing satisfaction of students with our programs. And finally OPM of other IES generates expectation of new revenue generation. In addition to new contracts that we already focusing in this market.

With that, I conclude the presentation on Platos and I give the floor to Paulo Serino, who will continue the presentation and will speak about Saber.

Paulo Serino

Thank you, Paulo. Good morning, everyone. I would like to start my presentation on Slide 22. One, I would like to give you more details about our operating results. Saber posted a drop in net revenue with higher dropout rate of students in early years of primary education and two other management contracts that compensated for adjustments to monthly tuition and that generated net revenue of BRL683 million.

Now looking to the right side of the slide. If we adjusted the numbers to a comparable base with reversal of legal contingencies that affected positively the third quarter of 2019 amounting to BRL11 million, EBITDA -- recurring EBITDA of Saber totally 161 million, representing a margin expansion of 2.2 percentage points despite the drop in revenue during the period due to efficiency gains in the operation.

Now continuing with the presentation of Saber, we move to Slide 23, when I give you some highlights of 2020 and the outlook for 2021. In 2020, Saber experienced a drop in revenue due to the pandemic, mostly related to preschool education and higher dropout in early years of primary education, even though the company was capable of conducting the necessary operating results, and we have here an NPS after the shutdown, we had a recovery of 9 points for schools and 12.6 points for Red Bull [ph].

In addition to delinquency in the year that was 5.4% in the period. And finally, I would like to highlight our transaction with Eleva that there was an impact in the price of Eleva's shares positioning Cogna to continue generating value with the consolidation of the market of B2C and K-12 education without the need of allocating additional company. Now when we look at 2021, it is a more challenging intake of students in early years. And in addition, we also noticed a re-enrollment process for the year, which continues to progress according to expected.

And now moving to Slide 25, I will talk about other businesses. When we look at the chart to the left, we noticed that net revenue in 2020 was up 4% vis-a-vis 2019 totaling BRL548 million and also impacted by a reduction in National Textbook Program in 2020, even though this effect has been offset by our gains of share from our publishing houses and the recognition -- the late recognition in Q1 of '20 of BRL85 million in National Textbook Programs. These effects contributed to a delivery of a recurring EBITDA of BRL124 million in the year with growing 68% versus the year before and delivering a margin of 22.6%, which represents a margin expansion of 8.6 percentage points. And finally, I would like to highlight a share gain in text books in 2021, which considers the repurchase of basic -- of primary education I and II.

And with that, I conclude my presentation and invite our CFO of Cogna, Fred Villa, to continue with the presentation.

Frederico da Cunha Villa {BIO 18677215 <GO>}

Thank you, Serino, very much and now I will start my presentation on Slide 27 where I'll give you more details about Cogna's operating results in 2020.

As noted on the chart to the left, net EBIT -- net revenue was BRL5.9 billion in 2020 representing a drop of 16% versus 2019, given the drop in revenue from higher education and also the National Textbooks despite the topline growth presented and posted by Vasta. Recurring EBITDA of Cogna in 2020 ended in BRL690 million with a margin of approximately 12%. And in addition to the effects previously mentioned related to net revenue, this was the highest adjustments of PDA ever conducted at Kroton, as I mentioned in my previous presentation, which were the main items that oppress -- that were carrying EBITDA of the company and also accounted for BRL115 [ph] million in EBITDA adjustments in the fourth quarter of '20.

If we were to adjust all of these PDA effects that do not have a cash effect, the recurring EBITDA of Cogna would have ended the year of 2020 in BRL1.1 billion, which is substantially higher than what was previously accounted for.

Moving to Slide 28. I would now like to talk about the net income and CapEx of Cogna in 2020. As presented in the bridge chart below, we noticed that in 2020 there were many extraordinary effects that contributed for an accounting loss of the company of BRL5.8 billion as you can see through the purple chart. It is important to say that the bulk of this number represented by BRL5.4 billion is directly related to non-cash effects of the Company, the main incremental effect here. And the second one relates to non-recurring effects and also non-cash effects of PDA as previously mentioned. Finally, I would like to highlight that if we were to exclude extraordinary effects and without any cash effects, Cogna will report a net income of BRL55 million, which illustrates a result that was highly impacted by the non-cash effects previously described.

Now moving to Slide 29. Here I will refer to some details related to the Company's debt position. Now moving to the slide to the left, we see that the waterfall chart and the composition of net debt and the leverage of the company, by the end of 2020, posted a very sound cash position of approximately BRL4.5 billion and net debt of BRL2.9 billion due to adjustments carried out in the additional PDA, impacting adjusted EBITDA in the last 12 months. We came to the year-end with a leverage of 3.23 times. It is also wise to recall that if we exclude the additional extraordinary PDA hosted throughout 2020, this KPI would be of 1.89 times.

Looking at the right side of this slide here, we see our amortization chart of debentures, which continues to post a good distribution in a timeline, which allows the Company to feel comfortable about pursuing its allocated profile of debt. Our average debt cost is currently CDI plus 1.3% a year.

And with that, I conclude my presentation and give the floor back to Rodrigo Galindo for his final remarks.

Rodrigo Calvo Galindo {BIO 17238232 <GO>}

Thank you, Fred. I would like to invite you all to move to Slide 30. Now, on Slide 30, we have a very brief and key message about our outlook for each of our operations. Starting with Kroton, I think the main message here is that Kroton was an asset that was fully restructured mainly in regards to its accounts receivable. We made all the adjustments, they had to be made. The adjustments are now concluded. And they -- these adjustments place Kroton in a new profitability trajectory. So this is a very clear message that all the adjustments -- necessary adjustments were made despite the fact that we face a very critical year in 2020. So in the midst of the pandemic, we made a decision to make all the operating adjustments to place the company in this new trajectory of profitability. So all of that is concluded.

In terms of Vasta, one thing that I would like to highlight that with the growth with our subscription business as this is being more accelerated and also the growth of the business -- the subscription business is offsetting this transition. This company is becoming more predominantly a subscription company. Over 80% of our -- the revenue of this operation comes from the subscription business. So in addition to organic growth that Ghio presented when he talked about Vasta's operating results, our acquisition pipeline is very robust. This pipeline continues to be negotiated and there are some other negotiations now being analyzed.

I think the main message related to Saber is that with the sales of the schools at Saber and the receivables with part of the prices of Eleva's shares, we transform this business in a capital-intensive business. So we will continue to focus on B2C in K-12 education, but with no need to further allocate direct capital to this business because we've had -- we implemented everything that we had with K-12 education, but at the same time, we respect our strategy to prioritize asset light businesses.

Now about Platos, I think the main highlight is the continuous process of organic growth that was initiated in 2019 and 2020 and we expect to maintain this growth in 2021 in addition to the fact that we already started our OPM offering for external clients and we are already generating revenue for external clients. All of the measures that we put in place in 2020 shows that we are very much aligned. We are very diligent in pursuing our strategy, which is to increase profitability in a consistent way, prioritizing asset light businesses with greater ROIC and greater growth potential. We made all of the difficult decisions that had to be made. In a year that would be complex by itself because of the pandemic, we decided to adjust to make adjustments to everything that could ensure the profitability, progress of the Company we made, difficult decisions mainly at Kroton that our accounts receivable is now one of the most secure in the market and we are very certain that all of these decisions will allow us to pursue our growth trajectory towards 2021.

And with that, I conclude the presentation. I'd like to thank you very much for participating. And now, let's move to our Q&A session.

Questions And Answers

Operator

Thank you very much, Mr. Galindo. Ladies and gentlemen, we will now initiate the question-and-answer session. (Operator Instructions)

Our first question is from Marcelo Santos, JPMorgan. You may proceed, sir.

Q - Marcelo Santos {BIO 20444938 <GO>}

Good morning to everyone. Good morning, Galindo, for taking our questions. Well, after the restructuring is now complete, what should we expect in this line and how much of the revenue should be expected in the different lines? And what do you expect for the future in terms of ACV? What would make you feel comfortable? And what about the gross revenue at Kroton? How does this relate to the 40% of online lessons, we are reaching this number. Have you reached it yet or is there is still room to move students to online?

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

Thank you very much, Marcelo. I'll start answering question number one and then Fred will continue. I think that, of course, we cannot give you guidance for PDA in '21, but what we believe is that we'll operate on a very different level than in 2020 because we have talked about two postings extraordinarily, BRL229 million and BRL415 million in 4Q '20. They are extraordinary because they were related to an improvement in the provisioning model or a premise -- a change in the premise.

So, in fact, they are improvements, refinements, but we are very conservative in provisioning much beyond the BRL664 million. So there will probably be no need to redo the restructuring that we did in '20. So as a result of this provisioning in relation to net revenue will drop. We cannot give you guidance on how far this drop will be but what you asked for was a direction and the direction is down.

Roberto, could you please answer the second question.

A - Roberto Valerio

Marcelo. Thank you very much for your question about the presentation of DL content in on-campus. We believe that there is still a significant opportunity for '21, thanks to the implementation of the new academic model that includes DL in the different disciplines before we had some on-campus disciplines and DL disciplines. Now everything is moving online with a share of DL content, this was implemented and so to give you a direct answer, we have opportunities to gain margin with this change in -- and it will come 100% into fruition in '21.It will be implemented in 100% of on campus students by '22.

Q - Marcelo Santos {BIO 20444938 <GO>}

Okay. Going back to. I had also asked about receivables. Could you comment about the level of comfort in relation to the receivables?

A - Roberto Valerio

Yes, of course, we are feeling very comfortable. I think that Fred wants to step in. Go ahead, Fred.

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

Thank you very much. Thank you very much. Take into consideration, our coverage ratio in all of our programs, we are very comfortable with our level of provisioning. So we believe it's a very adequate level for 2020 and we don't expect anything different for '21. And what gives us this coverage, just to complement is that we have 57% of coverage in out pocket in PMT, 68% in PEP, 63% another interesting piece of information about the instalment plans is that today with the positioning we have today, we can provision 100% of past due accounts and you still have a lot for the yet to mature bills.

So this gives us all comfort in relation to the provisions.

Q - Marcelo Santos {BIO 20444938 <GO>}

Thank you very much, Galindo, thank you to all for your comments.

Operator

Our next question is from William Beninjaris [ph], Credit Suisse. I'm sorry. You may proceed, sir.

Q - Analyst

Good morning, Fred. Good afternoon. Thank you very much for this opportunity. My question, I mean, looking at impairment, why did you decide to have this impairment of such magnitude in the fourth quarter? And what do you consider, why did you consider to make it in the fourth quarter?

And do you see any impairment test coming in the future? What do you expect for '21 in that regard, considering that that you see '21 as an inflection point, a tipping point. And going back to PDA, the guidance you gave us was 1 billion and it's different from the recurring EBITDA that you reported now.

So I would like to understand, since you said that it -- that you have a lower level next year and that you're fully provisioned and also considering impairment, do you think that the numbers for '24 of 2.4 billion is still something you can reach, does it still make sense? If not, how would you re-frame that number?

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

Rodrigo here. Thank you very much. Great questions, first of all, let's talk about impairment. I'll make a more strategic general comment. And then Fred can take it from there. Now from the negotiation's point of view, I think, I think that several reasons led us to make the impairments in the fourth quarter with the Saber transition, it became clear, what was the amount in the transaction.

So we had to lower this as an impairment or to write this off as an impairment. And Fred can give you more information on the accounting procedures. In the case of Kroton, we made a decision. We know that there is a certain level of flexibility that is involved in impairment models and we decided to choose a more conservative model, so that we don't run the risk of further impairments in the next year.

So since this was the year in which we were making adjustments to our balance sheet, we wanted a cleaner balance sheet. We didn't want to have the adjustments right after the end of 2020 and even though there is no cash effect, we know that this is like a disruption to our communication of results. So we redid the test of Kroton and we made the impairment in Kroton 2020. In relation -- now about your second question on guidance. Just to make a statement here, when we gave you the guidance, we haven't made a decision of making an adjustment of BRL415 million in PDA in the fourth quarter of '20. So the announcement was made without this on our radar. We were concluding the analysis that related to the new provisioning model that was built together with an international consulting firm, we were finishing the analysis of PEP and PMT.

We had some room for the adjustments and we decided to take a more conservative stance in finishing the analysis. So that's why the provision was much high BRL415 million and it was not something we had foreseen in the guidance. So if we had excluded this -- if we excluded the BRL415 million, we would be marginally higher than 1 billion -- 1.2 billion would be the number, in fact.

So we did it. In fact, ex the PDA adjustment effect and so the 100 that we had in provision, the number, the delta was not this because we made the decision of being more conservative. So by excluding PMT from the guidance in December, the estimated guidance and also the effective PDA, we delivered 1.2 billion in guidance. So we did it. We understand that this was a managerial number, something that's used in the statements, so we said is 690 but we have 415 relating to extraordinary non-cash effect adjustments or otherwise we would have BRL1.1 billion.

And this is the point. And after that we ratified this target of reach -- our target of reaching 2.4 billion in EBITDA in '24. And I think that one of the top indicators that this is feasible ex guidance is that in the cash generation even in such a critical year in pandemic terms. We also posted the results, so I don't know if you have any questions, more technical questions, please feel free.

Q - Analyst

Now, that's fine, Rodrigo. This is what I wanted to know, I think that the explanation was very clear.

Operator

Our next question is from Yan Cesquim, BTG Pactual.

Q - Yan Cesquim

Good morning, everyone. Two quick questions if I may. One is very specific about on Saber receivables. What were the terms of the advance on receivables? Were there any discounts? How was this operation structured? And also could you give us any flavor on the student intake for the next cycle. We have been monitoring the market and we see that they have a more -- a lengthened intake cycle and DL is still the hot topic. So how is Kroton positioning itself in that regard?

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

Okay. Rodrigo here. Thank you for the questions. In relation to your first question, I don't have with me the information from the union SLV [ph] receivables. But I will get back to you, but it was a very normal advance with a cost that was adequate, just right for that moment. We don't have the information on hand, but we'll get back to you. And, of course, this is publicly disclosed information.

In relation to student intake, I'll hand it over to Roberto. Let's see what he has to say about student recruitment in '21.

A - Roberto Valerio

Thank you very much for your question. Well, without going over the limits of what I can disclose, we see that there is still a lot of pressure in the student intake cycle and in spite of the pressure, we are very disciplined in terms of price, ticket and offerings. We've learned that a good out of pocket student is better than a student with a high chance of dropout or that doesn't pay, and this is part of the strategy that we have been communicating with you.

It's all about maintaining a very healthy intake cycle with growing tickets or marginally growing tickets. This for on-campus. Now for DL, Distance Learning, we see very, a very positive outlook with both centers and programs. Growing our especially the premium programs are growing significantly, we have increased the number of these programs in the cycle and the results were very surprising for us with a lot of receptiveness and what I attribute to this fact is that engineering and medical programs are -- that are typically on campus are now confronted with the challenge of the pandemic. So students now enjoy the opportunity of taking programs with higher Distance Learning content or digital content and we continue to observe the effects of this change and the recruitment in 100% online programs is higher. So the same -- the same applies to other programs such as once a week. So in spite of students liking the once a week model, our center's network and they also prefer this because there is more interaction with students. For the students, now, they say, well, I'm not really sure if it will be possible to attend on-campus lessons, so that's why the mix is now moving towards 100% online. I think that this is what I can disclose to you so that you can understand the dynamics in the market.

And just to close, it's natural that the price then dynamic is a little more competitive in the -- in the homestretch. We'll have a longer cycle. This is a key week for us because the ENEM ranking results have been announced. So we're really doing the best we can to get the cream of the crop off the new students in this ENEM exam. So I hope, I have contributed. Thank you.

Operator

Our next question from Andres Coello from Scotiabank.

Q - Andres Coello {BIO 16205255 <GO>}

Hello, Rodrigo (Technical Difficulty)

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

Well Andres, now answering your question about the medical courses. Today, we have 415 seats in our current courses. Our schools in (inaudible) so 415 seats for about 1500 students. And in our newer courses with 3 new colleges, we already offer 180 seats that will total 600 -- 595 just to be more precise.

So we went from 415 to 600 seats from 2,500 students to 2,650 students.

Operator

Our next question from Philippe Paskovic from Miroy Asset [ph].

Q - Analyst

Good morning and thank you for taking my question. Galindo, since your large Cogna Day, you've been declaring that you're very confident with your turnaround. So where are we looking at? I just want to understand, whether this turnaround, well, you know, reach what your target or whether, I mean, how is your sales area because with social distancing, you still have a very important challenge in terms of intake. Now in regards to Vasta and the question may be addressed to you or Ghio. My question is, why is it that your M&A pipeline is taking too long to be deployed? Thank you. That's all.

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

Hi Philippe, this is Galindo. I will answer your first question and then I'll give the floor to Ghio for the second question. I would just like to highlight that we already made four acquisitions at Vasta and one very relevant acquisition of one of the largest learning systems in the country. Now about what makes us feel very comfortable about our turnaround is that we already made all of the necessary adjustments because of PDA, so there will be no surprises in terms of accounts receivable in 2021. We promoted all operating adjustments in all of the campuses that we -- that were really mining Kroton's capacity.

We already closed, reduced or transfer students from one campus to another. We are still operating in every municipality. But we moved or we changed 45 units, so we solved that problem. And we also promoted a administrative restructuring. We are utilizing 45% of the academic model, meaning that all of the movements related to cost reductions and that involves not only increasing efficiency. But we wanted to bring the operation to its current size in this more digital world, so we already did that. That is concluded.

So there is no more execution risk. And what is the risk that we will always find? Well sales. You may be more or less impacted in terms of sales. Up to now, we see more pressure on campus education and a more positive landscape, when we look at digital in take. And the re-enrollments, they are marginally better when compared to what we anticipated.

So everything seems to be moving quite well in 2021, even though we realize that in 2021, there should be a substantial reduction in on-campus education, but things -- one thing compensates for the other because the digital business is performing quite well. It's just a whole set of things that makes us more confident that the turnaround is fully executed and there are gains to be posted. We were very vocal in saying that we said, we will deliver BRL2.4 billion in 2024 in terms of EBITDA and BRL1 billion in cash by 2024. So this is our target and the target it still remains and we reinforce it now. The numbers we see and the outlook going forward all indicate to us that we will be able to -- to reinstate that commitment.

And now, I'll give the floor to Ghio to talk about the acquisitions.

A - Mario Ghio {BIO 17352490 <GO>}

Philippe, good afternoon. I would just like to add to what Rodrigo just said. Our four acquisitions, one before the IPO and three after the IPO. One of them is quite sizable because it's the fifth largest learning system in the country, and I'm referring to Eleva.

Now, we are integrating the acquisitions. We are planning Eleva's integration, which is very important for us to generate the value anticipated with the acquisition. And moreover, I can say something about our M&A pipeline, which consists of 77 assets that are currently been analyzing and they are in different stages, right now, but many assets are already going through due diligence process and as these due diligences are concluded, we will be able to announce new acquisitions. There are assets in the core education segment. And most of the assets are add tax [ph] or other complementary solutions. In our view, the M&A pipeline is moving forward. We are constantly looking for good deals not merely deals but good deals. This is already happening and it will continue to happen. Thank you.

Operator

We now conclude the Q&A session. I would now like to turn the floor back to Cogna for their final remarks.

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

I would like to thank you all very much for this conference, for joining us during this conference call. I wish you all the health in the world and I hope to see you soon.

Operator

Cogna's earnings release call is now concluded. I would like to thank you all for joining us and have a very good day.