# 2Q18 Results

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August 2018

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# 01 OPENING REMARKS

# Status SOMOS Acquisition

## SOMOS ACQUISITION

**RAISING OF REQUIRED DEBT**

- Rating Obtained
  - AA+ by Fitch
  - AAA by S&P
- Registration as Category B Issuer of Securities
- Debt collection instrument approved by the Board of Directors

- Conclusion of the due diligence process
- Creation of the Clean team
- Waiting for CADE's analysis

# 02 OVERVIEW OF THE RESULTS

# Consolidated Results

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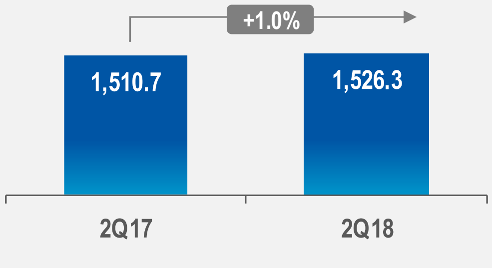
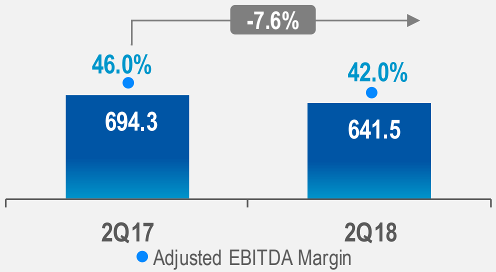
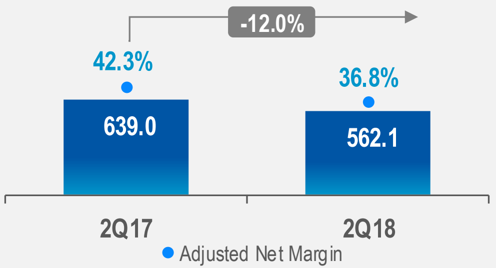
## Quarterly and YTD Results reinforce expectations of delivering the guidance announced on May 11th

**Net Revenue** Quarterly – R$ million | **Adjusted EBITDA** Quarterly – R$ million | **Adjusted Net Income** Quarterly – R$ million

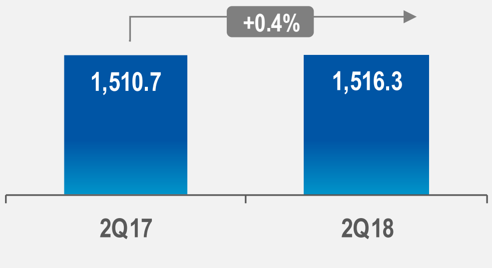
CONSOLIDATED

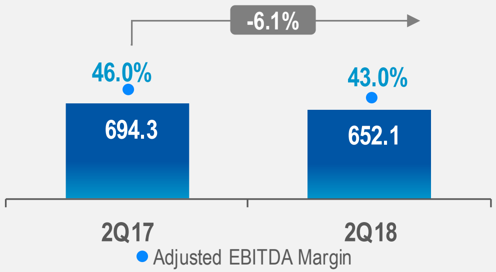


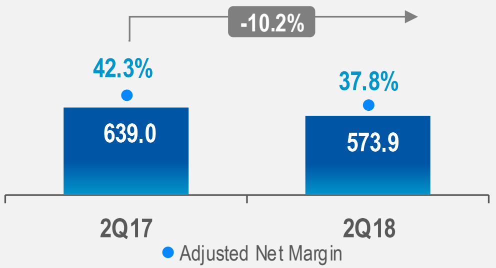




EX-GREENFIELDS[1]




All numbers exclude FAIR, FAC/FAMAT and NOVATEC | [1] Excluding numbers related to new units

# Results by Segment

## On-Campus

2Q18 vs. 2Q17 – Chg. in % and p.p.

Net Revenue: ▲ +1.3%

Gross Income: ▲ +0.6%
Gross Margin: ▼ -0.5 p.p.

Operating Result: ▼ -5.2%
Operating Margin: ▼ -3.4 p.p.

1.3% increase in Net Revenue supported by the positive enrollment and reenrollment processes, in addition to the higher average ticket. Gross Margin reduction due to the timely impact of the 10 new units launched in the first half of 2018. Decrease in Operating Result and Margin with the additional effect of the change in the student base profile, and the resulting effect in the line of provisioning for losses.

## Distance Learning

2Q18 vs. 2Q17 – Chg. in % and p.p.

Net Revenue: ▼ -1.6%

Gross Income: ▲ +1.5%
Gross Margin: ▲ +2.8 p.p.

Operating Result: ▲ +3.7%
Operating Margin: ▲ +3.7 p.p.

Reduction in Net Revenue, impacted by the lower offer of PMT this quarter. This decrease was compensated by the increase in the level of efficiency, with growth in Gross Income and Margin and Operating Result and Margin, through measures such as the optimization of the tutoring model, in addition to a higher volume of negotiations with students, seen in the increase in the line Interest and Penalties on Tuition.

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## Primary & Secondary Education

2Q18 vs. 2Q17 – Chg. in % and p.p.

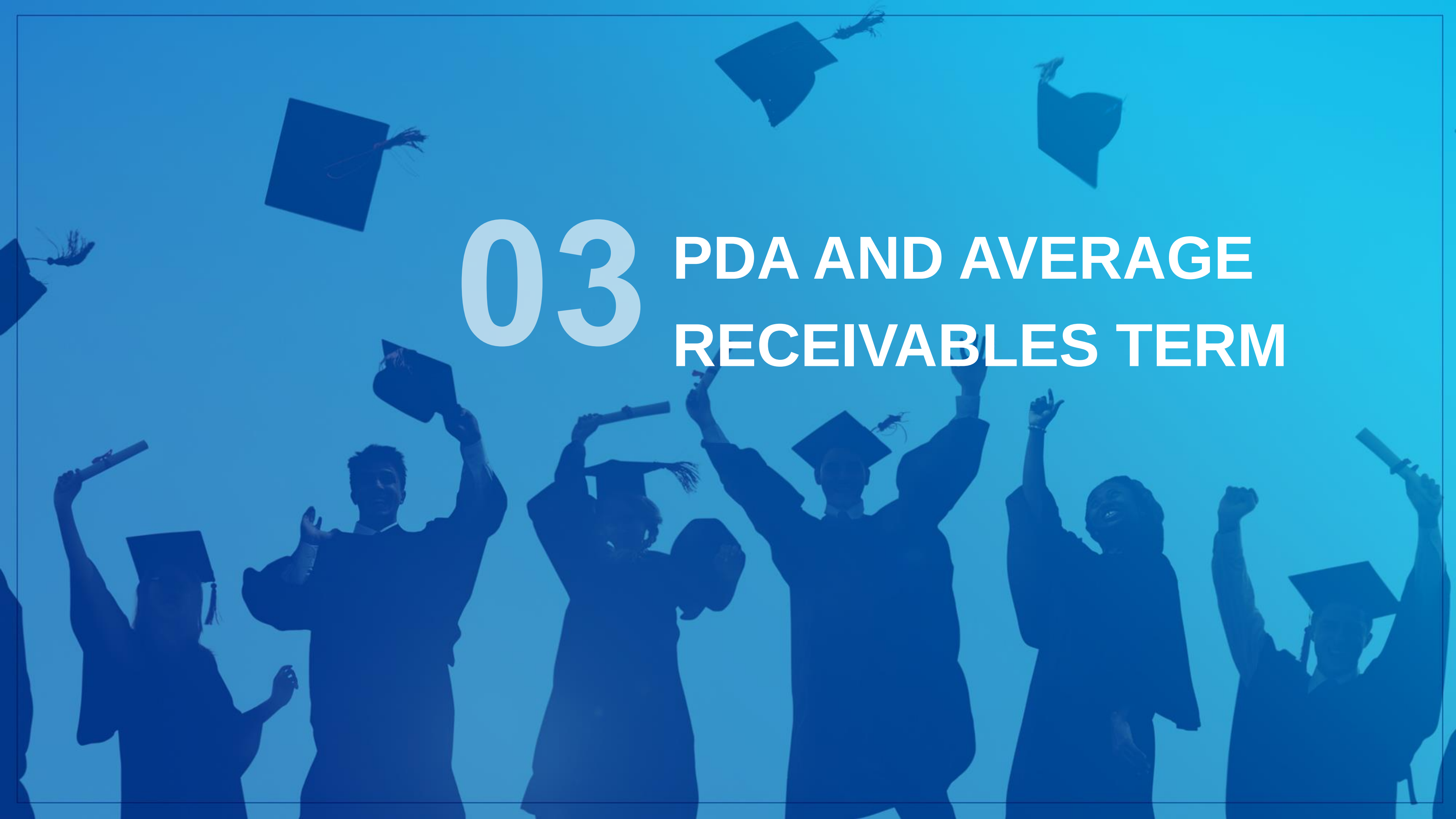
Net Revenue: ▲ +12.2%

Gross Income: ▼ -11.1%
Gross Margin: ▼ -12.3 p.p.

Operating Result: ▼ -13.6%
Operating Margin: ▼ -11.0 p.p.

Upturn of 12.2% in Net Revenue, reflecting the acquisition of Centro Educacional Leonardo da Vinci, concluded in April. This school marks the Company's entry in the premium segment, which has higher monthly tuitions however greater operation costs as well, which led to reductions in Gross Margin and Operating Margin in 2Q18 in an annual comparison.

All numbers exclude FAIR, FAC/FAMAT and NOVATEC

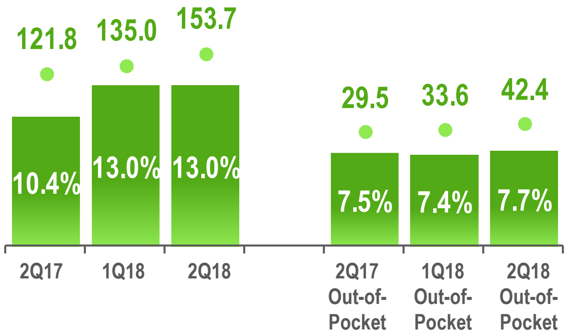


# 03 PDA AND AVERAGE RECEIVABLES TERM

# Provision for Doubtful Accounts (PDA)

## On-Campus

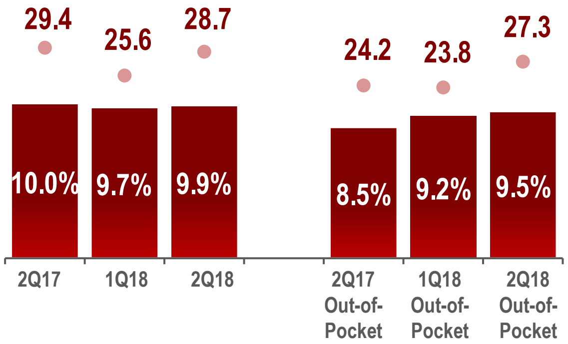
% Business NR and R$ million[1]




**Increase of 2.6 p.p.** in On-Campus PDA, reflecting the increase in the **PEP and PMT** student base, with stability over 1Q18. Considering only **Out-of-Pocket PDA**, there was a **0.3 p.p. hike** in relation to 1Q18, resulting from an adjustment carried out to reflect **delinquency expectations** given the **still challenging macroeconomic scenario**.

## Distance Learning

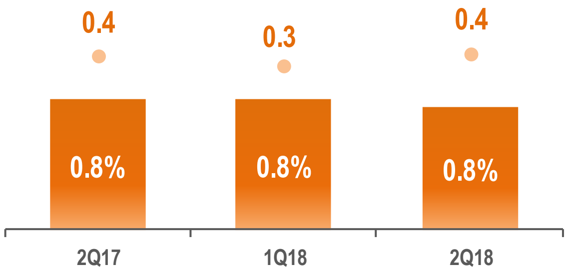
% Business NR and R$ million




Distance Learning PDA presented a decrease of **0.1 p.p.** over 2Q17, following the lower volume of **PMT** students. In a quarterly comparison, there was a **0.2 p.p. increase** given the **0.3 p.p.** upturn in **Out-of-Pocket PDA,** in turn due to the **increase in the 100% online student base** and the challenging **macroeconomic scenario**, including high unemployment.

## Primary & Secondary Education

% Business NR and R$ million




Once again, **PDA** for the Primary & Secondary Education remained **stable at 0.8%** of Net Revenue, attesting for the **solidity** of the policies adopted by the Company.

All numbers exclude FAIR, FAC/FAMAT and NOVATEC

[1] Does not include Pronatec

# Average Receivables Term

Days

| On-Campus | 2Q18 | 2Q17 | Change | 1Q18 | Change |
|---|---|---|---|---|---|
| Total Average Term | 181 | 146 | 35 days | 163 | 18 days |
| Out-of-Pocket Average Term[1] | 99 | 90 | 9 days | 89 | 10 days |
| FIES Average Term | 166 | 145 | 21 days | 146 | 20 days |
| PEP and PMT Average Term | 425 | 288 | 137 days | 393 | 32 days |

- **In 2Q18, total average receivables term reached 181 days, 35 days higher than 2Q17, impacted by the installment products and worsening in Out-of-Pocket term.**
- **Out-of-Pocket average term totaled 99 days, upturn of 9 days year-over-year and 10 days in relation to the previous quarter, reflecting the challenging macroeconomic scenario, with a worsening in default rates and a higher volume of negotiations with students in the period.**
- **FIES average term came to 166 days, up by 21 days compared to 2Q17, due to the lower FIES revenue recorded in the period.**
- **Average PEP and PMT recorded 425 days, a 137-day hike year-over-year, in line with the ramp up expected for these products.**

| Distance Learning | 2Q18 | 2Q17 | Change | 1Q18 | Change |
|---|---|---|---|---|---|
| Out-of-Pocket Average Term | 95 | 91 | 4 days | 87 | 8 days |
| PMT Average Term | 472 | 231 | 241 days | 242 | 230 days |

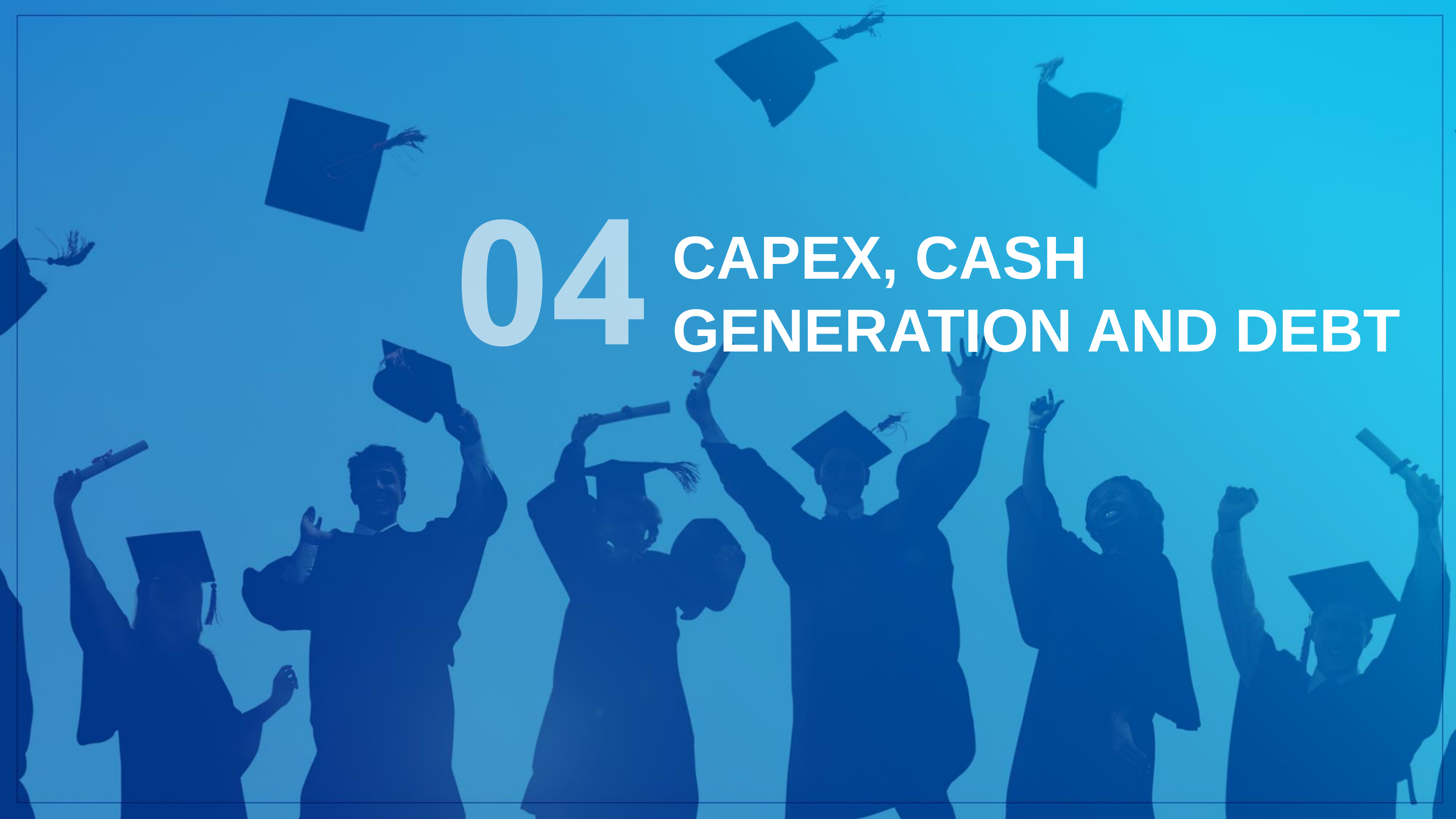
- **Out-of-Pocket average term was 95 days in 2Q18, increase of 4 days year-over-year, with the impacts of the worsening in the macroeconomic scenario and the increase in the 100% online student base. Compared to 1Q18, there was an upturn of 8 days, mainly due to seasonality between the quarters.**
- **PMT average term reached 472 days, up by 241 days in relation to 2Q17, as a result of the lower revenue recorded in the period.**

| Primary & Secondary Ed. | 2Q18 | 2Q17 | Change | 1Q18 | Change |
|---|---|---|---|---|---|
| Total Average Term | 85 | 90 | -5 days | 141 | -56 days |

- **Average term totaled 85 days, 56 days below the average term seen in 1Q18, given the seasonality in collection sales.**

All numbers exclude FAIR, FAC/FAMAT and NOVATEC
[1] Does not include Pronatec

# 04 CAPEX, CASH GENERATION AND DEBT



# Capital Expenditure

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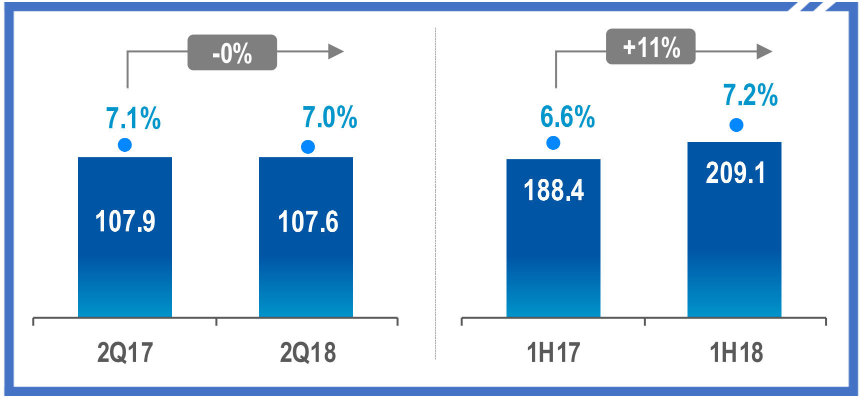
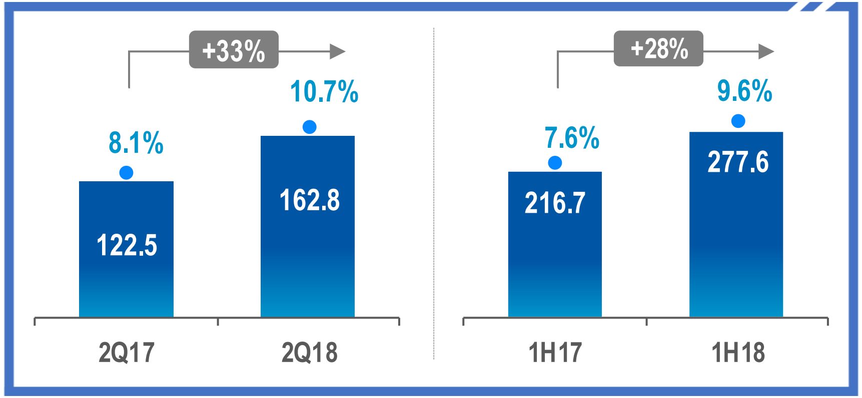
## Capex

R$ million and % NR[1]




## Capex + Special Projects

R$ million and % NR[1]




**Recurring Capex reached R$107.6 million in 2Q18, equivalent to 7.0% of Net Revenue, mainly invested in the development of content, systems and software licenses and improvement works. With this, 1H18 recurring Capex came to R$209.1 million, 7.2% of Net Revenue and 11% higher year-over-year.**

**Adding investments in special projects and greenfields, total Capex in 2Q18 represented 10.7% of Net Revenue, while total Capex in 1H18 was equivalent to 9.6% of Net Revenue, supporting organic growth and digital transformation. An acceleration of investments is expected for 2H18, bringing total annual capex to the 13.5% of Net Revenue expected by the Company.**

All numbers exclude FAIR, FAC/FAMAT and NOVATEC

# Operating Cash Generation (OCG)

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Amounts in R$ thousands

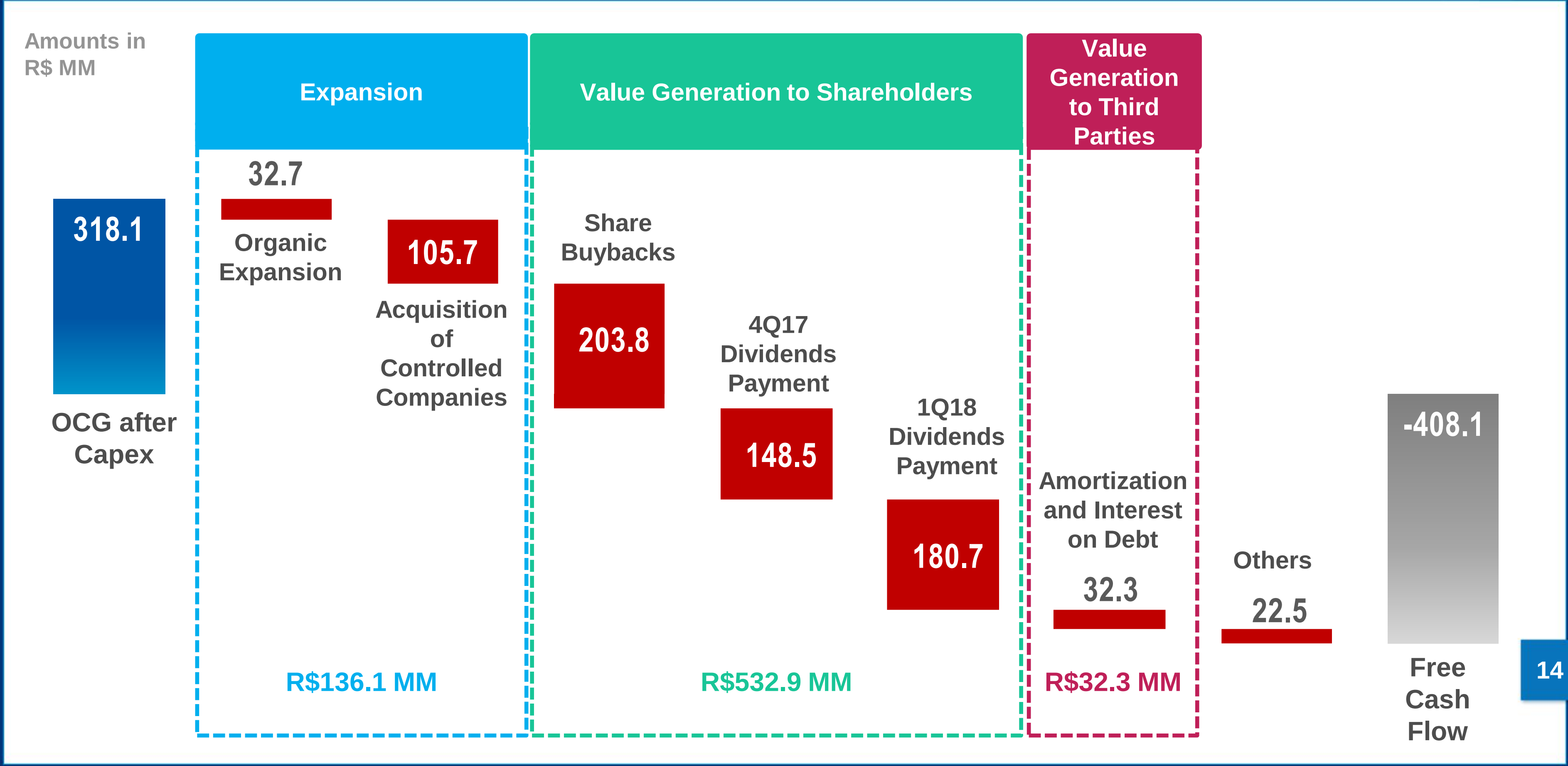
| Consolidated | 2Q18 | 2Q17 | Change | 1H18 | 1H17 | Change |
|---|---|---|---|---|---|---|
| **GCO before Capex** | **425,725** | **556,703** | **-23.5%** | **401,976** | **689,706** | **-41.7%** |
| GCO / EBITDA | 75.4% | 86.8% | -11.4 p.p. | 35.4% | 55.8% | -20.3 p.p. |
| **GCO after Capex** | **318,066** | **460,908** | **-31.0%** | **192,795** | **512,063** | **-62.3%** |
| GCO / EBITDA | 56.3% | 71.9% | -15.6 p.p. | 17.0% | 41.4% | -24.4 p.p. |
| **GCO after Capex and Special Projects** | **262,971** | **448,541** | **-41.4%** | **124,385** | **487,300** | **-74.5%** |
| GCO / EBITDA | 46.5% | 69.9% | -23.4 p.p. | 11.0% | 39.4% | -28.4 p.p. |
| **Free Cash Flow** | **(408,131)** | **53,551** | **n.a.** | **(598,541)** | **59,862** | **n.a.** |

- **Cash generation in the quarter was affected by the impact in working capital arising from the change in the profile of students, with a reduction in the exposure to FIES and an increase in exposure to the Company's installment products, PEP and PMT. For 3Q18, we expect a more robust Operating Cash Generation, considering the FIES related amounts already received, totaling R$768.3 million, including the settlement of the remaining 50% of installments due under PN23.**

- **Not withstanding, Operating Cash Generation After Capex was extremely robust, R$318.1 million, with an EBITDA-to-Cash conversion of 56.3% in the quarter.**

- **Free cash flow was negative R$408.1 million in 2Q18, reflecting the payment of dividends in the period (R$329.1 million) and the higher volume of share repurchases (R$203.8 million).**

# Evolution of Free Cash Flow in 2Q18



# Net Debt

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Amounts in R$ thousands

| Consolidated | 2Q18 | 2Q17 | Change | 1Q18 | Change |
|---|---|---|---|---|---|
| Cash and Cash Equivalents | 1,128,763 | 1,410,354 | -20.0% | 1,542,745 | -26,8% |
| Loans and Financing | 229,510 | 461,464 | -50.3% | 253,373 | -9,4% |
| **Net Cash (Debt)[1]** | **899,253** | **948,890** | **-5.2%** | **1,289,372** | **-30,3%** |
| Other Short and Long Term Debt[2] | 178,803 | 156,678 | 14.1% | 174,639 | 2,4% |
| **(1) Net Cash (Debt)[2]** | **720,450** | **792,212** | **-9.1%** | **1,114,733** | **-35,4%** |
| (a) Short Term Accounts Receivables | 517,825 | 199,275 | 159.9% | 502,674 | 3,0% |
| (b) Long Term Accounts Receivables | 464,086 | 879,132 | -47.2% | 456,306 | 1,7% |
| **(2 = a + b) Other Accounts Receivables[3]** | **981,911** | **1,078,407** | **-8.9%** | **958,980** | **2,4%** |
| **(1)+(2) Pro Forma Net Cash (Debt)** | **1,702,361** | **1,870,619** | **-9.0%** | **2,073,713** | **-17,9%** |

- **Kroton ended 2Q18 with a total cash and cash equivalents of R$ 1.1 billion, a decrease of 26.8% in a quarterly comparison due to the cash consumption in the period, including the share repurchases already mentioned.**
- **When adding all other short and long term obligations and receivables, including taxes paid in installments, obligations and rights related to acquisitions and divestments and 50% of the FIES installments not paid in 2015, net cash in the period totaled R$ 1.7 billion, attesting to the solidity of the balance sheet. It is worth noting that we have already received the FIES installments due under PN23 in August, affecting 3Q18.**



[1] Considers only bank obligations.
[2] Considering all short- and long-term obligations related to the taxes paid in installments and the acquisitions, including the amount to be paid within 6 years related to the Uniasselvi acquisition.
[3] Considers the receivables related to 50% of the FIES installments not paid in 2015, due in 2018, and receivables related to the Uniasselvi, FAIR and FAC/FAMAT divestments, with installments to be earned from 2018 to 2022 adjusted to present value (excluding the earn-out amounts).

# 05 CLOSING REMARKS

# On-Campus Organic Expansion Plan

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**Organic Growth**

| PRE 2017 | 2017 | 2018 | 2019.1 |
|---|---|---|---|
| 112 Legacy Units | +6 New Units | +25 New Units | +30 New Units |
| 112 Units | 118 Units | 143 Units | 173 Units |

| Result of 2018.1 New Units vs Business Plan | |
|---|---|
| Net Revenue | +38% ✓ |
| Student Enrollment | +24% ✓ |
| Costs and Expenses | -16% ✓ |

| IRR | PERPETUITY | 10 YEARS |
|---|---|---|
| BUSINESS PLAN | 42.4% | 26.2% |

- **61 new units until 2019.1 (+54% in number of campuses)**

- **Each unit has a potential of 3k students at maturity**

- **In total, the new units may add 183k new students**

# CLOSING REMARKS

2018.2 Enrollment and Reenrollment Status

Partnership with Cubo Itaú, with Kroton as a sponsor of "Cubo Education", the greatest EdTechs hub in Latin America

New Organizational Structure

1st place among the most innovative companies in Brazil in the Services category

Partnership which offers the most complete and innovative MBA in Digital Marketing

Dividends of R$ 177.6 million (R$ 0.11/share), maintaining payout at 40%

# INVESTOR RELATIONS

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