# 1Q16 Results

May, 2016




education is our passion

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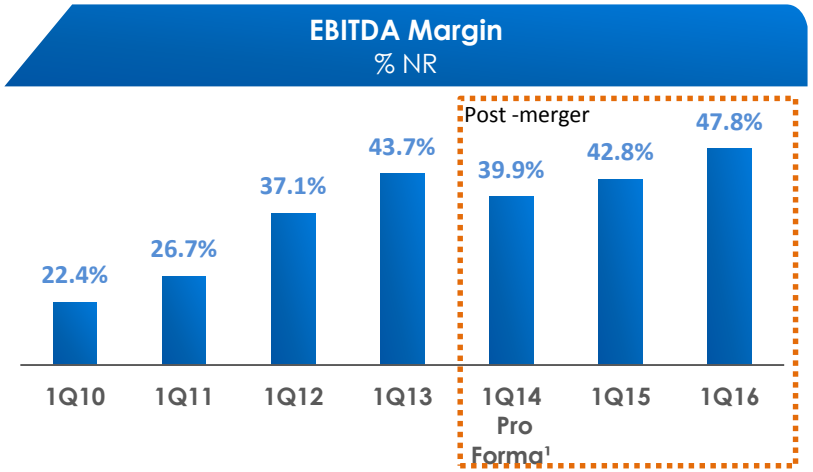
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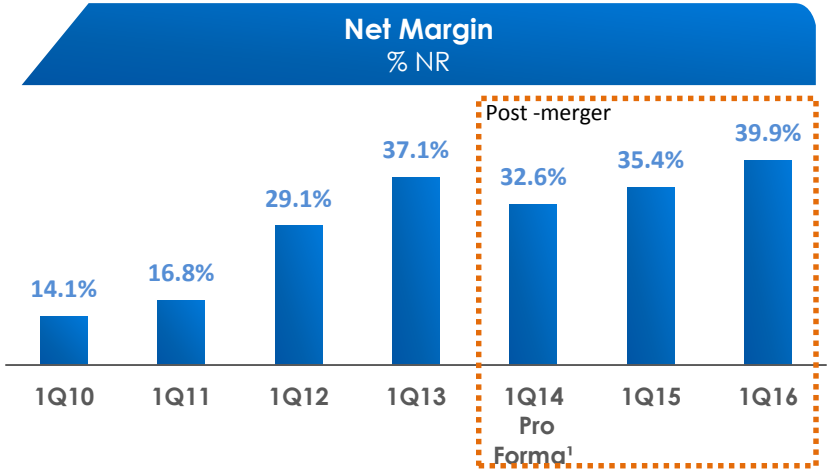
# Opening Remarks



# Margin Expansion

- Extremely solid and consistent Financial Performance supported by the capture of operating efficiency gains despite the more challenging economic scenario




[1] Analysis considering pro forma figures for 2014, observing the different accounting practices of Kroton and Anhanguera.

# Resilience of pillars with greatest potential impact in adverse macroeconomic scenarios

## Student base

**Undergraduate**
**1Q16[1] vs. 1Q15[1]**

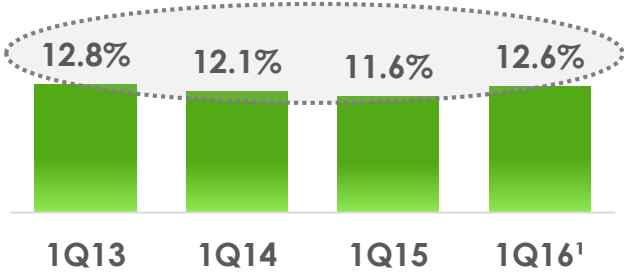
On-Campus: **0%**

DL: **+1%**

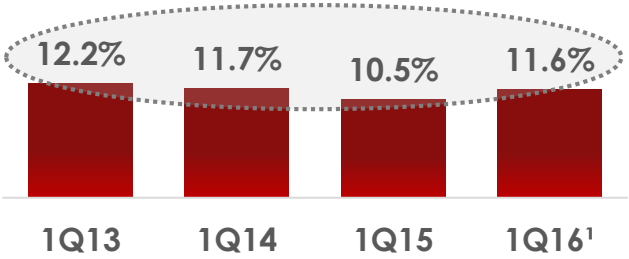
Total: **0%**

## Dropout rate

### On-Campus Undergraduate



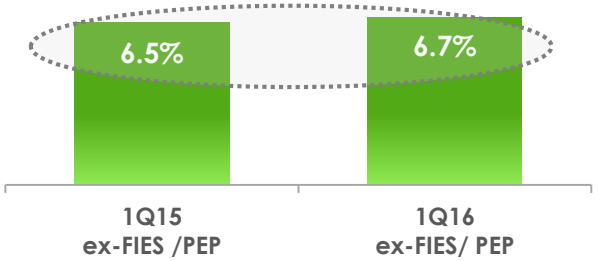

### DL Undergraduate




## Delinquency

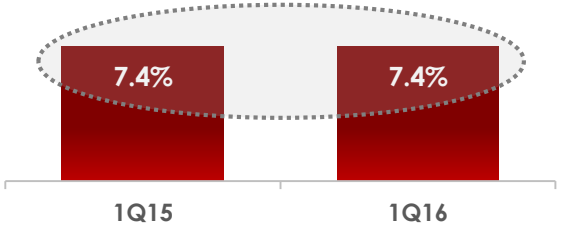
### PDA On-Campus – EX FIES/PEP

% Business NR (ex-Pronatec)




### PDA DL

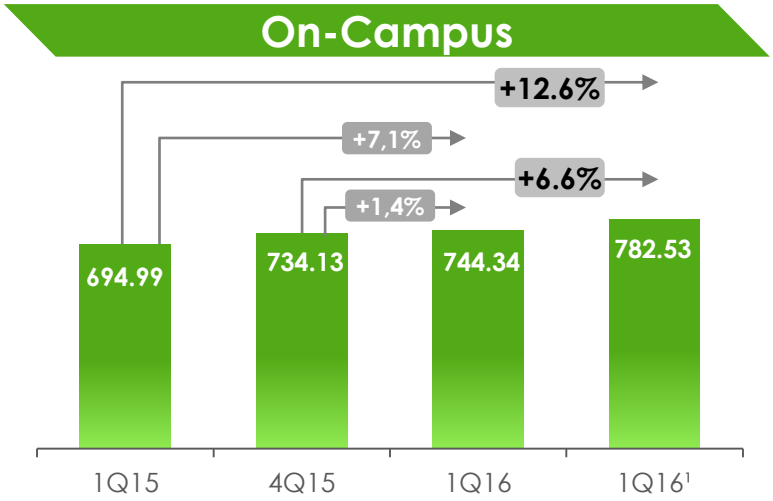
% Business NR



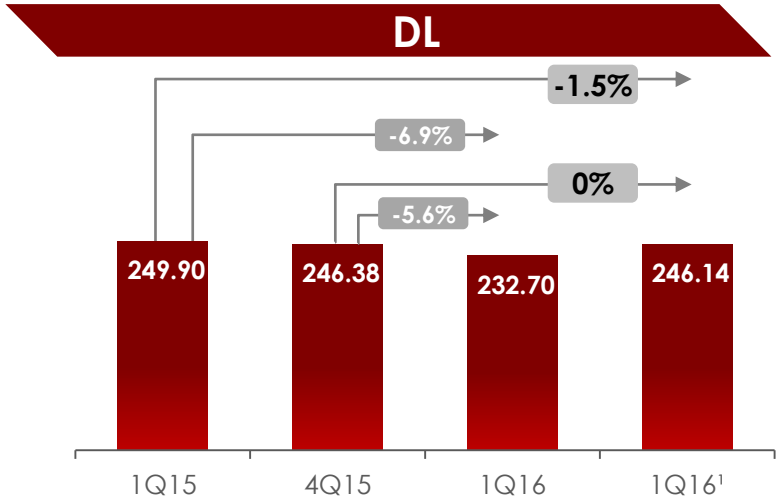

[1] Ex-Uniasselvi

# Average Ticket

❖ Evolution in Average Ticket in On-Campus and DL Postsecondary Education




➢ Excluding the impacts from one-off commercial actions in 1Q16, the average ticket in the On-Campus business increased 12.6% from 1Q15 and 6.6% from 4Q15




➢ Excluding the impacts from one-off commercial actions in 1Q16, the average ticket in the DL business fell 1.5% from 1Q15 and remained stable in relation to 4Q15

¹ Excluding one-off discounts and exemption from enrollment fees granted only to new students during the recruiting process in 1Q16

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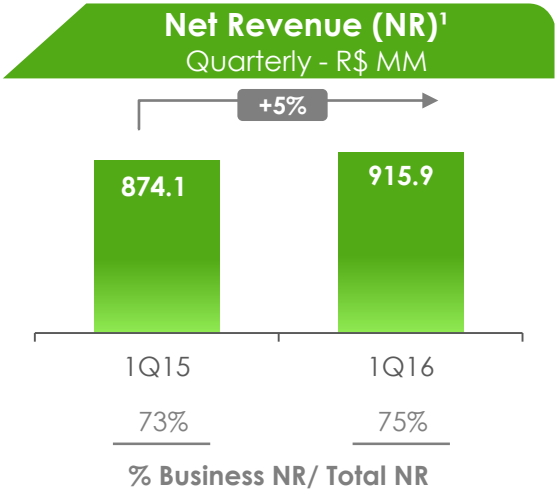
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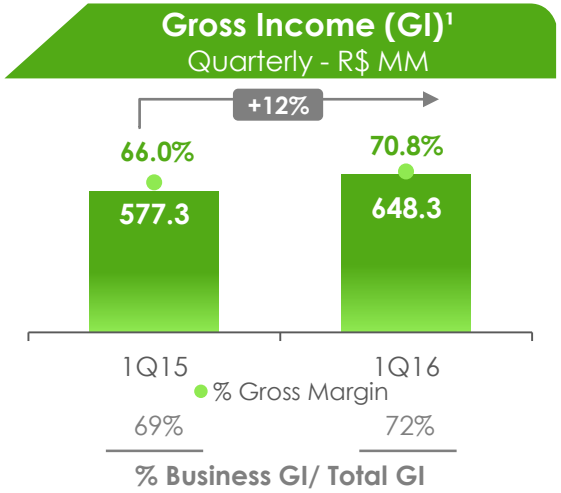
# Financial Performance

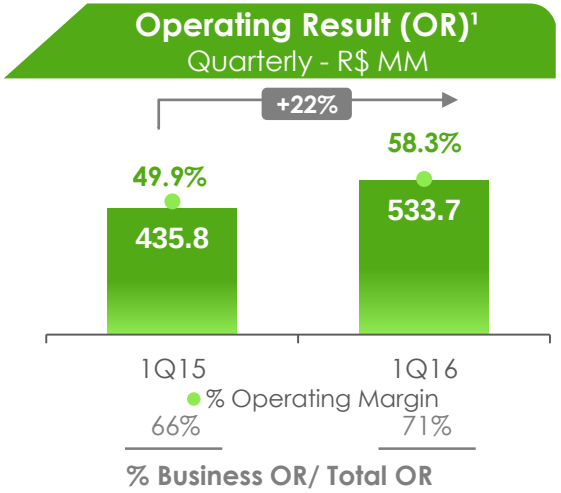


# Financial Performance

## On-Campus Business




- Net Revenue from the On-Campus business advances 5% on 1Q15, driven mainly by student base growth and the higher average ticket
- Gross income from On-campus Education increases 12% to R$648.3 million, with margin of 70.8%, mainly due to the implementation of the new academic model and the operations research tool
- Operating result before marketing in the business grows 22% to R$533.7 million in 1Q16, with margin of 58.3%, for expansion of 8.4 p.p. from 1Q15, driven by efficiency and synergy gains

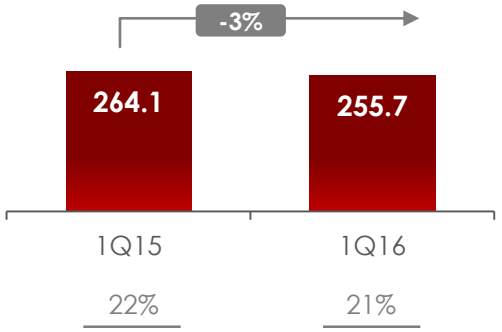


[1] Ex-Uniasselvi

# Financial Performance

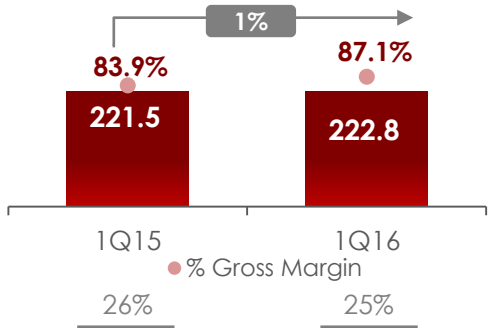
## Distance Learning Postsecondary Business

**Net Revenue (NR)[1]**
Quarterly - R$ MM



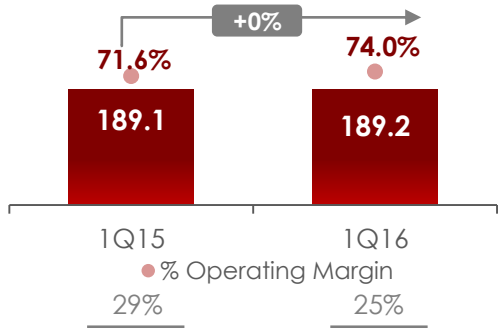

% Business NR/ Total NR

**Gross Income (GI)[1]**
Quarterly - R$ MM




% Business GI/ Total GI

**Operating Result (OR)[1]**
Quarterly - R$ MM




% Business OR/ Total OR

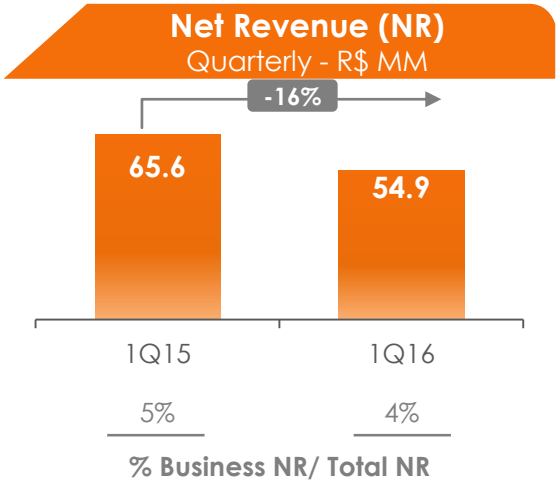
- Net revenue of R$255.7 million, down 3% from 1Q15, due to lower revenue from LFG and the lower average ticket in the Undergraduate segment
- Gross income stable in 1Q16, at R$222.8 million, with Gross margin of 87.1%, expanding 3.2 p.p. on 1Q15, due to lower costs with tutors and faculty resulting from the convergence of content delivery models (from Anhanguera model to Unopar model) and the optimization of business structures.
- Operating result before marketing of R$189.2 million, stable in relation to 1Q15, with Operating Margin expanding 2.4 p.p. to 74.0%

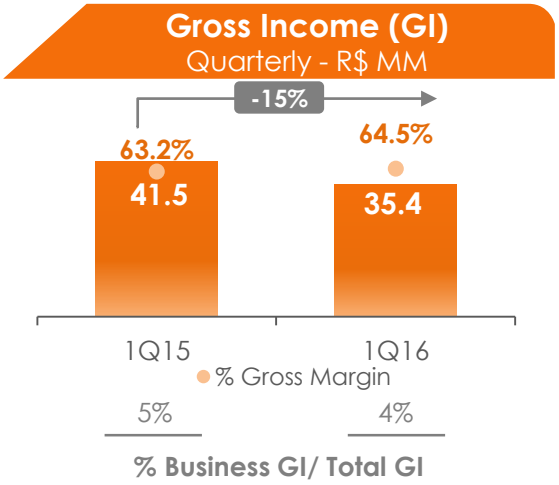


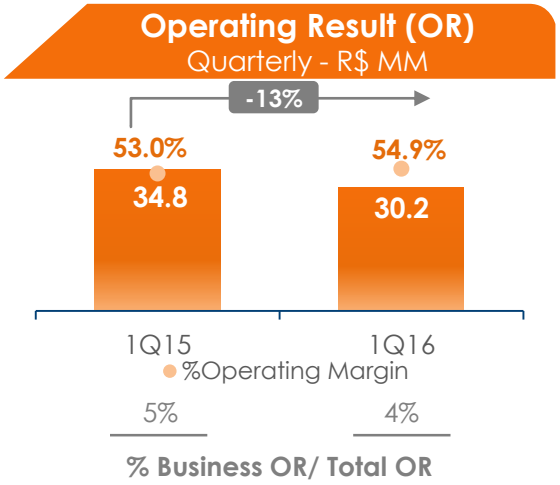
[1] Ex-Uniasselvi

# Financial Performance

## Primary & Secondary Education Business

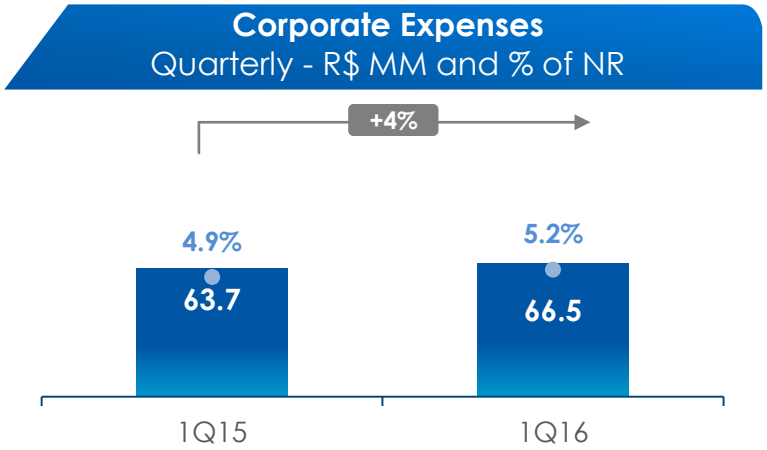


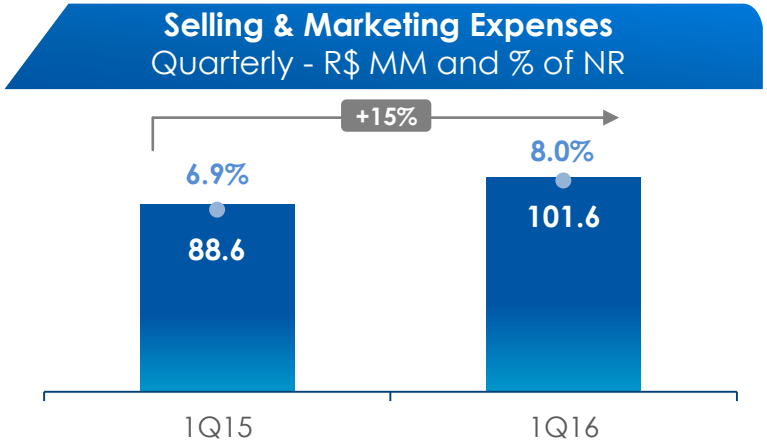




- Net revenue from Primary & Secondary Education of R$54.9 million, down 16% from 1Q15, due to efficiency gains in the delivery of book collections for the first semester of 2016, which enabled a portion of this revenue to be recognized in 4Q15
- Gross income of R$35.4 million, down 15% from 1Q15, with gross margin expanding 1.3 p.p. to 64.5%
- Operating result of R$30.2 million, down 13% from 1Q15, with operating margin expanding 1.9 p.p., supported by the rigorous control of costs and expenses

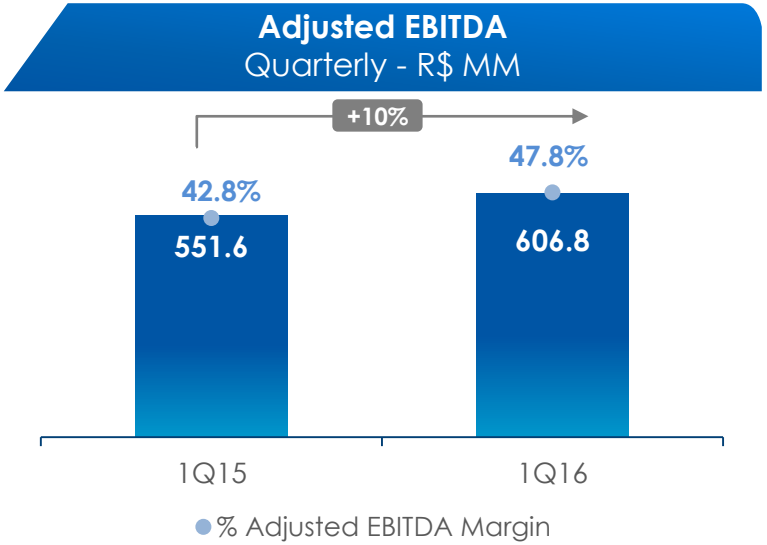
# Corporate and Selling & Marketing Expenses

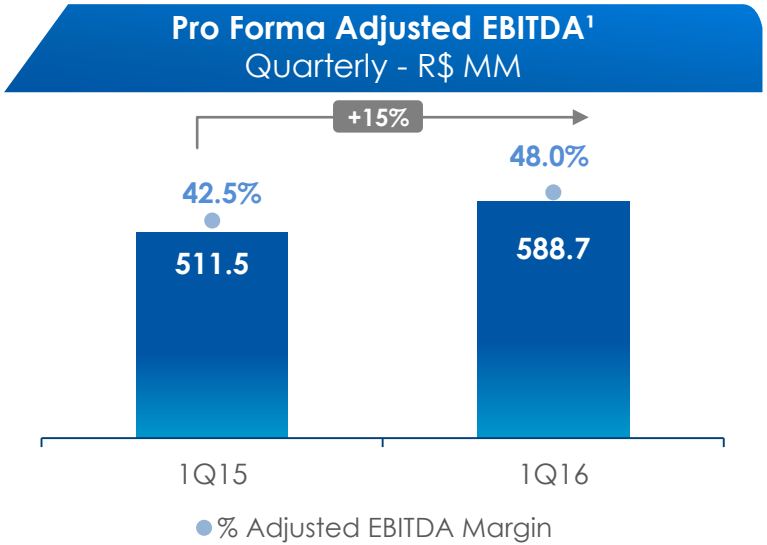



- Corporate expenses of R$66.5 million in the quarter, up 4% on 1Q15, reflecting the granting of new stock option plans and the wage increases in the period
- Selling and Marketing expenses as a ratio of net revenue increased 1.1 p.p. from 1Q15, reflecting the higher volume of commercial actions for the student recruiting process early this year and the anticipation of expenses with the recruiting process for the second semester

# EBITDA

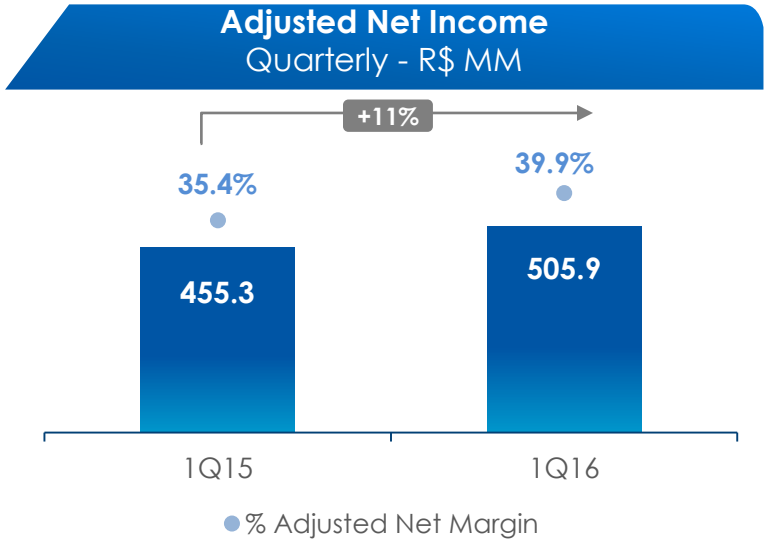


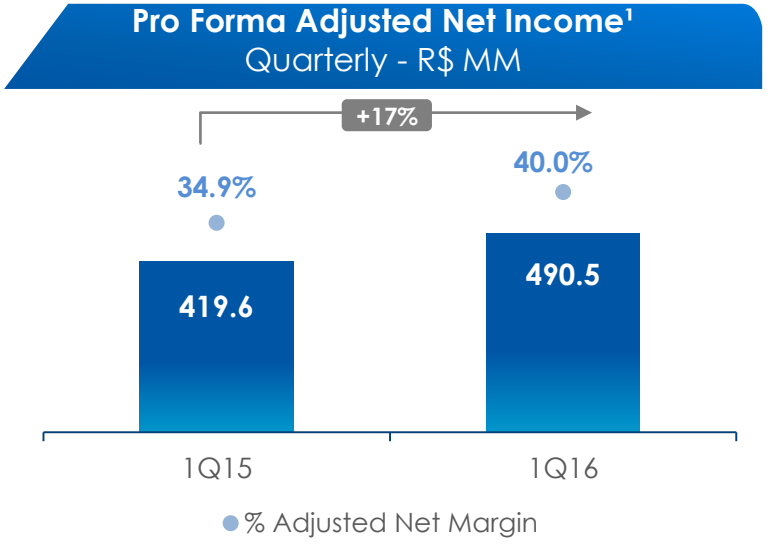




- Adjusted EBITDA grows 10% to R$606.8 million in the quarter, with adjusted EBITDA margin of 47.8%, expanding 5.0 p.p. from 1Q15
- Pro forma adjusted EBITDA grows 15% to R$588.7 million in the quarter, with pro forma adjusted EBITDA margin of 48.0%, expanding 5.5 p.p. from 1Q15

[1]Ex-Uniasselvi

# Net Income




- Adjusted net Income increased 11% to R$505.9 million in 1Q16, with adjusted net margin of 39.9%, expanding 4.5 p.p. from 1Q15
- Pro forma adjusted net Income increased 17% to R$490.5 million in 1Q16, with pro forma adjusted net margin of 40.0%, expanding 5.1 p.p. from 1Q15



[1]Ex-Uniasselvi

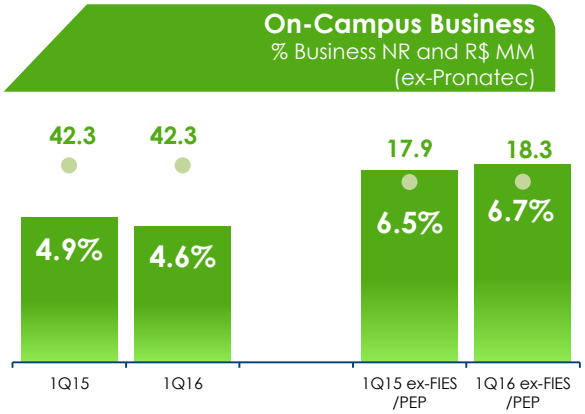
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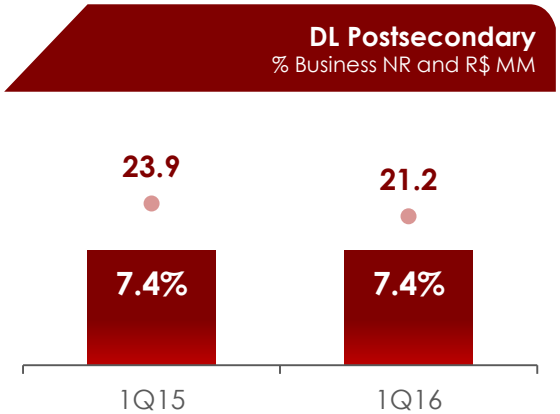
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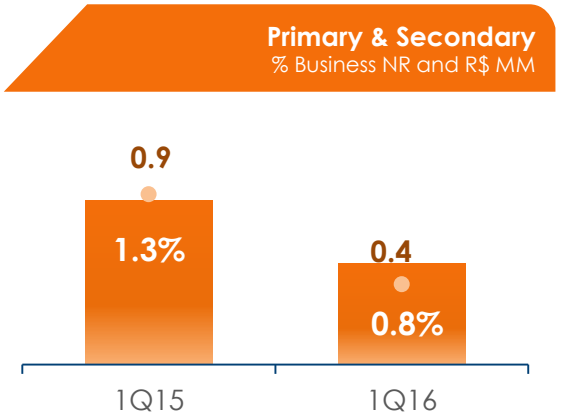
# Provisioning, Receivables & Average Receivables Term



# Provision for Doubtful Accounts (PDA)




- Provisioning ex-FIES/PEP increased 0.2 p.p. from 1Q15, due to the accrual made by the Company to better reflect its expectations for delinquency given the deterioration in the economic scenario
- In the DL business, provisioning remained stable in relation to 4Q15, at 7.4%
- In the Primary & Secondary business, provisioning corresponded to 0.8% of net revenue, down 0.5 p.p. from 1Q15, a period marked by a shift in the calendar of book collection sales

# Accounts Receivables

| *On-Campus*<br>*Amounts in R$ ('000)* | 1Q16 | 1Q15 | % Chg. | 4Q15 | % Chg. |
|---|---|---|---|---|---|
| **Net Accounts Receivables** | **1,683,487** | **897,912** | **87.5%** | **1,342,246** | **25.4%** |
| Short Term – Tuition and Agreements | 195,640 | 247,196 | -20.9% | 193,384 | 1.2% |
| FIES – Short Term | 868,409 | 625,923 | 38.7% | 548,915 | 58.2% |
| FIES – Long Term | 516,258 | n.a. | n.a. | 526,107 | -1.9% |
| Long Term Receivables/ PEP | 103,180 | 24,793 | 316.2% | 73,840 | 39.7% |
| *Distance Learning*<br>*Amounts in R$ ('000)* | 1Q16 | 1Q15 | % Chg. | 4Q15 | % Chg. |
| **Net Accounts Receivables** | **190,733** | **188,864** | **1.0%** | **222,827** | **-14.4%** |
| *Primary & Secondary*<br>*Amounts in R$ ('000)* | 1Q16 | 1Q15 | % Chg. | 4Q15 | % Chg. |
| **Net Accounts Receivables** | **48,872** | **51,353** | **-4.8%** | **44,682** | **9.4%** |

- Accounts receivables in the On-campus business increased from 1Q15, mainly due to the higher accounts receivable from FIES due to the impacts from PN23 and PEP
- Accounts receivable in the DL business were stable compared to 1Q15 and 14.4% lower than in 4Q15, due to the rigid renegotiation policies practiced during the re-enrollment process early this year
- The reduction in accounts receivable in the Primary and Secondary business compared to 1Q15 is explained by the anticipation of book collection sales in 4Q15

# Average Receivables Term

| *On-Campus* *days* | | 1Q16 | 1Q15 | Chg. | 4Q15 | Chg. |
|---|---|---|---|---|---|---|
| Total Average Term: | Total Net Accounts Receivable / Net Revenues | 154 | 90 | 64 days | 124 | 30 days |
| Ex-FIES Average Term: | Total Net Accounts Receivable (ex-FIES) / Net Revenues (ex-FIES) | 86 | 72 | 14 days | 76 | 10 days |
| FIES Average Term: | Total Net Accounts Receivable FIES / FIES Net Revenues | 184 | 99 | 85 days | 147 | 37 days |
| ***Distance Learning*** ***days*** | | **1Q16** | **1Q15** | **Chg.** | **4Q15** | **Chg.** |
| Net Accounts Receivable / Net Revenues | | 59 | 57 | 02 days | 68 | -09 days |
| ***Primary & Secondary*** ***days*** | | **1Q16** | **1Q15** | **Chg.** | **4Q15** | **Chg.** |
| Net Accounts Receivable / Net Revenues | | 102 | 104 | -02 days | 88 | 14 days |

- In On-Campus Postsecondary:
  - Ex-FIES average term: 14 days higher than in 1Q15, mainly reflecting the longer average term of PEP. Excluding this effect, the average term of receivables ex-FIES/ex-PEP was 67 days in 1Q16, or 7 days less than in 1Q15
  - FIES average term: 85 days higher than in 1Q15, primarily due to changes in the flow of receivables from FIES repurchases introduced by PN23 and the limits imposed on repurchases in late 2015
- In Distance Learning, the 2-day increase compared to 1Q15 is due to the higher average term of receivables from LFG
- In Primary and Secondary education, the decrease of 2 days in the average term between 1Q16 and 1Q15 is associated with the lower sales activity in the period

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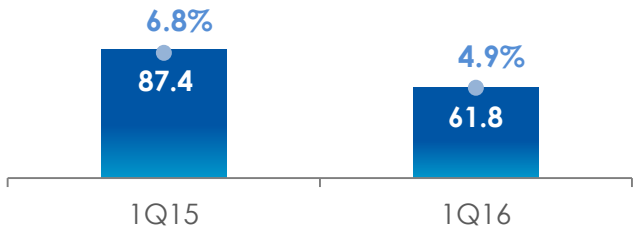
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# Capital Expenditure & Debt

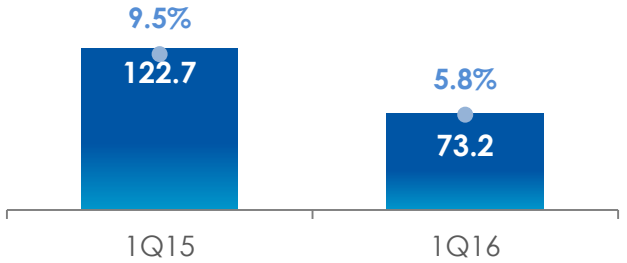


# Capital Expenditure

**CAPEX**
R$ MM and % NR




**CAPEX + Special Projects**
R$ MM and % NR




- In 1Q16, CAPEX corresponded to 4.9% of Net Revenue, down 1.9 p.p. 1Q15, reflecting the investments in expansion projects involving construction and improvements at existing units, as well as the projects involving content development, systems development and software licensing
- Including Special Projects, investments amounted to R$73.2 million, or 5.8% of net revenue, reflecting the investments in structural expansion and greenfield projects

# Net Debt

| *Consolidated R$ ('000)* | 1Q16 | 1Q15 | % Chg. | 4Q15 | % Chg. |
|---|---|---|---|---|---|
| **Cash and Cash Equivalents** | **574,432** | **331,796** | **73.1%** | **403,583** | **42.3%** |
| Loans and Financing | 711,650 | 889,125 | -20.0% | 758,404 | -6.2% |
| **Net Cash (Debt)[1]** | **(137,218)** | **(557,329)** | **-75.4%** | **(354,821)** | **-61.3%** |
| Other Long and Short Debt[2] | 253,080 | 307,632 | -17.7% | 278,681 | -9.2% |
| Long Term Receivables[3] | 376,937 | n.a | n.a | n.a | n.a |
| **Net Cash (Debt)** | **(13,361)** | **(864,961)** | **-98.5%** | **(633,502)** | **-97.9%** |

- **Total cash and equivalents at the end of 1Q16 increased 42.3% compared to 4Q15, mainly due to the receipt of the first installment from the sale of Uniasselvi, which more than offset the payments of dividends for 4Q15 (R$70 million) and the interest on debentures (R$73 million) in the period**
- **Almost deleveraged at the end of 1Q16 - net debt of only R$13.4 million**

[1] Net Cash (debt) considering 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 long-term receivables from the sale of Uniasselvi to be received from 2018 to 2022 adjusted to present value (excluding earn-out amounts).

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# Cash Generation



# Operating Cash Generation

| *Consolidated – Amounts in R$ ('000)* | 1Q16 | 1Q15 | % Chg. |
|---|---|---|---|
| **Operating Cash Generation (OCG) before CAPEX** | **9,149** | **97,209** | **-90.6%** |
| OCG / EBITDA | 1.2% | 18.9% | -17.7 p.p. |
| **Operating Cash Generation (OCG) after CAPEX** | **(39,533)** | **4,707** | **n.a** |
| OCG / EBITDA | - | 0.9% | n.a |
| **Operating Cash Generation (OCG) after CAPEX and Special Projects** | **(60,798)** | **(22,084)** | **175.3%** |
| OCG / EBITDA | - | - | - |
| **Free Cash Flow** | **171,060** | **(123,551)** | **n.a** |

- Operating cash generation in the quarter was adversely affected by the introduction of PN23 and the lower flow of FIES receivables repurchased early in the year, which should be reversed over the course of 2016
- In 2Q16, the Company will record the receipt of approximately R$900 million in FIES receivables (related to March and April), which will increase the conversion of EBITDA to Cash in the first half of 2016 to a level closer to that of 2014

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# Guidance and Closing Remarks



# Guidance

| R$ million and % | 2015 Pro Forma[1] | 2016 Pro Forma[1] | Var.% | 2016 Corporate |
|---|---|---|---|---|
| Net Revenue | R$ 4,979 | **R$ 5,050** | **+1.4%** | R$ 5,102 |
| Adjusted EBITDA | R$ 2,078 | **R$ 2,200** | **+5.9%** | R$ 2,218 |
| Adjusted EBITDA Margin | 41.7% | **43.5%** | **+1.8 p.p.** | 43.5% |
| Adjusted Net Income | R$ 1,699 | **R$ 1,830** | **+7.7%** | R$ 1,845 |
| Adjusted Net Margin | 34.1% | **36.2%** | **+2.1 p.p.** | 36.2% |
| Total CAPEX (% of Net Revenue) | 8.3% | **8.0%** | **-0.3 p.p.** | 8.0% |

[1]Ex-Uniasselvi

# Closing Remarks

- Organic growth projects advancing as planned
- Company is fully adjusted in terms of budget and cost & expense structure
- The second admissions cycle for 2016 has already started
- Private financing facility being developed for launch in 2017
- Approval of dividend distribution: R$199.3 million (EPS of R$0.1232) – increase of the payout rate to 35%

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