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# 2Q15 Earnings Conference Call

*August 2015*

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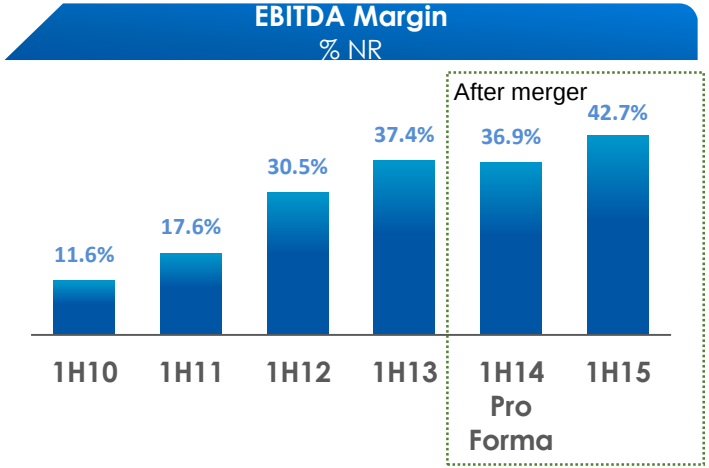
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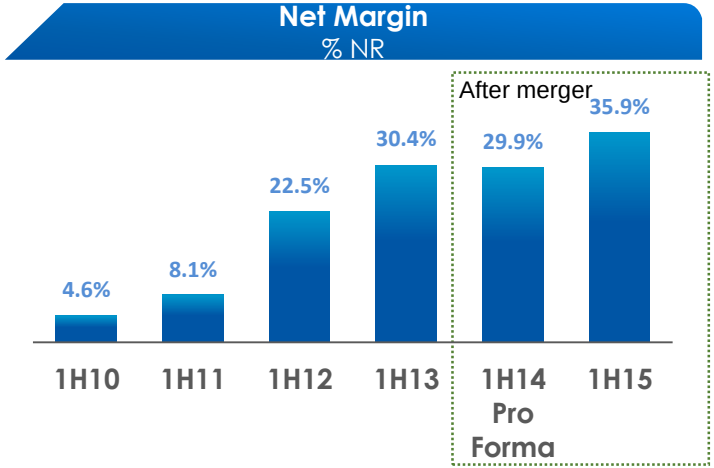
# Opening Remarks



# Current Scenario and Outlook

## ➢ Very solid and consistent financial performance



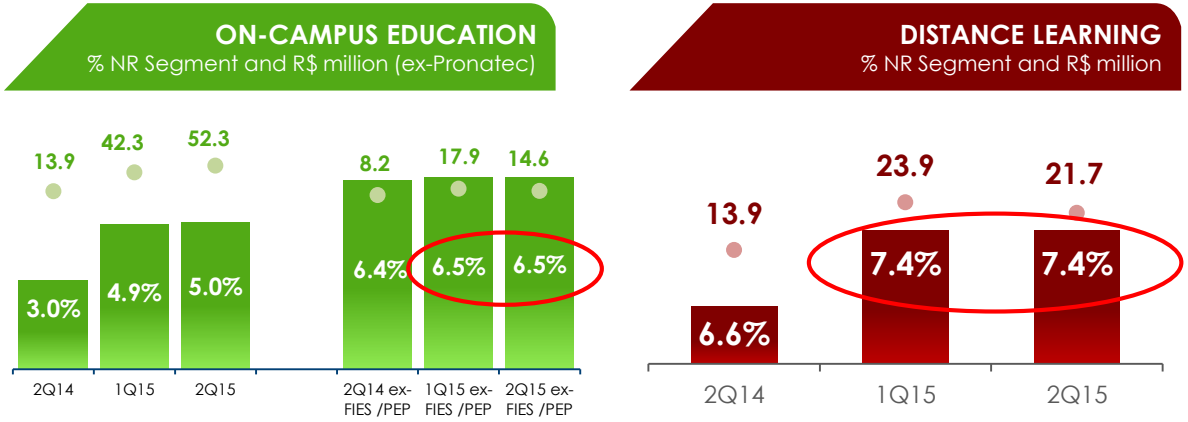

## ➢ Strong Cash Generation (R$ million)

| | 2Q15 | 1H15 |
|---|---|---|
| Cash Flow after Capex | R$ 209.2 | R$ 213.9 |

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

# Current Scenario and Outlook

- Provisioning remained stable and under control




- New efforts to reinforce negotiation and collection policies promoted to mitigate any impacts from the worsened macroeconomic scenario

# Current Scenario and Outlook

- 2S15 New Enrollments: new products to mitigate impacts of more restrictive FIES

**PEP**

*Special Private Installment*

- PEP 30
- PEP 50

+

PRAVALER
BOLSAS E FINANCIAMENTOS ESTUDANTIS

+

FIES

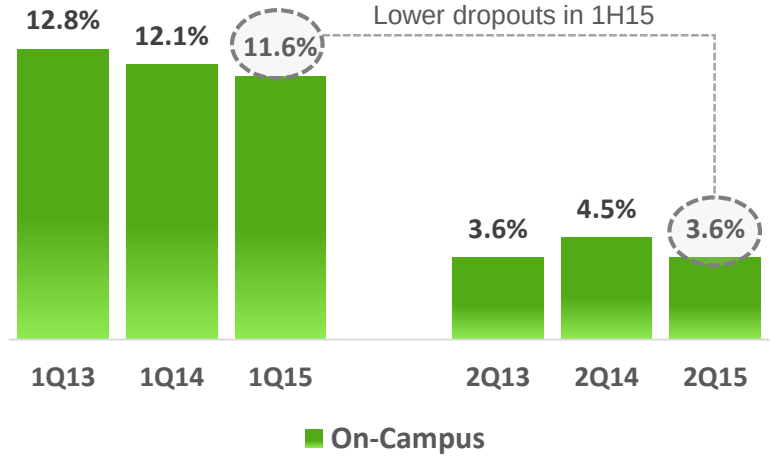
- ~ 11,000 openings

- Final results of the process to be announced by early October

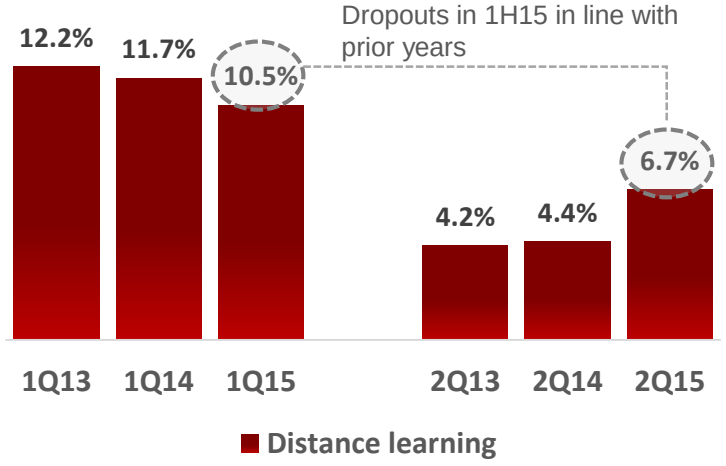
# Current Scenario and Outlook

- Dropout rate under control

**Evolution in Dropout Rate On-Campus**




**Evolution in Dropout Rate Distance Learning**




- "Retention Program": set of 20 projects for better managing dropouts and student retention that will capture important efficiency gains in the entire Postsecondary Education business over the coming years

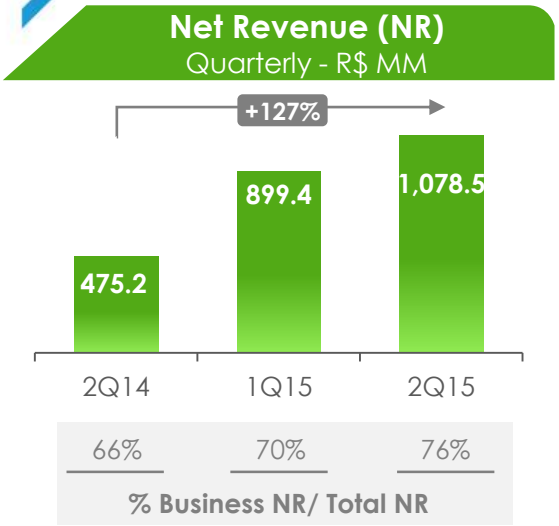
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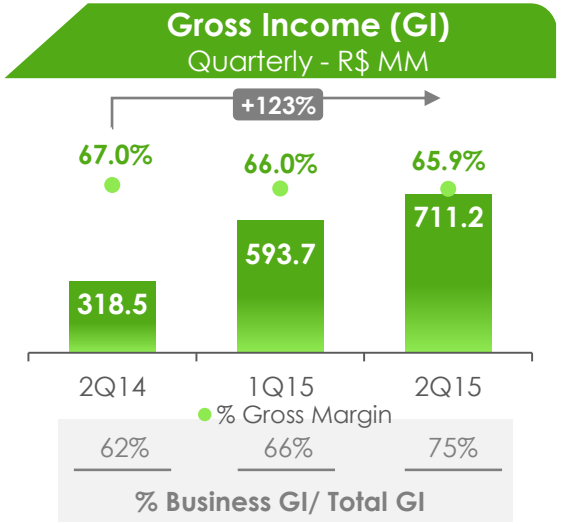
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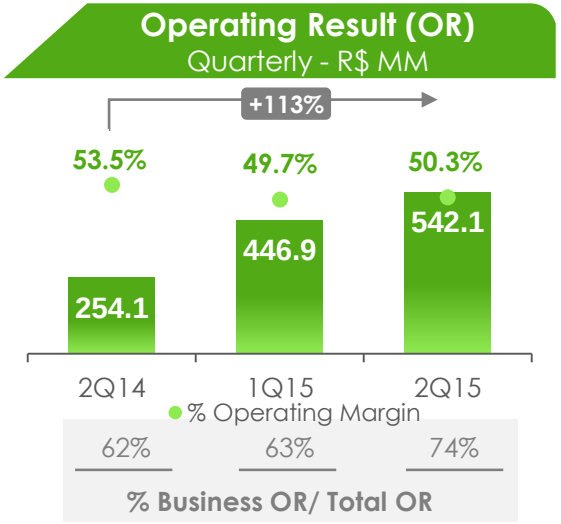
# Financial Performance



# Financial Performance
## On-Campus Business



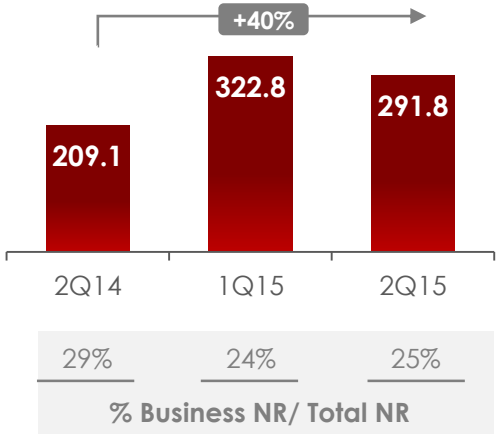



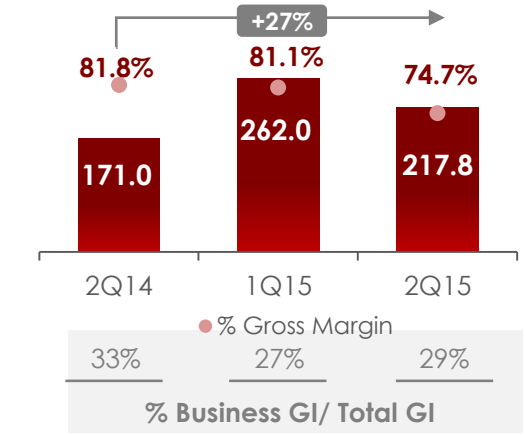

- Net revenue from the On-Campus business grew 127% on 2Q14, supported mainly by the merger and performance of the admission and re-enrollment processes in Undergraduate programs in the first semester
- Gross income from On-Campus Education grew 123% to R$711.2 million, for margin of 65.9%, mainly driven by optimization of capacity
- Operating result before marketing in the segment grew 113% to R$542.1 million in 2Q15, with a margin of 50.3%, similar to the 1Q15 performance, supported by continuous efficiency gains and captured synergies.

# Financial Performance
## Distance Learning Postsecondary Business

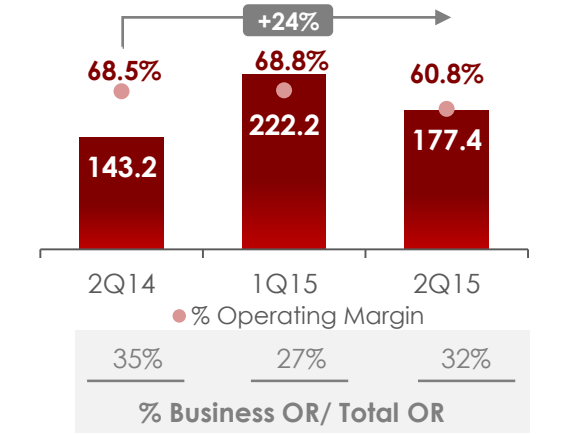
**Net Revenue (NR)**
Quarterly - R$ MM




**Gross Income (GI)**
Quarterly - R$ MM



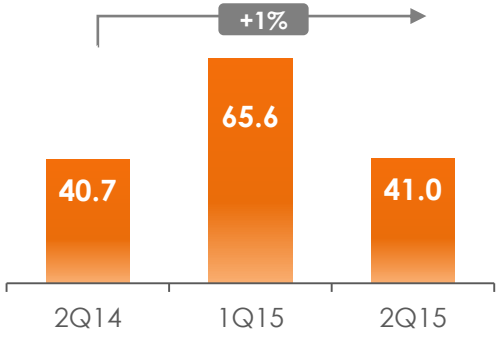

**Operating Result (OR)**
Quarterly - R$ MM




- Net Revenue of R$291.8 million, increasing 40% on 2Q14, reflecting the admission and re-enrollment processes in the first semester and the Anhanguera merger
- Gross Income grew 27% to R$217.8 million in 2Q15, with Gross Margin of 74.7%, down 1.1 p.p. from 2Q14, due to lower operating margin in the DL operations of Anhanguera
- Operating result before marketing expenses was R$177.4 million, up 24% from the same period last year, with margin of 60.8%, evolving as the content delivery models converge (from the Anhanguera to the Unopar model)

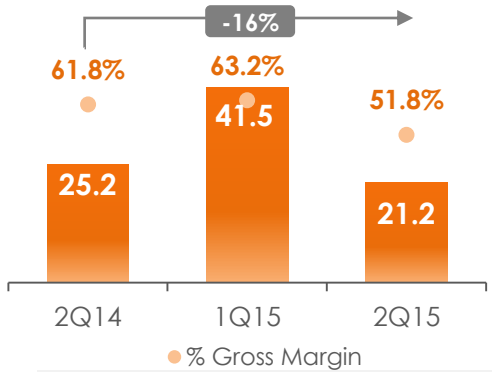
# Financial Performance
## Primary and Secondary Education Business

**Net Revenue (NR)**
Quarterly - R$ MM



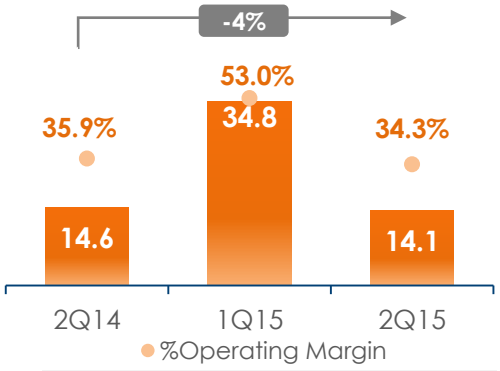

| 6% | 4% | 3% |
|---|---|---|
| % Business NR/ Total NR | | |

**Gross Income (GI)**
Quarterly - R$ MM




| 5% | 3% | 2% |
|---|---|---|
| % Business GI/ Total GI | | |

**Operating Result (OR)**
Quarterly - R$ MM

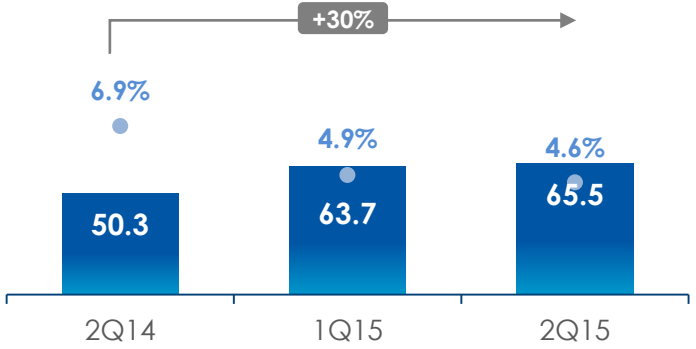



| 4% | 3% | 2% |
|---|---|---|
| % Business OR/ Total OR | | |

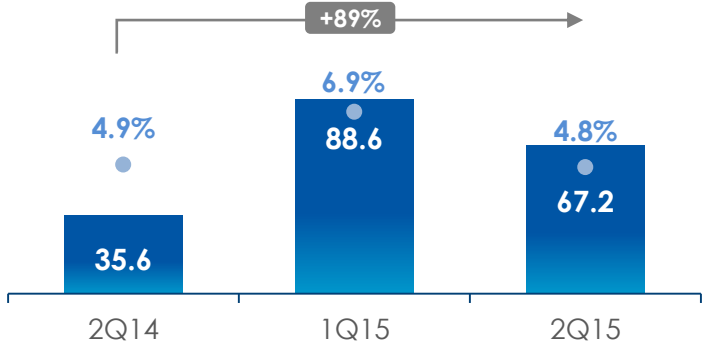
- Net revenue from Primary and Secondary Education of R$41.0 million, flat compared to 2Q14, despite termination of the majority of contracts with SESI network schools
- In 2Q15, gross income was R$21.2 million, down 16% from the same period in 2014, coupled with margin contraction of 10.0 p.p.
- Operating result reached R$14.1 million, quite similar to the same period in the previous year

# Corporate and Selling & Marketing Expenses

**Corporate Expenses**
Quarterly - R$ MM and % of NR

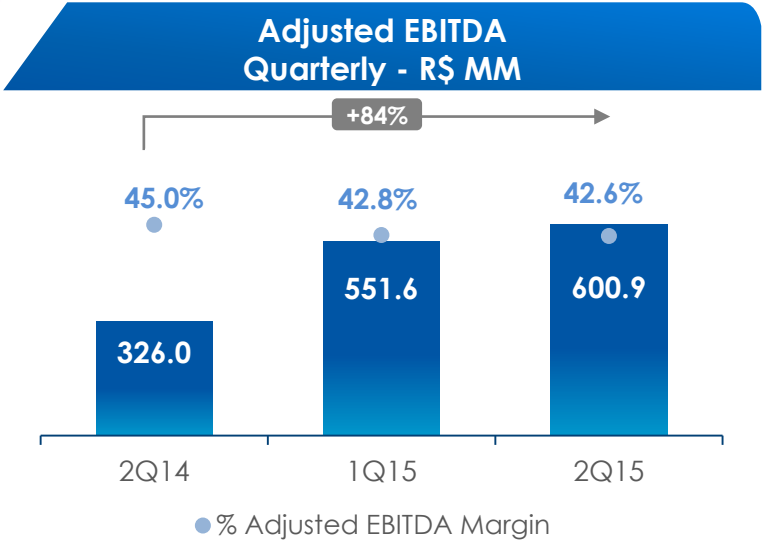


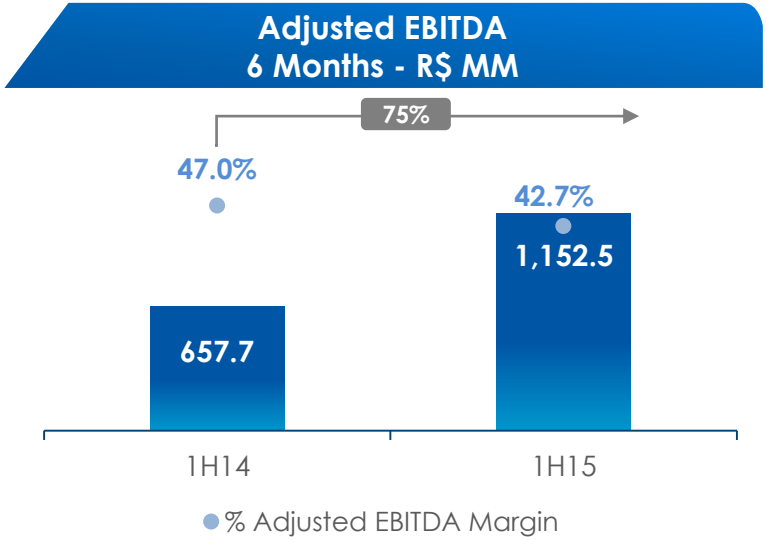

**Selling and Marketing Expenses**
Quarterly - R$ MM and % of NR




- Corporate expenses came to R$65.5 million this quarter, down 2.3 p.p. as a ratio of net revenue in the period, driven by merger synergies captured in the consolidation of administrative structures and contract renegotiations
- Selling and Marketing expenses as a percentage of net revenue remained practically stable in comparison with 2Q14 and fell slightly compared to 1Q15, due to the seasonality of business

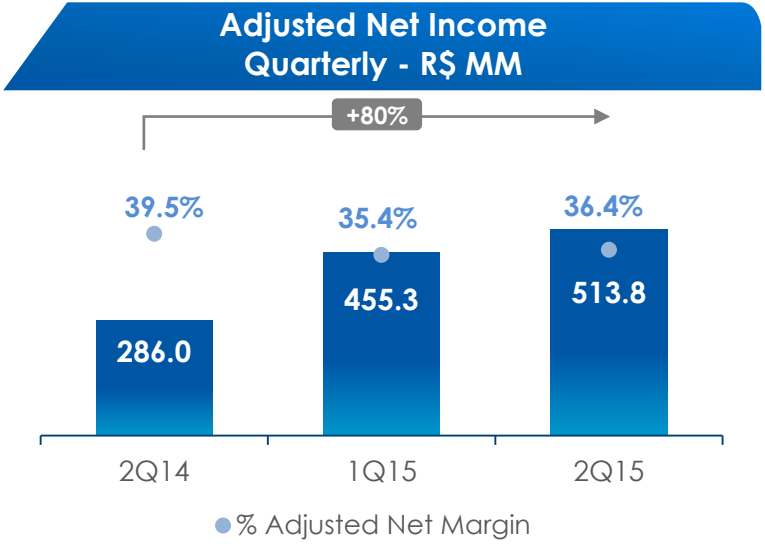
# EBITDA

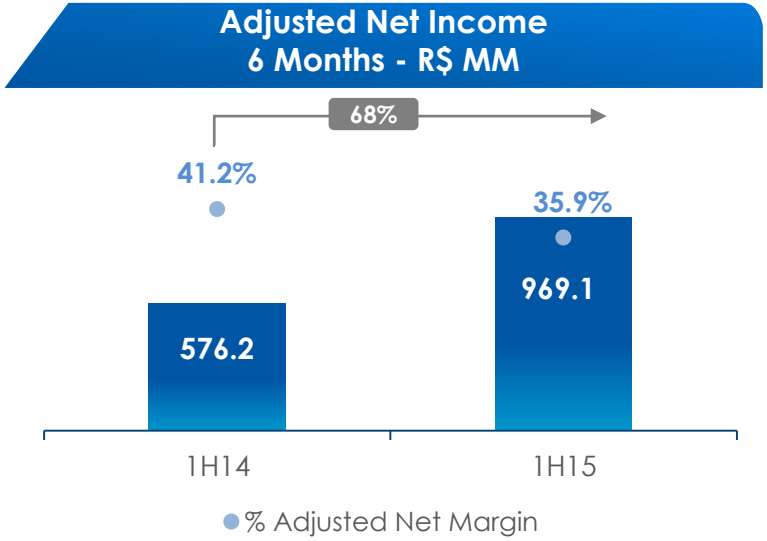



- Adjusted EBITDA grew 84% to R$600.9 million in the quarter, with adjusted EBITDA margin of 42.6%, down 2.4 p.p. from 2Q14
- In the first six months of the year, adjusted EBITDA increased 75% to R$1.2 billion with a margin of 42.7%, down 4.3 p.p. on 1H14, due to the merger of Anhanguera's operations, which have a weaker average performance

# Net Income



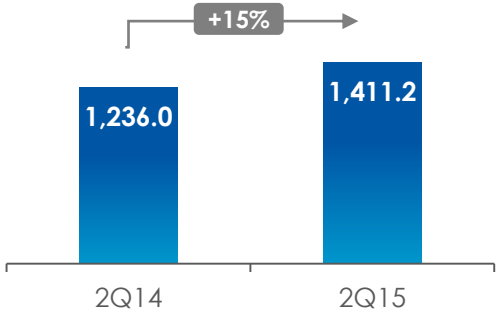




- Adjusted net income grew 80% to R$513.8 million in the quarter, with adjusted net margin of 36.4%, down 3.1 p.p. from 2Q14
- In 1H15, Adjusted net income was R$969.1 million and adjusted net margin was 35.9%, down 5.3 p.p. from the same period last year

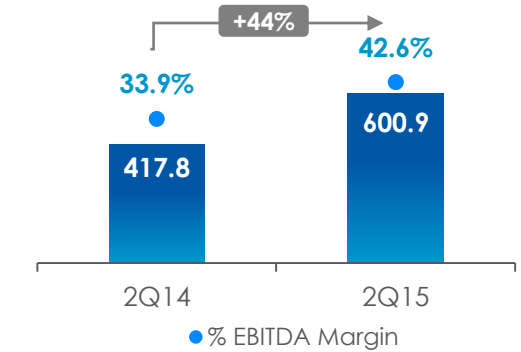
# Proforma Analysis

## ➢ Combined results[1]

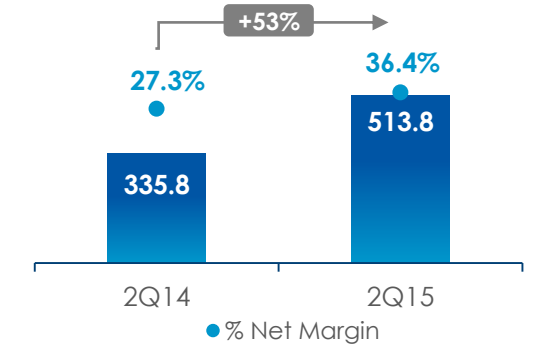
**Net Revenue**
Quarterly - R$ MM




**EBITDA**
Quarterly - R$ MM




**Net Income**
Quarterly - R$ MM




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

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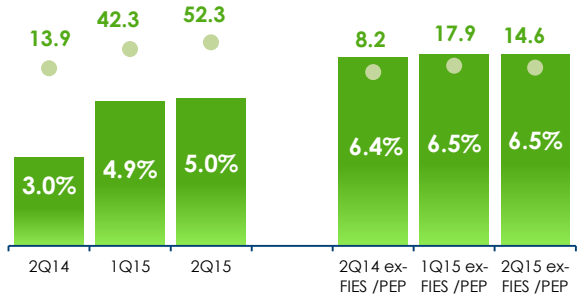
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# Provisioning, Receivables and Receivables Average Term

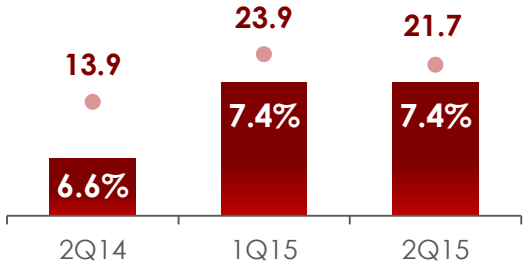


# Provision for Doubtful Accounts (PDA)

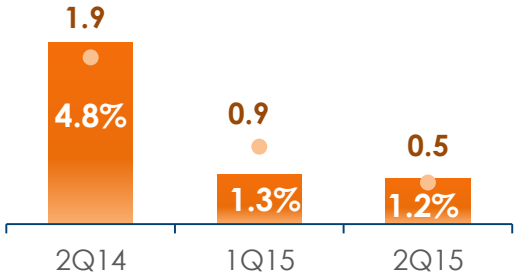
**On-Campus Business**
% Business NR and R$ MM
(ex-Pronatec)




**DL Postsecondary**
% Business NR and R$ MM




**Primary and Secondary**
% Business NR and R$ MM




- Increased provisioning in On-Campus Education, due to the creation of PEP, where the Company adopted an extremely conservative policy of provisioning for 50% of receivables. As a percentage of revenue in the segment, the PDA ex-FIES/PEP remained stable in comparison with both 2Q14 and 1Q15
- Provisioning in the DL business was 7.4%, up 0.8 p.p. on 2Q14, due to the higher provisioning at the Anhanguera operations, including LFG
- Provisioning in the Primary and Secondary Education business was 1.2% of net revenue, down 3.6 p.p. on 2Q14 due to changes in the date of book collection sales in the period

# Accounts Receivables

| *Postsecondary Education Amounts in R$ ('000)* | 2Q15 | 2Q14 | %Chg. | 1Q15 | %Chg. |
|---|---|---|---|---|---|
| **Net Accounts Receivables** | **1,172,666** | **350,655** | **234.4%** | **897,912** | **30.6%** |
| Short Term – Tuition and Agreements | 263,370 | 108,808 | 142.1% | 247,196 | 6.5% |
| Long Term Receivables | 2,716 | 18,354 | -85.2% | 2,978 | -8.8% |
| PEP | 32,452 | n.a | n.a | 21,815 | 48.8% |
| FIES | 874,128 | 223,493 | 291.1% | 625,923 | 39.7% |
| *Distance Learning Amounts in R$ ('000)* | 2Q15 | 2Q14 | %Chg. | 1Q15 | %Chg. |
| **Net Accounts Receivables** | **219,611** | **110,794** | **98.2%** | **188,864** | **16.3%** |
| *Primary and Secondary Education Amounts in R$ ('000)* | 2Q15 | 2Q14 | %Chg. | 1Q15 | %Chg. |
| **Net Accounts Receivables** | **35,567** | **57,007** | **-37.6%** | **51,353** | **-30.7%** |

- **Accounts receivable from the On-Campus business increased compared to both 1Q15 and 2Q14, mainly due to the higher FIES Accounts Receivables following the changes to the program, most notably the PN23, which modified the flow of repurchase payments for 2015**
- **The increase in accounts receivables in the DL business compared to 2Q14 is mainly due to the growth in the student base generating receivables as a result of the incorporation of the Anhanguera figures**
- **The reduction in accounts receivable from Primary and Secondary Education compared to 2Q14 is explained by the anticipation of book collection sales in the period due to the impact of the World Cup on the school calendar. Decrease of 30.7% versus 1Q15 due to seasonality in the period**

# Accounts Receivables Average Term

| *On-Campus* *days* | 2Q15 | 2Q14 | Days Chg. | 1Q15 | Days Chg. |
|---|---|---|---|---|---|
| Criterion (1) Total Net Accounts Receivable / Net Revenues | 114 | 79 | 35 days | 90 | 24 days |
| Criterion (2) Total Net Accounts Receivable (ex-FIES) / Net Revenues (ex-FIES) | 82 | 74 | 08 days | 72 | 10 days |
| Criterion (3) Total Net Accounts Receivable FIES / FIES Net Revenues | 124 | 82 | 42 days | 99 | 25 days |
| ***Distance Learning*** ***days*** | **2Q15** | **2Q14** | **Days Chg.** | **1Q15** | **Days Chg.** |
| Net Accounts Receivable / Net Revenues | 66 | 54 | 12 days | 57 | 09 days |
| ***Primary and Secondary Education*** ***days*** | **2Q15** | **2Q14** | **Days Chg.** | **1Q15** | **Days Chg.** |
| Net Accounts Receivable / Net Revenues | 72 | 111 | -39 days | 104 | -32 days |

- In Postsecondary Education (adjusted):
  - total average term - criterion 1: increase of 35 days, due to the motives explained under criteria 2 and 3
  - average term ex-FIES - criterion 2: increase of 08 days from 2Q14, reflecting the consolidation of the Anhanguera operation, the extension of the Pronatec receivables term and introduction of Private Special Payment Plan (PEP)
  - average FIES term - criterion 3: Increase of 42 days from 2Q14 due to changes in the flow of financing payments with PN23
- In Distance Learning, the term increased 12 days from 2Q14, explained by the consolidation of the Anhanguera operations, particularly the LFG operation
- In Primary and Secondary Education, the reduction of 39 days in the average accounts receivable term in 2Q15 compared to 2Q14 is associated with the anticipation of book collection sales to 2Q14

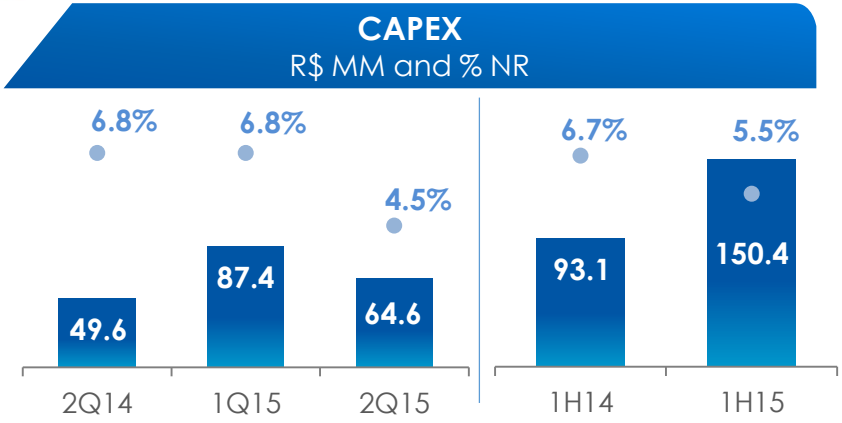
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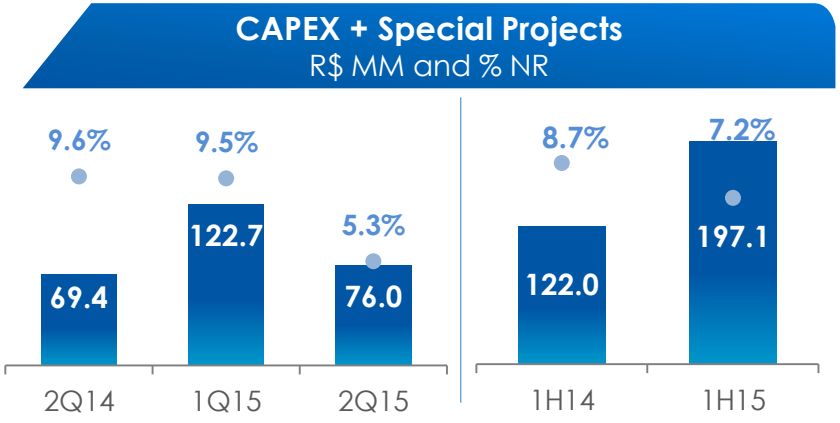
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# Capital Expenditure and Debt



# Capital Expenditure




- Capex as a ratio of Net Revenue was 4.5% in 2Q15, down 2.3 p.p. from the same period in 2014
- Including Special Projects, investments were R$76.0 million in the quarter, or 5.3% of net revenue, reflecting investments in expansion and greenfield projects. In 1H15, capex as a ratio of net revenue was 7.2%, within the guidance released by the Company of 7.5% of net revenue in 2015

# Net Debt

| *Consolidated*<br>*Amounts in R$ ('000)* | 2Q15 | 2Q14 | %Chg. | 1Q15 | %Chg. |
|---|---|---|---|---|---|
| **Cash and Cash Equivalents** | **389,290** | **489,862** | **-20.5%** | **331,796** | **17.3%** |
| Loans and Financing | 889,915 | 398,006 | 123.6% | 889,125 | 0.1% |
| **Net Cash (Debt)[1]** | **(500,625)** | **91,856** | **n.a** | **(557,329)** | **-10.2%** |
| Other Long and Short Debt | 272,901 | 203,774 | 33.9% | 307,632 | -11.3% |
| **Net Cash (Debt)[2]** | **(773,526)** | **(111,918)** | **n.a** | **(864,961)** | **-10.6%** |

- **Total cash and equivalents in 2Q15 increased 17.3% from the previous quarter, reflecting cash generation in the quarter. Total net debt was R$773.5 million, down 10.6% from 1Q15.**
- **Reduced leverage, as evidenced by the Total Net Debt[2] / EBITDA[3] ratio of 0.40 times**

[1] Net Cash (debt) considering only bank obligations | [2] Net cash (debt) considering all other 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 Considering 2015 EBITDA (Guidance)

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# Cash Generation



# Operating Cash Generation

| *Consolidated – Amounts in R$ ('000)* | 2Q15 | 1Q15 | %Chg.[1] |
|---|---|---|---|
| **Operating Cash Generation (OCG) before Capex** | **268,184** | **97,209** | **175.9%** |
| OCG / EBITDA | 49.0% | 18.9% | +30.1 p.p. |
| **Operating Cash Generation (OCG) after Capex** | **209,213** | **4,707** | **n.a.** |
| OCG / EBITDA | 38.2% | 0.9% | +37.3 p.p. |
| **Operating Cash Generation (OCG) after Capex e Sp. Projects** | **200,438** | **(22,084)** | **n.a.** |
| OCG / EBITDA | 36.6% | - | n.a. |
| **Free Cash Flow** | **57,391** | **(123,551)** | **n.a** |

- Operating cash generation reversed the negative amount recorded last quarter, but continues to reflect impacts of the change in the FIES receivable calendar
- Operating cash flow after capex corresponded to 38.2% of EBITDA in 2Q15. Including investments in Special Projects, cash flow equaled 36.6% of EBITDA in the period.

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# Closing remarks



# Closing Remarks

- **New Academic Model KLS 2.0 implemented at 100% of units and brands for students in the 1st and 2nd semesters**
  - Increased quality with innovative solutions such as competency-based development, flipped classroom and adaptive learning
  - Higher efficiency – allowing increased sharing of courses among students in different semesters and programs
- **Implementation of "Operational Survey" project to optimize the creation of classes at 70% of on-campus units**
  - Significant efficiency increase to be captured in the coming semesters
- **"Retention Program" - more than 20 projects under implementation to improve retention in semesters to come**

# Closing Remarks

- **The Company continues to make progress in 380 projects, including:**
  - Greenfields (maintained target of 20 protocols per year),
  - New distance learning centers
  - New programs at current units

- **Successful roll out of the Concecta Channel (Kroton employability platform):**
  - Implemented at 70 units with more than 350,000 students, of which 58,000 have already used the platform
  - 931 partner-companies announcing job openings
  - Approximately 4,000 available job openings

- **Approval of dividend distribution – R$98.8 million (EPS of R$0.061)**

- **IR Magazine Awards – 1st Place in 6 categories**

# Investor Relations

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