# 2Q16 Results

August, 2016



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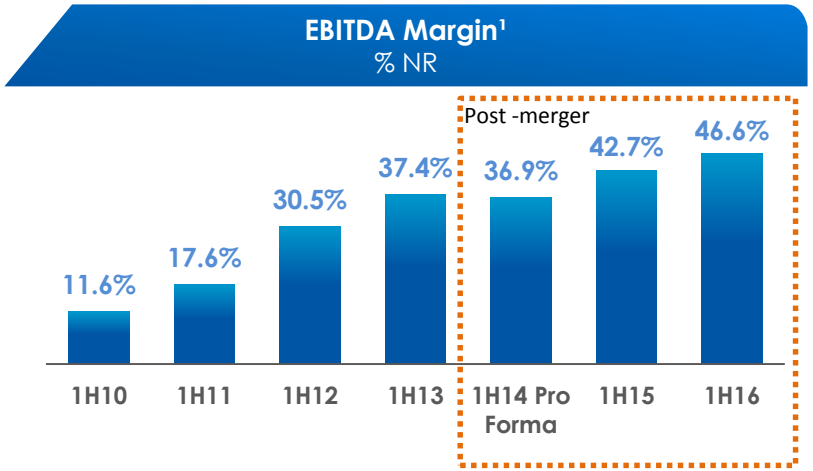
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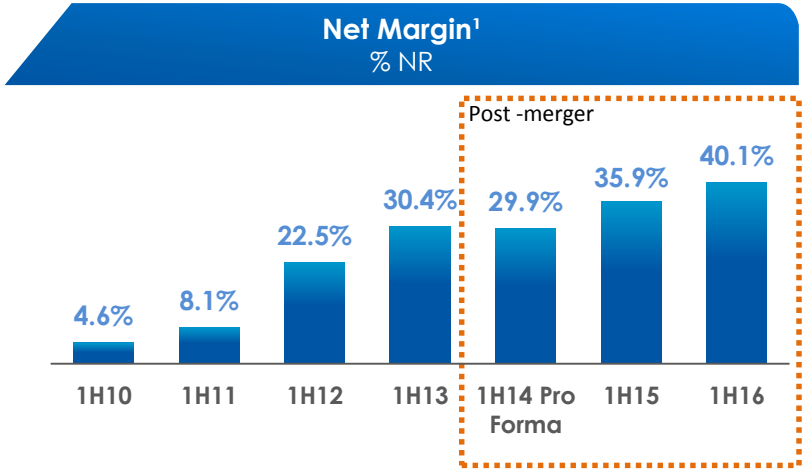
# Opening Remarks



# Margin Expansion

- Financial performance remains extremely solid with upward trend




- Strong Cash Generation (R$ MM)

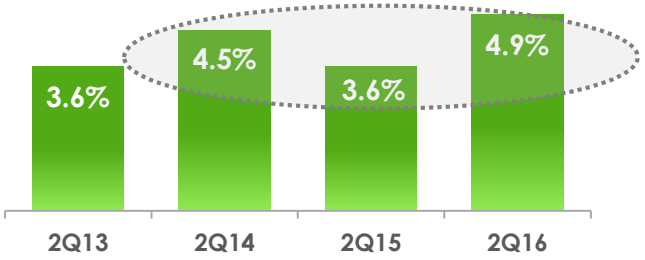
| | 2Q16 | 1H16 |
|---|---|---|
| Cash Generation after Capex | R$ 613.2 | R$ 573.7 |

[1] Corporate data. Analysis of 2014 based on pro-forma figures and observing the different accounting practices at Kroton and Anhanguera.

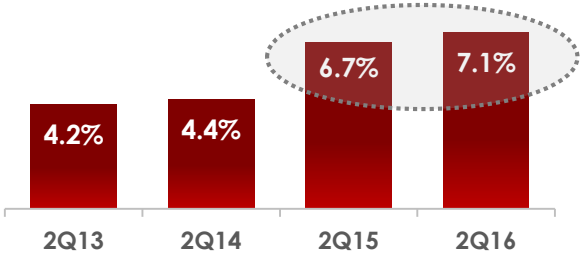
# Resilience of pillars with greatest potential impact in adverse macroeconomic scenarios

## Dropout rate

### On-Campus Undergraduate



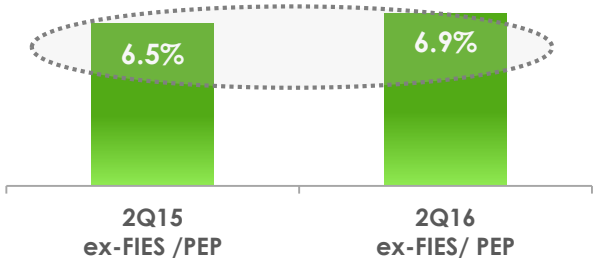

### DL Undergraduate




## Delinquency

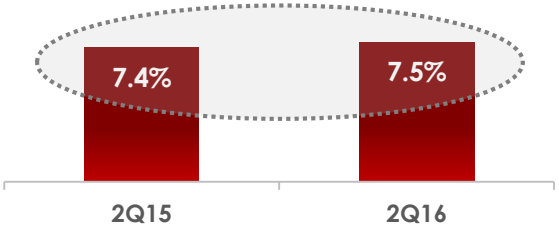
### PDA On-Campus – EX FIES/PEP

% Business NR (ex-Pronatec)




### PDA DL

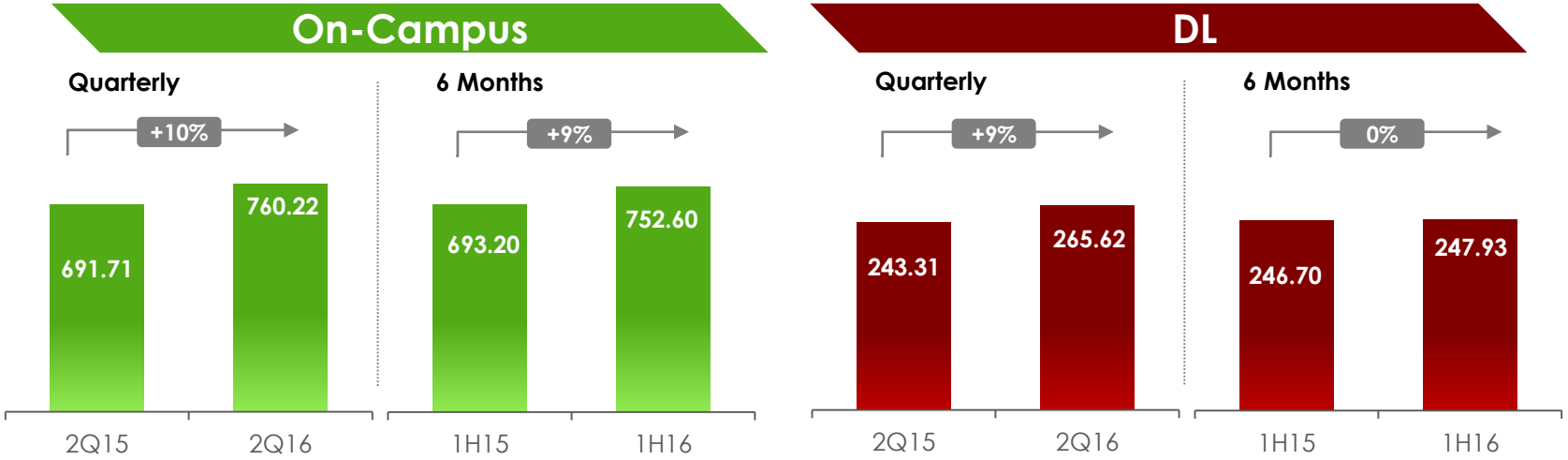
% Business NR




[1] Ex-Uniasselvi

# Average Ticket

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



# Growth and Efficiency Opportunities

## Short Term - 2S16 and 2017

- Operations Research software capturing better results every semester
- Strategic Sourcing waves advancing robustly throughout entire operation
- Gradual increase in % of interactive courses should continue to drive efficiency gains in On-Campus Education

## Long Term

- Organic growth projects advancing: inauguration of João Pessoa/PE and 3 units in final stages of approval by CNE
- Another 41 greenfield projects and 275 new centers currently pending accreditation from MEC
- New requests for opening Premium DL programs and DL Centers under analysis

## Business Combination with Estácio

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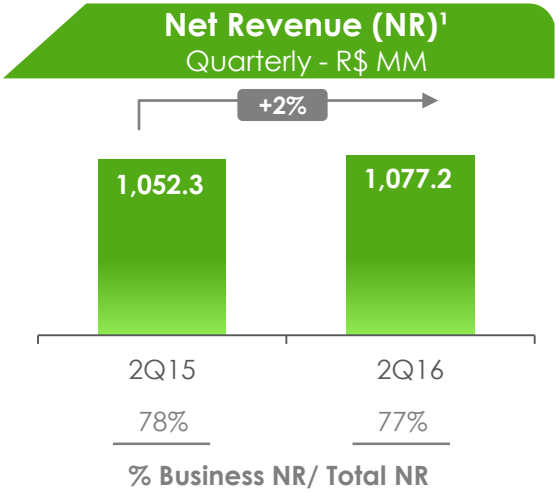
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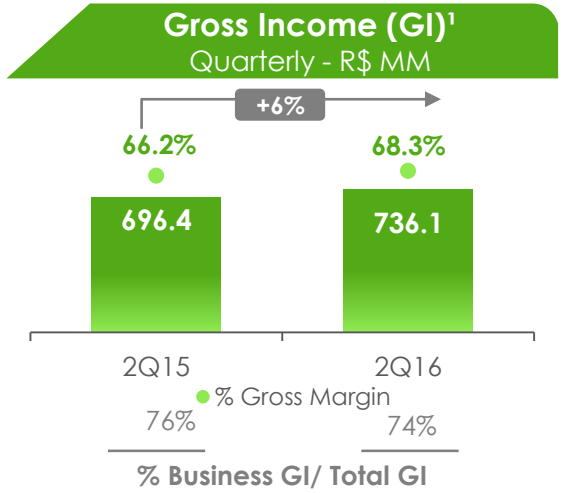
# Financial Performance

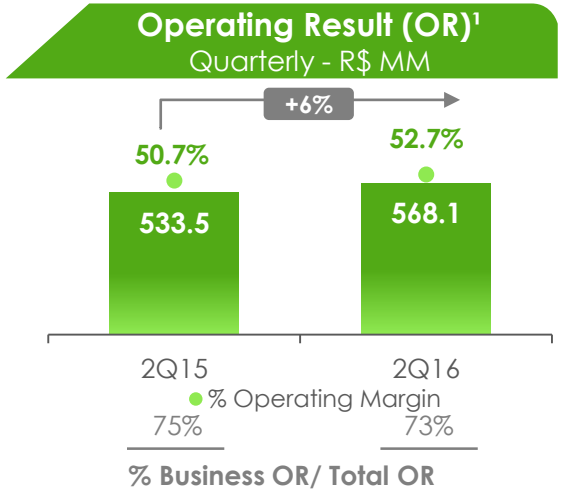


# Financial Performance

## On-Campus Business



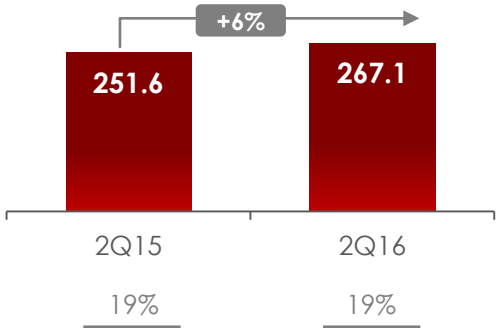

- Net Revenue in the On-Campus business advances 2% on 2Q15, driven mainly by the effect from the annual tuition increase on the average ticket
- Gross income from On-campus Education increases 6% to R$736.1 million, with margin of 68.3%, mainly due to the rollout of the new academic model and the operations research tool
- Operating result before marketing in the business grows 6% to R$568.1 million in 2Q16, with margin of 52.7%, expansion of 2.0 p.p. from 2Q15, driven by efficiency and synergy gains

[1] Ex-Uniasselvi

# Financial Performance

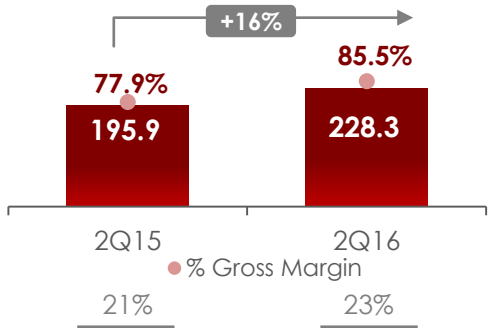
## Distance Learning Postsecondary Business

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



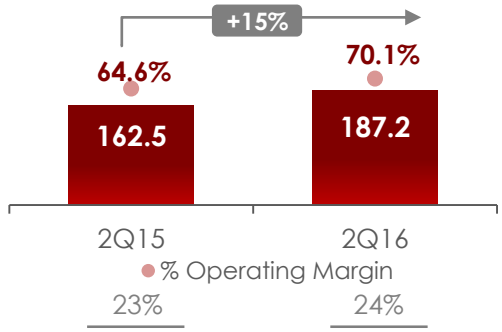

% Business NR/ Total NR

**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$267.1 million, growing 6% from the year-ago period, supported by the larger student base and higher average ticket in the Undergraduate segment
- Gross Income advances 16% to R$228.3 million in 2Q16, with Gross margin of 85.5%, expanding 7.6 p.p. on 2Q15, due to lower costs with tutors and faculty resulting from the convergence of the content delivery models (from Anhanguera model to Unopar model) and the optimization of business structures
- Operating Result before marketing of R$187.2 million, increasing 15% on 2Q15, with margin of 70.1%

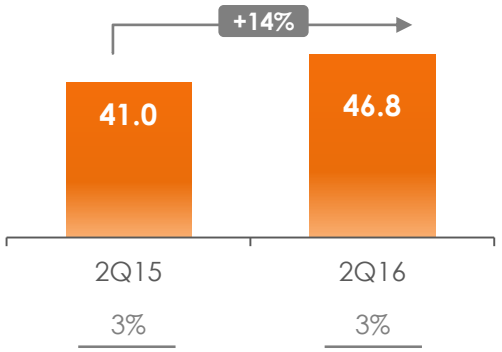


[1] Ex-Uniasselvi

# Financial Performance

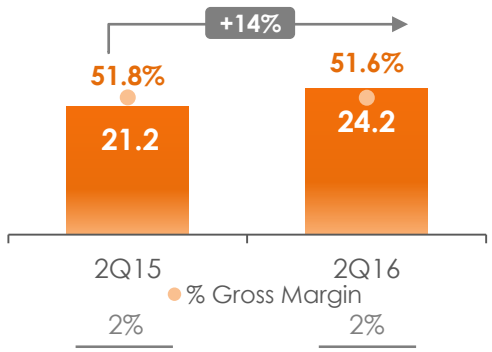
## Primary & Secondary Education Business

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



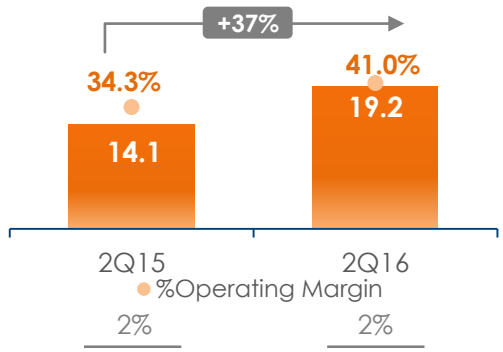

% Business NR/ Total NR

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




% Business GI/ Total GI

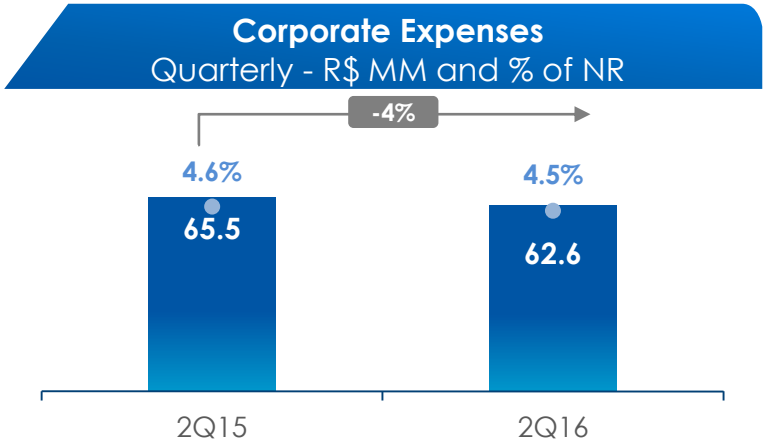
**Operating Result (OR)**
Quarterly - R$ MM

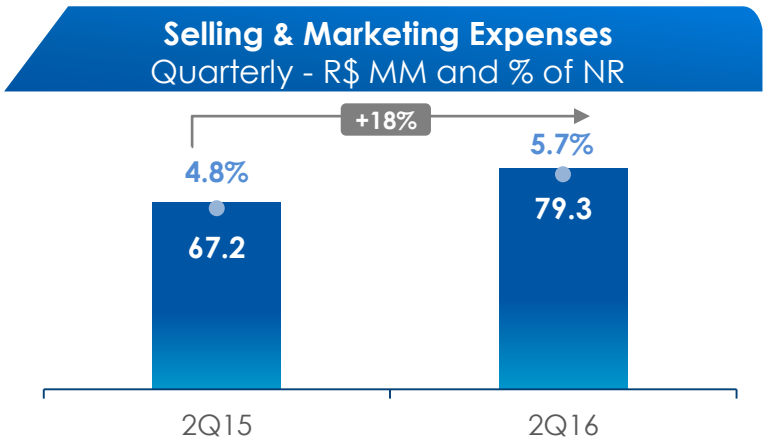



% Business OR/ Total OR

- Net revenue from Primary and Secondary Education of R$46.8 million, growing 14% from 2Q15, driven by the growth of the associated schools network and the anticipation of textbook deliveries for the second semester of 2016
- Gross income of R$24.2 million, growing 14% from 2Q15, with gross margin virtually flat at 51.6%, reflecting the higher costs from the anticipation of the calendar of textbook collections
- Operating result of R$19.2 million, up 37% from 2Q15, with operating margin expanding 6.7 p.p. to 41.0%, supported by the rigorous control of costs and expenses

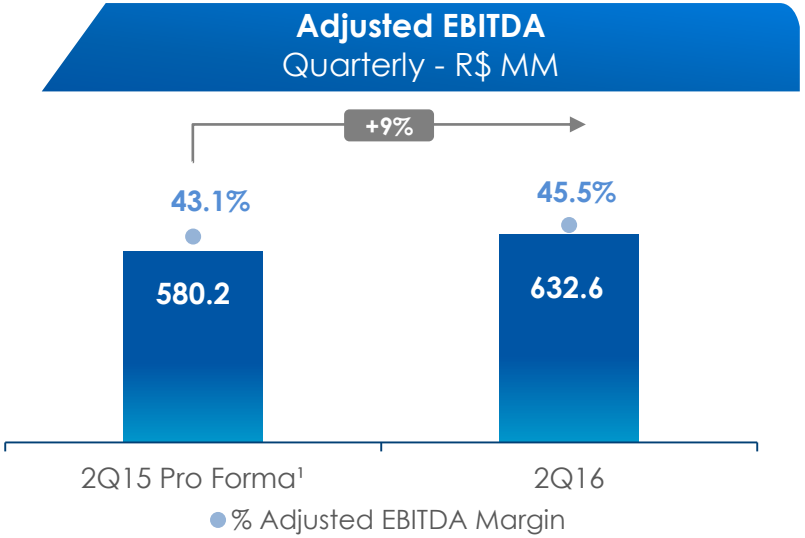
# Corporate and Selling & Marketing Expenses

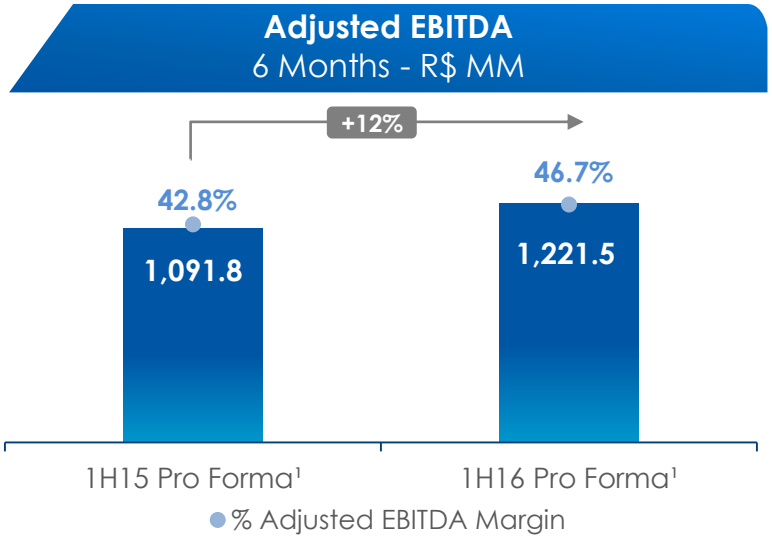



- Corporate expenses of R$62.6 million in the quarter, practically stable as a ratio of net revenue, reflecting the restructuring of the workforce at the start of the year and the reduction in expenses captured by the strategic sourcing process and greater budget austerity
- Selling and Marketing expenses as a ratio of net revenue increased 0.9 p.p. compared to 2Q15, reflecting the anticipation of the contracting of marketing campaigns for the second half of the year as part of the Company's strategy to streamline costs with advertising agencies and media vehicles

# EBITDA



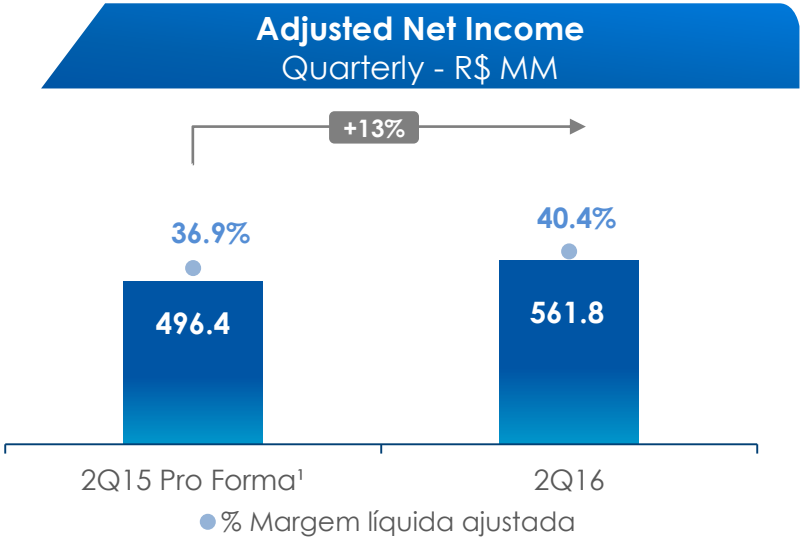



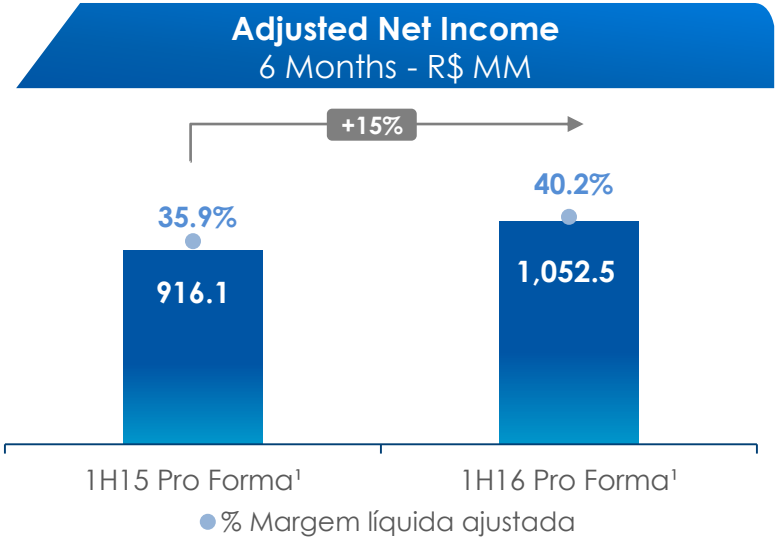

- Adjusted EBITDA excluding the contribution from Uniasselvi advances 9% on the year-ago period to R$632.6 million, with adjusted EBITDA margin of 45.5%, expanding 2.4 p.p. from 2Q15
- In 1H16, pro-forma adjusted EBITDA advances 12% to R$1,221.5 million, with pro forma adjusted EBITDA margin of 46.7%, expanding 3.8 p.p. from 1H15



¹Ex-Uniasselvi

# Net Income




- **Adjusted Net Income excluding the figures for Uniasselvi grows 13% from the year-ago period to R$561.8 million, with adjusted net margin of 40.4%, expanding 3.5 p.p. from 2Q15**
- **In 1H16, pro-forma Adjusted Net Income increases 15% to R$1,052.5 million, with pro forma adjusted net margin of 40.2%, expanding 4.3 p.p. from 1H15**



¹Ex-Uniasselvi

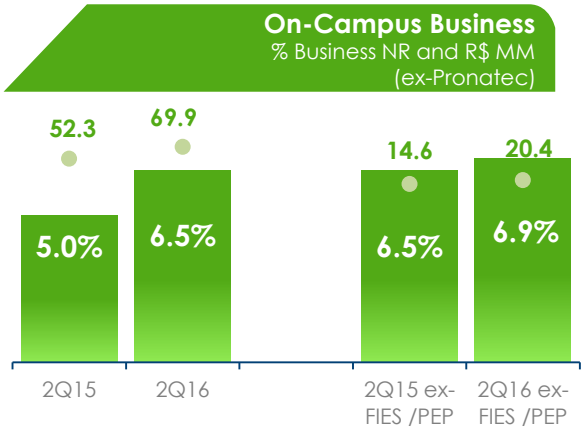
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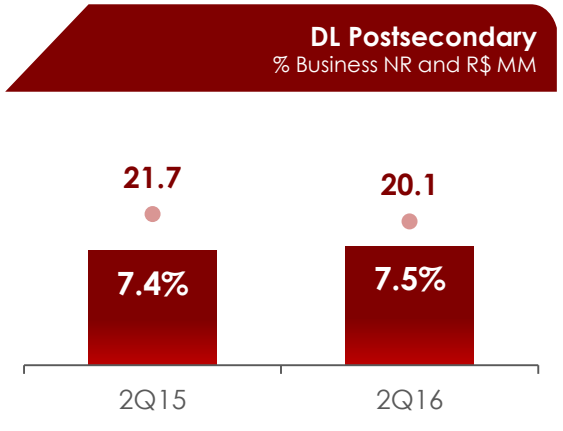
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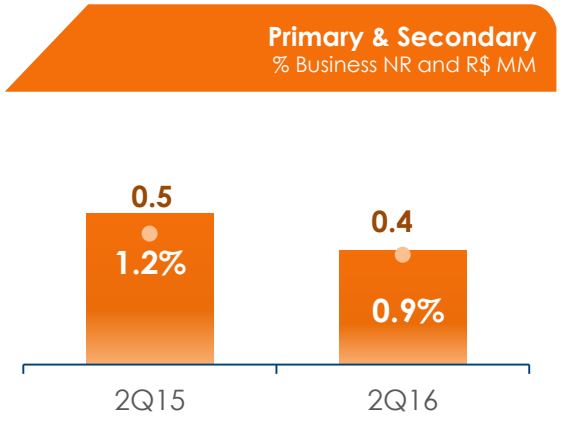
# Provisioning, Receivables & Average Receivables Term



# Provision for Doubtful Accounts (PDA)




- Provisioning ex-FIES/PEP increases 0.4 p.p. from 2Q15, 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, PDA remained virtually stable in relation to 2Q15, at 7.5%
- In the Primary & Secondary business, provisioning corresponded to 0.9% of net revenue, down 0.3 p.p. from 2Q15, a period marked by an anticipation in the calendar of book collection sales

# Accounts Receivables

| *On-Campus*<br>*Amounts in R$ ('000)* | 2Q16 | 2Q15 | % Chg. | 1Q16 | % Chg. |
|---|---|---|---|---|---|
| **Net Accounts Receivables** | **1,551,831** | **1,172,666** | **32.3%** | **1,683,487** | **-7.8%** |
| Short Term – Tuition and Agreements | 274,433 | 263,370 | 4.2% | 195,640 | 40.3% |
| FIES – Short Term | 602,764 | 874,128 | -31.0% | 868,409 | -30.6% |
| FIES – Long Term | 550,395 | n.a. | n.a. | 516,258 | 6.6% |
| Ex-FIES Long Term Receivables | 124,239 | 35,168 | 253.3% | 103,180 | 20.4% |
| *Distance Learning*<br>*Amounts in R$ ('000)* | 2Q16 | 2Q15 | % Chg. | 1Q16 | % Chg. |
| **Net Accounts Receivables** | **216,949** | **219,611** | **-1.2%** | **190,733** | **13.7%** |
| *Primary & Secondary*<br>*Amounts in R$ ('000)* | 2Q16 | 2Q15 | % Chg. | 1Q16 | % Chg. |
| **Net Accounts Receivables** | **40,174** | **35,567** | **13.0%** | **48,872** | **-17.8%** |

- Accounts Receivables in the On-campus business increased from 2Q15, mainly due to the higher Accounts Receivable from FIES due to the impacts from PN23 and PEP
- DL accounts receivables decreased 1.2% from 2Q15, driven by the strict renegotiation policies practiced by the Company, and increased 13.7% from 1Q16, due to the seasonality of the business.
- The 13.0% increase in Accounts Receivable in the Primary and Secondary business compared to 2Q15 is explained by the anticipation of textbook collection sales for the coming semester

# Average Receivables Term

| *On-Campus* *days* | | 2Q16 | 2Q15 | Chg. | 1Q16 | Chg. |
|---|---|---|---|---|---|---|
| Total Average Term: | Total Net Accounts Receivable / Net Revenues | 142 | 114 | 28 days | 154 | -12 days |
| Ex-FIES Average Term: | Total Net Accounts Receivable (ex-FIES) / Net Revenues (ex-FIES) | 109 | 82 | 27 days | 86 | 23 days |
| FIES Average Term: | Total Net Accounts Receivable FIES / FIES Net Revenues | 159 | 124 | 35 days | 184 | -25 days |
| Ex-FIES/PEP Average Term: | Total Net Accounts Receivable (ex-FIES/PEP) / Net Revenues (ex-FIES/PEP) | 81 | 83 | -2 days | 66 | 15 days |

| *Distance Learning* *days* | 2Q16 | 2Q15 | Chg. | 1Q16 | Chg. |
|---|---|---|---|---|---|
| Net Accounts Receivable / Net Revenues | 70 | 66 | 04 days | 59 | 11 days |

| *Primary & Secondary* *days* | 2Q16 | 2Q15 | Chg. | 1Q16 | Chg. |
|---|---|---|---|---|---|
| Net Accounts Receivable / Net Revenues | 81 | 72 | 09 days | 102 | -21 days |

- In On-Campus Postsecondary:
  - Ex-FIES average term: 27 days higher than in 2Q15, mainly reflecting the longer average term of PEP and increased number of renegotiations. Excluding this effect, the average term of receivables ex-FIES/ex-PEP was 81 days in 2Q16, or 2 days less than in 2Q15
  - Average FIES term: down 25 days from 1Q16, due to the normalization of the payment flow
  - Ex-FIES and Ex-PEP average term: down 2 days from 2Q15
- In Distance Learning, the 4-day increase compared to 2Q15 is due to the higher average term of receivables from LFG
- In Primary and Secondary education, the increase of 9 days in the average term between 2Q16 and 2Q15 is associated with the anticipation of sales in the period

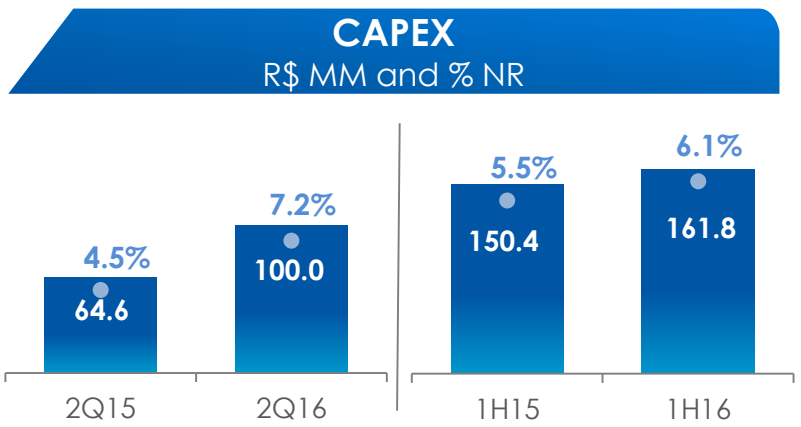
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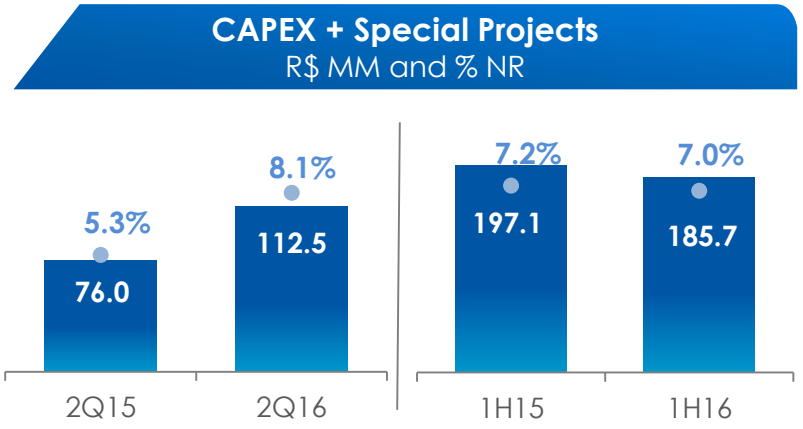
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# Capital Expenditure & Debt



# Capital Expenditure




- In 2Q16, CAPEX corresponded to 7.2% of Net Revenue, up 2.7 p.p. from 2Q15, reflecting the investments in expansion projects involving construction and improvements at existing units, as well as projects involving content development, systems development and software licensing
- Including Special Projects, investments were R$112.5 million in the quarter, or 8.1% of Net Revenue. In 1H16, CAPEX as a ratio of net revenue was 7.0%, in line with the Guidance for 2016 given by the Company of 8.0% of net revenue

# Net Debt

| *Consolidated – Values in R$ ('000)* | 2Q16 | 2Q15 | % Chg. | 1Q16 | % Chg. |
|---|---|---|---|---|---|
| Cash and Cash Equivalents | 934,337 | 389,290 | 140.0% | 574,432 | 62.7% |
| Loans and Financing | 705,867 | 889,915 | -20.7% | 711,650 | -0.8% |
| **Net Cash (Debt)[1]** | **228,470** | **(500,625)** | **n.a.** | **(137,218)** | **n.a.** |
| Other Short and Long Term Debt[2] | 228,558 | 272,901 | -16.2% | 253,080 | -9.7% |
| **(1) Net Cash (Debt)[2]** | **(88)** | **(773,526)** | **n.a.** | **(390,298)** | **n.a.** |
| FIES Short Term receivables - PN 23 (Aug/16)[3] | **183,693** | **-** | n.a. | **183,693** | 0.0% |
| FIES Long Term receivables - PN 23 + Uniasselvi sale[3] | **1,014,134** | **-** | n.a. | **893,195** | 13.5% |
| FIES - PN 23 - receivables Aug/17 - Aug/18 | 550,395 | - | n.a. | 516,258 | 6.6% |
| Uniasselvi sale | 463,739 | - | n.a. | 376,937 | 23.0% |
| **(2) Others accounts receivables[3]** | **1,197,827** | **-** | n.a. | **1,076,888** | 11.2% |
| **(1)+(2) Pro Forma Net Cash (Debt)** | **1,197,739** | **(773,526)** | **n.a.** | **686,590** | **74.4%** |

- **At the end of 2Q16, cash and financial investments amounted to R$934.3 million, which is 62.7% more than in the previous quarter, mainly reflecting the normalization of FIES payments. At the end of the quarter, the Company held a net cash position of R$228.5 million.**
- **Considering all short-term and long-term obligations and receivables, which include taxes and contributions paid in installments and the obligations and rights related to the acquisitions and sales made and FIES installments not paid in 2015, Kroton ended the period with a robust net cash balance of R$1.2 billion.**

[1] Considers only bank obligations.
[2] Considering all short-term 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, in addition to the 25% of FIES installments not paid in 2015.
[3] Considers long-term receivables related the Uniasselvi divestment, to be earned between 2018 and 2022 adjusted to present value (excluding the earn-out amounts) and the remaining 75% of the FIES receivables from 2015 (also adjusted to present value).

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# Cash Generation



# Operating Cash Generation

| *Consolidated – Amounts in R$ ('000)* | 2Q16 | 2Q15 | %Chg. |
|---|---|---|---|
| **Operating Cash Generation (OCG) before CAPEX** | **717,854** | **268,184** | **166.9%** |
| OCG / EBITDA | 108.5% | 49.0% | 59.5 p.p. |
| **Operating Cash Generation (OCG) after CAPEX** | **613,188** | **209,213** | **193.1%** |
| OCG / EBITDA | 93.0% | 38.2% | 54.8 p.p. |
| **Operating Cash Generation (OCG) after CAPEX and Special Projects** | **608,922** | **200,438** | **203.8%** |
| OCG / EBITDA | 92.3% | 36.6% | 55.7 p.p. |
| **Free Cash Flow** | **359,387** | **57,391** | **n.a** |

- Operating cash generation in the quarter benefitted from the normalization of the cycle of tuition receivables from FIES students after the end of PN23
- Cash generation after CAPEX and Special Projects of R$608.9 million, for an EBITDA-to-Cash conversion ratio of 92.3%

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# Closing Remarks



# Closing Remarks

## Business Combination with Estácio

- **The transaction with Estácio opens a new window of opportunities for both companies and their stakeholders**
- **Expertise in integration and highly harmonized teams are vital to the transaction's success**
- **Next steps in Estácio Transaction:**
  - ✓ EGMs on Aug. 15
  - ✓ Creation of "Clean Team" to plan the integration and conduct a detailed analysis of potential synergies
  - ✓ Start of analysis by the antitrust authority CADE

# Closing Remarks

- Status of the second admissions cycle for 2016

- Academic Projects register continued and solid advances, with the highlight the ongoing rollout of KLS 2.0

- Rollout of the Conecta Channel to Unopar DL in 2016, with all cities with On-Campus Education operations expected to be reached by 2017

- Approval of dividend distribution: R$172.7 million (EPS of R$0.1067), with payout increased to 35%

- Recognition in the quarter from the “Valor1000” and “IR Magazine” awards

# Investor Relations

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