

3Q14 Earnings Conference Call

November/2014

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Initial Highlights

- **Enrollment and Re-enrollment processes for second semester 2014 successfully concluded, with student base growth of 13%**
- **Adjusted Financial Performance (R$ MM)**

	3Q14			9M14		
	R$ Million	Margin	Annual Growth	RS Million	Margin	Annual Growth
EBITDA	R$ 398.8	34.8%	112.2%	R$ 1,056.5	41.5%	90.3%
Net Income	R$ 304.6	26.6%	108.5%	R$ 880.9	34.6%	98.1%

- **Operating Cash Generation (R$ MM)**

	3Q14 Pro Forma[3]		9M14 Pro Forma[3]	
	R$ Million	EBITDA to Cash	R$ Million	EBITDA to Cash
Before Capex	R$ 415.7	117.2%	R$ 953.6	84.0%
After Capex	R$ 302.2	85.2%	R$ 745.6	65.7%

[1] Includes the amount of R$192.2 million related to the balance of FIES credits in 3Q14, for which repurchase was expected in September, but which was effected on October 2, 2014, and excludes the amount of R$234.9 million related to the balance of FIES credits in 2Q14, for which repurchase was expected in June, but which was effected on July 3, 2014. For 9M14, in addition to considering the above amounts, excludes the amount of R$77.6 million related to the balance of FIES credits in 4Q13, for which repurchases was expected in December, but which was effected on January 8, 2014.
[2] Operating Cash Flow / EBITDA (without adjustments).
[3] Capex (ex-Special Projects)

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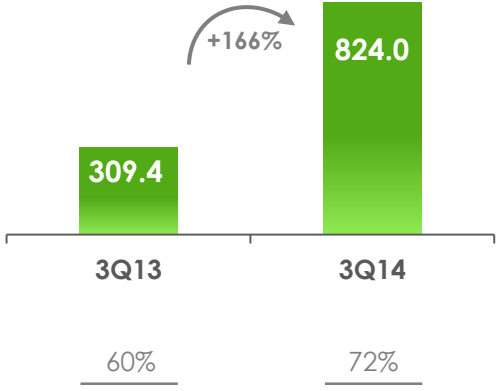
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Financial Performance

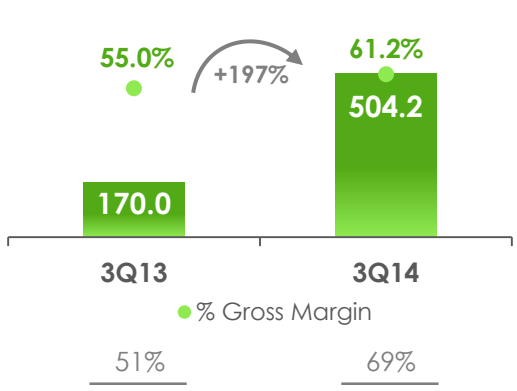
Financial Performance

On-Campus Business

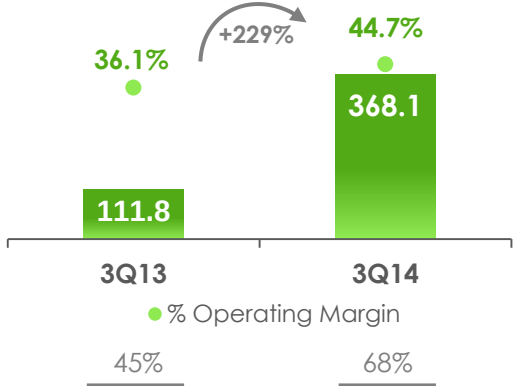
Net Revenue (NR)
Quarterly - R$ million



Gross Income (GI)
Quarterly - R$ millions



Operating Result (OR)
Quarterly - R$ millions

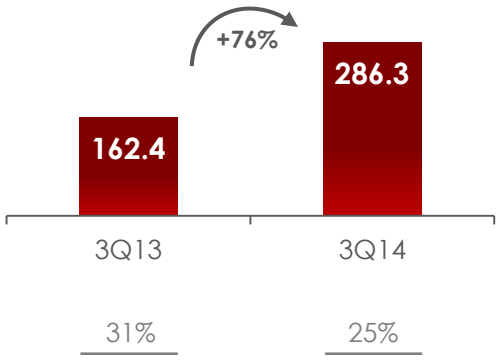


- Net Revenue grew 166% on 3Q13, driven mainly by student base growth, especially after the Anhanguera merger and Pronatec
- Gross Income grew 197% to R$504.2 million, with gross margin of 61.2%, expanding 6.2 p.p. on 3Q13, due to the capture of economies of scale and efficiency gains in the period
- Operating result before marketing activities grew 229% to R$368.1 million in 3Q14, with margin of 44.7%, up 8.6 p.p. on 3Q13

Financial Performance

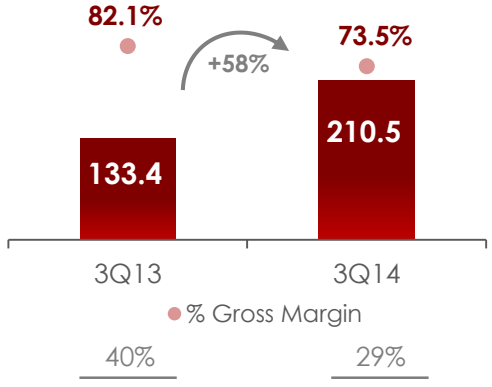
Distance Learning Postsecondary Business

Net Revenue (NR)
Quarterly - R$ millions



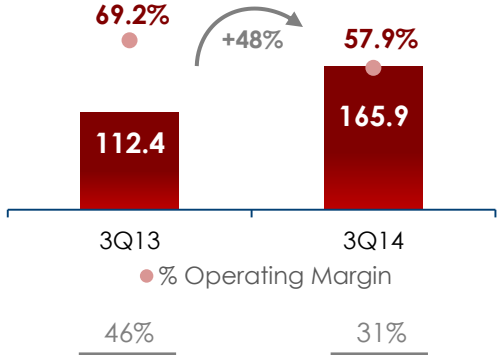
% Business NR/ Total NR

Gross Income (GI)
Quarterly - R$ millions



% Business GI/ Total GI

Operating Result (OR)
Quarterly - R$ millions



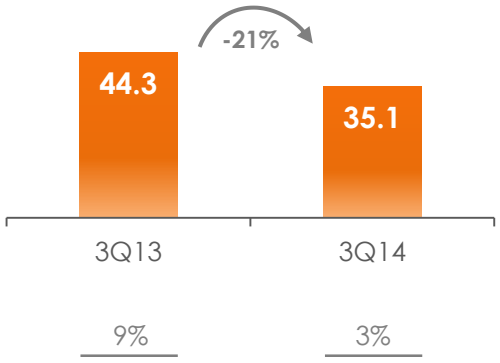
% Business OR/ Total OR

- Net Revenue of R$286.3 million, 76% higher than in 3Q13
- Gross Income grew 58% on 3Q14 to R$210.5 million, with gross margin of 73.5%, down 8.6 p.p. on 3Q13
- Operating result before marketing activities of R$165.9 million, up 48% on 3Q13, with margin falling to 57.9%, due to the different level of performance in the DL operations at Anhanguera

Financial Performance

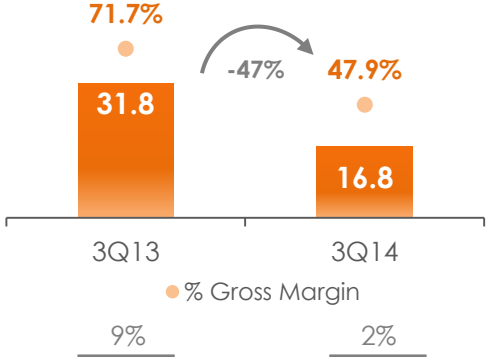
Primary and Secondary Education Business

Net Revenue (NR)
Quarterly - R$ millions



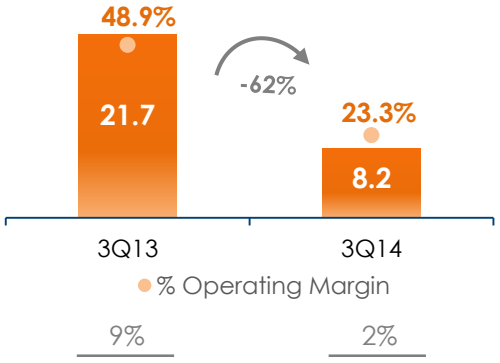
% Business NR/ Total NR

Gross Income (GI)
Quarterly - R$ millions



% Business GI/ Total GI

Operating Result (OR)
Quarterly - R$ millions

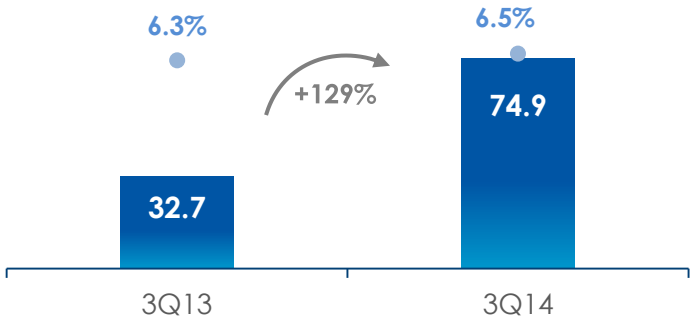


% Business OR/ Total OR

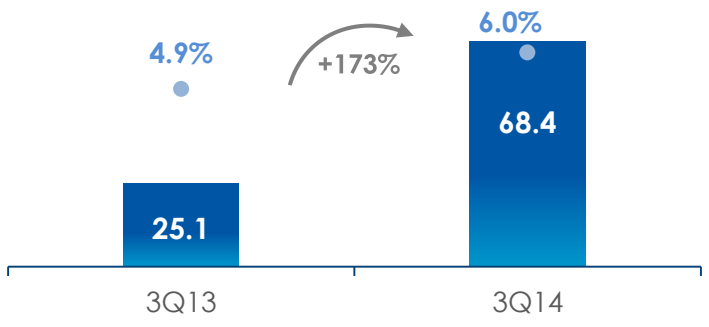
- Primary and Secondary Net Revenue of R$35.1 million, 21% lower than in 3Q13, reflecting the anticipation of book collection sales due to the World Cup, which benefitted 2Q14, a period that posted growth of 81% compared to 2Q13. In 9M14, net revenue was R$153.8 million, growing 10% on 9M13
- Gross income and operating result before marketing expenses were negatively impacted by the shift in the segment's seasonality and the lower margins of the management contract business, which increased its share in the revenue mix

Corporate and Selling & Marketing Expenses

Corporate Expenses
Quarterly - R$ million and % of NR



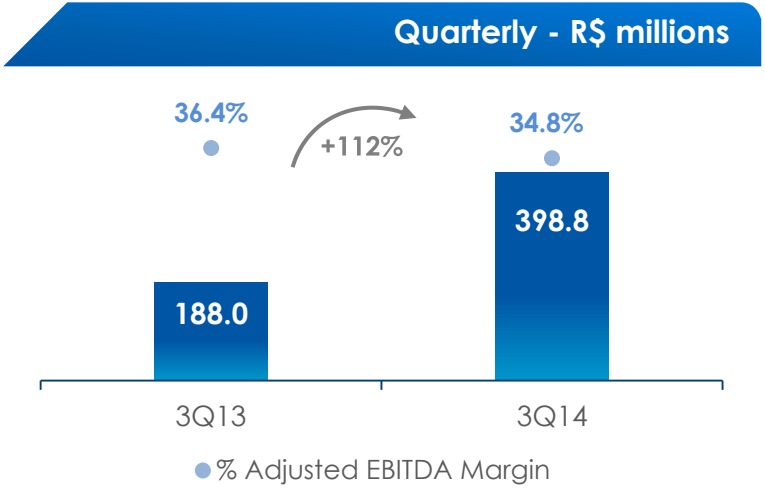
Sales and Marketing expenses
Quarterly - R$ million and % of NR

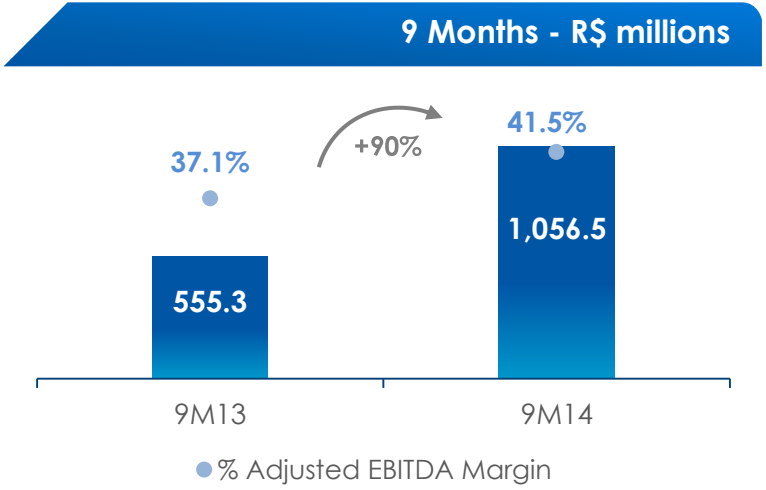


- Corporate expenses grew 129% on 3Q13 to R$74.9 million, mainly due to the growth in headcount following the incorporation of the employees from Anhanguera
- Selling and Marketing expenses were R$68.4 million in 3Q14, increasing 173% from 3Q13, due to the incorporation of the expenses from Anhanguera. As a ratio of net revenue, these expenses increased 1.1 p.p., reflecting the higher pre-merger level of expenses at Anhanguera compared to Kroton.

EBITDA

Adjusted EBITDA and Adjusted EBITDA Margin



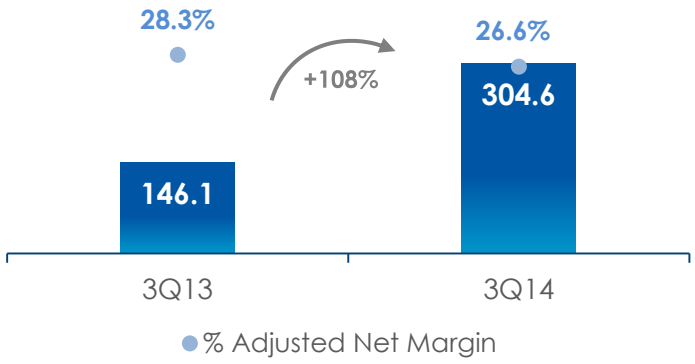


- **In 3Q14, adjusted EBITDA grew 112% to R$398.8 million, with adjusted EBITDA margin of 34.8%. EBITDA margin fell 1.6 p.p. from 3Q13, due to the incorporation of the Anhanguera operations, which have a lower average performance, which indicates opportunities for future margin expansion**
- **Year to date, adjusted EBITDA was R$1,056.5 million (+90% vs. 9M13), with adjusted EBITDA Margin of 41.5% (+4.4 p.p. vs. 9M13)**

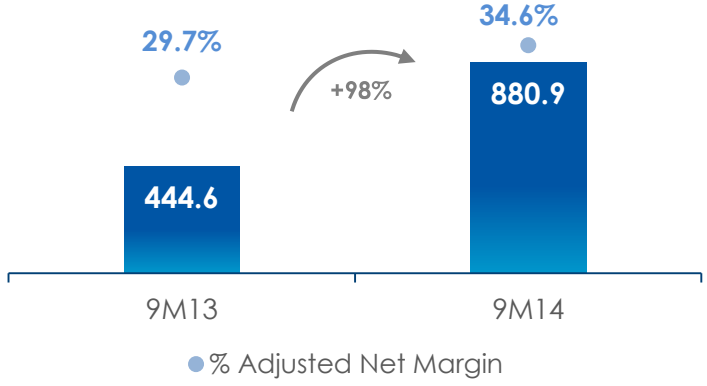
Net Income

Adjusted Net Income and Adjusted Net Margin

Quarterly - R$ millions



9 Months - R$ millions

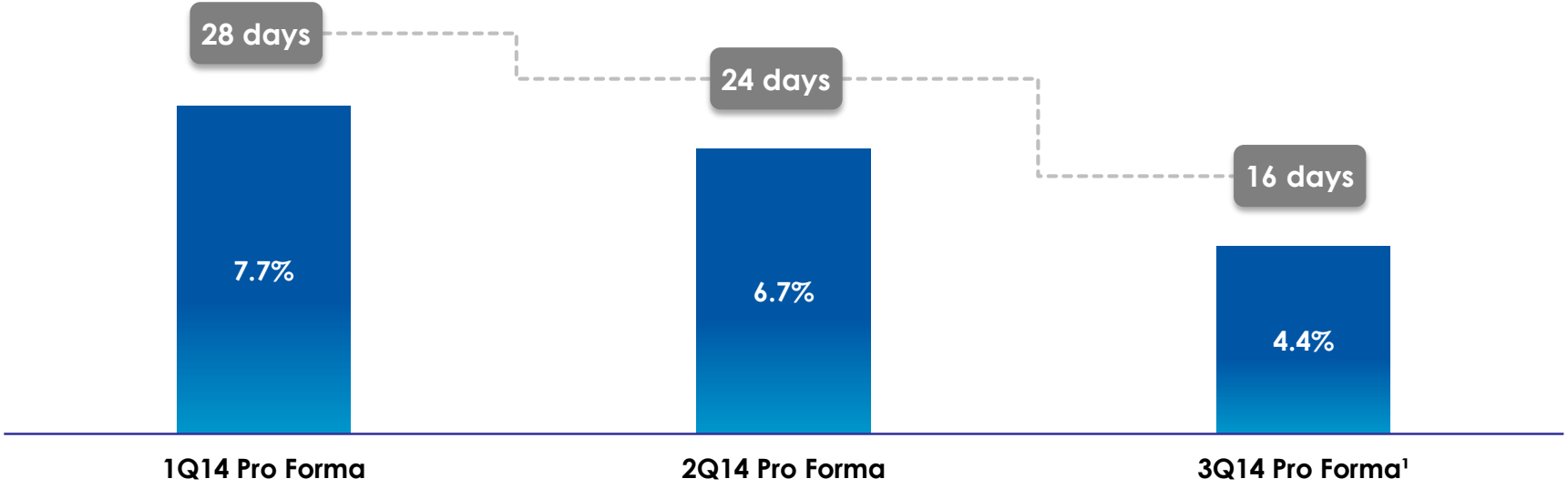


- **In 3Q14, Adjusted Net Income grew 108% to R$304.6 million, with Adjusted Net Margin of 26.6%, down 1.7 p.p. from 3Q13, due to the merger of the Anhanguera operations**
- **In 9M14, Adjusted Net Income was R$880.9 million, 98% higher than in 9M13, with Adjusted Net Margin of 34.6% (+4.9 p.p.)**



Working Capital, Provisioning and Receivables

Working Capital
(% of Net Revenue, and Number of Days Revenue)



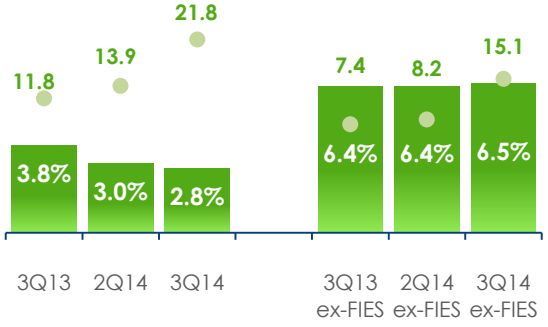
Working Capital = Current Assets (ex-Cash and Banks) – Current Liabilities (ex-debt/M&A)

- **Decrease of 8 days in working capital between 2Q14 pro forma and 3Q14 pro forma**

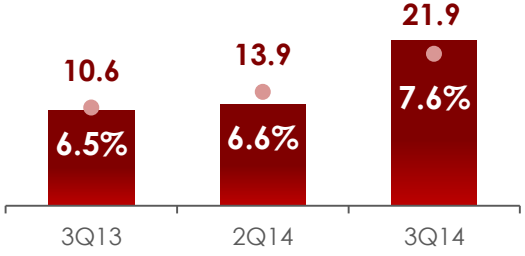
[1] Considers the amount of R$192.2 million related to the balance of FIES credits in 3Q14, for which repurchase was expected in June, but which was effected on October 2, 2014.

Provision for Doubtful Accounts (PDA)
Quarterly

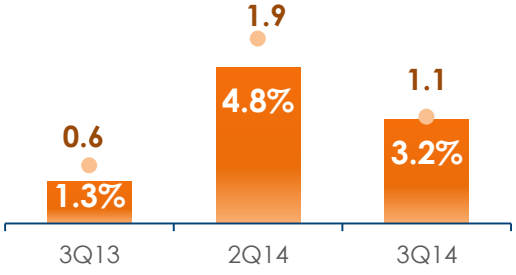
On-Campus Postsecondary
Quarterly - % NR of Business and R$ millions (Ex-Pronatec)



DL Postsecondary
Quarterly - % NR of Business and R$ million



Primary and Secondary
Quarterly - % NR of Business and R$ million



- Provisioning in On-Campus Postsecondary Education was 2.8% in 3Q14, down 1.0 p.p. from 3Q13, due to the higher penetration of FIES students. In the ex-FIES base, PDA was stable both sequentially and year over year
- PDA in Distance Learning was 7.6%, increasing 1.1 p.p. from 3Q13, due to the higher PDA of students in Anhanguera's DL operations, which also include the LFG operations
- PDA in Primary and Secondary Education was 3.2% of net revenue, down 1.6 p.p. from 2Q14, reflecting the anticipation of book collection deliveries in 2Q14

Accounts Receivable
(Pro Forma)

Postsecondary Education Values in R$ ('000)	3Q14[1] Pro Forma	3Q14	3Q13	% Chg.	2Q14[2] Pro Forma	% Chg.
Net Accounts Receivable	**448,489**	**640,655**	**183,499**	144.4%	**333,182**	**34.6%**
Short Term – Tuition and Agreements Receivable	199,054	199,054	76,781	159.2%	108,808	82.9%
Long Term Receivables	12,413	12,413	7,823	58.7%	10,276	20.8%
FIES	237,022	429,188	98,895	139.7%	100,294	136.3%

Distance Learning Values in R$ ('000)		3Q14	3Q13	% Chg.	2Q14	% Chg.
Net Accounts Receivable	-	**146,850**	**60,156**	**144.1%**	**110,794**	**32.5%**

Primary and Secondary Education Values in R$ ('000)		3Q14	3Q13	% Chg.	2Q14	% Chg.
Net Accounts Receivable	-	**39,754**	**35,579**	**11.7%**	**57,007**	**-30.3%**

- **Pro Forma accounts receivable in On-Campus education increased from 2Q14, due to the seasonality of the period, which shows an increase in FIES accounts receivable in odd quarters**
- **Increase in Distance Learning accounts receivable from 3Q13, which basically reflects the growth in the receivables-generating student base due to the incorporation of the Anhanguera figures**
- **Reduction in K-12 accounts receivable compared to 2Q14, reflecting the anticipation of book collection sales and stability in relation to 3Q13**

[1] Includes the amount of R$192,2 million related to the balance of FIES credits in 3Q14, for which repurchase was expected in September, but which was effected on October 2, 2014.
[2] Includes the amount of R$123.2 million related to the balance of FIES credits in 2Q14, for which repurchase was expected in June, but which was effected on July 3, 2014.

Accounts Receivable Average Term

On-Campus Postsecondary days	3Q14[1] Pro Forma	3Q14	3Q13	Days Chg.	2Q14[2] Pro Forma	Days Chg.
Criterion (1) Total Net Accounts Receivable / Net Revenues	49	71	56	-07 days	50	-01 day
Criterion (2) Net Accounts Receivable (ex-FIES) / Net Revenues	23	23	25	-02 days	26	-03 days
Criterion (3) Net Accounts Receivable (ex-FIES) / Net Revenues (ex-FIES)	61	61	55	06 days	74	-13 days
Criterion (4) FIES Net Accounts Receivable / FIES Net Revenues	42	77	57	-15 days	37	05 days
Distance Learning days		**3Q14**	**3Q13**	**Days Chg.**	**2T14**	**Days Chg.**
Net Accounts Receivable / Net Revenues	-	46	38	08 days	54	-08 days
Primary and secondary Education Days		**3Q14**	**3Q13**	**Days Chg.**	**2Q14**	**Days Chg.**
Net Accounts Receivable / Net Revenues	-	81	80	01 day	111	-30 days

- On-Campus Postsecondary (pro forma):
  - Average term (Criterion 1): down 7 days from 3Q13, due to the better FIES receivables term
  - Ex- FIES average term (Criterion 2): down 2 days from 3Q13, reflecting the higher share of FIES students in the base
  - Ex-FIES average term (Criterion 3): up 6 days from 3Q13 due to the consolidation of Anhanguera operations, which have different billing practices; and down 13 days from 2Q14
  - FIES average term (Criterion 4): considering the repurchases made in 3Q14, the number of days was 42, down 15 days from 3Q13
- Distance Learning: up 8 days from 3Q13, due to the consolidation of the Anhanguera operations
- K-12: stable compared to 3Q13 but down 30 days from the prior quarter due to the anticipation of book collection sales in 2Q14

[1] Includes the amount of R$192.2 million related to the balance of FIES credits in 3Q14, for which repurchase was expected in September, but which was effected on October 2
[2] Includes the amount of R$123.2 million related to the balance of FIES credits in 2Q14, for which repurchase was expected in June, but which was effected on July 3.

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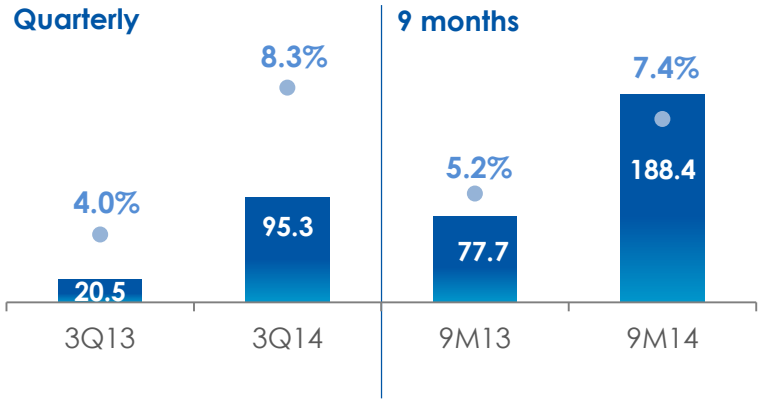
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Capital Expenditure and Debt

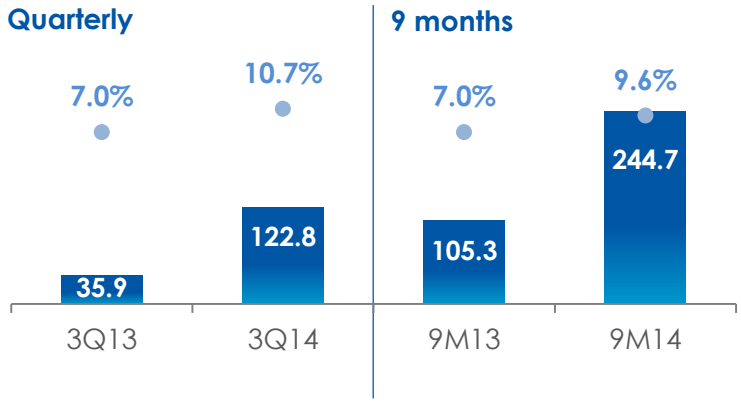
Capital Expenditure

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CAPEX
R$ millions and % NR



Capex + Special Projects
R$ millions and % NR



- **CAPEX as a ratio of Net Revenue in 3Q14 was 8.3%, up 4.3 p.p. from 3Q13. In 9M14, CAPEX was R$188.4 million or 7.4% of Net Revenue, increasing 2.2 p.p., mainly due to the investments in physical expansion projects to support student-base growth**
- **Adding Special Projects, CAPEX in the quarter was R$122.8 million or 10.7% of Net Revenue. In 9M14, Capex as a ratio of Net Revenue was 2.6 p.p. higher than in 9M13, though in line with the upper range of the Company's guidance for 2014 of 10%**

Net Debt

Consolidated *Amounts in R$ ('000)*	3Q14	3Q13	% Chg.	2Q14	% Chg.
Cash and Cash Equivalents	397,284	469,575	-15.4%	489,862	-18.9%
Loans and Financing	1,137,281	563,821	101.7%	398,006	185.7%
Net Cash (Debt)[1]	**(739,996)**	**(94,246)**	**n.a.**	**91,856**	**n.a.**
Other Long and Short Debt	314,979	237,544	32.6%	203,774	54.6%
Net Cash (Debt)[2]	**(1,054,975)**	**(331,790)**	**218.0%**	**(111,918)**	**n.a.**

- **Despite the high operating cash generation, cash and equivalents fell from 3Q13 due to the payment of extraordinary dividends at Kroton and Anhanguera (R$536 million) and the prepayment of part of the bonds (R$150 million)**
- **Net debt stood at R$740.0 million, up significantly from 3Q13, due exclusively to the incorporation of debt from Anhanguera, since no new debt was contracted in the period**
- **Debt ratio: Net debt[2] / EBITDA[3] = 0.70x**
- **Debt prepayments of R$123 million in 4Q14 should further reduce the Company's leverage**

[1] Net cash (debt) considering only bank obligations
[2] Net cash (debt) considering all other short- and long-term obligations related to tax liabilities and acquisitions, including the amount to be paid over 6 years for the Uniasselvi acquisition
[3] Based on the 2014 Adjusted EBITDA guidance of R$1,500 million

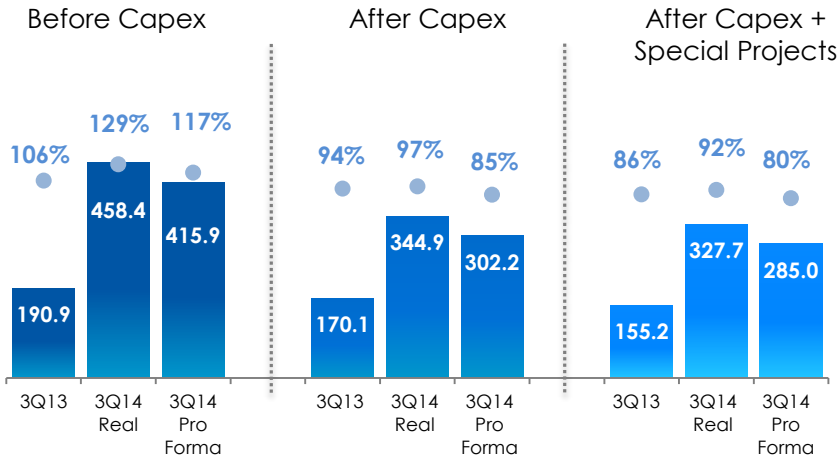
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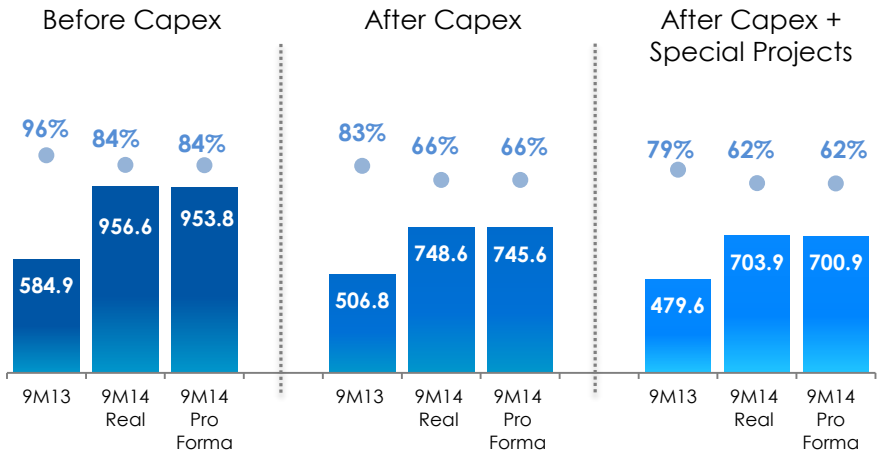
Cash Generation

Cash Generation

Quarterly - R$ million and %EBITDA



9 Months - R$ million and %EBITDA



- **Operating cash generation (pro forma) before CAPEX reached 117% of EBITDA in 3Q14 and 84% in 9M14**
- **After CAPEX, pro forma operating cash generation was R$302.2 million in 3Q14 and R$745.6 million in 9M14, representing EBITDA-to-Cash conversion rates of 85% and 66%, respectively**
- **Considering investments in Special Projects, pro forma cash generation was R$285.0 million in 3Q14 and R$700.9 million in 9M14, for EBITDA-to-Cash conversion rates of 80% and 62%, respectively.**

Note: EBITDA-to-Cash based on reported EBITDA
Pro Forma Includes the amount of R$192.2 million related to the balance of FIES credits in 3Q14, for which repurchase was expected in September, but which was effected on October 2 and exclude the amount of R$ 234.9 million related to the balance of FIES credits in 2Q14, for which repurchase was expected in June, but which was effected on July 3.

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Guidance and Closing Remarks

Kroton and Anhanguera – Pro Forma Numbers[1]

Financial Performance (R$ MM) and Margin (%)

	9M14
Net Revenues	R$ 3,591.5
EBITDA	R$ 1,301.5
EBITDA Margin	36.2%
Net Income	R$ 1,037.0
Net Margin	28.9%
Operating Cash Generation	R$ 916.0

[1] Anhanguera numbers prior to 3Q14 considers different accounting practices for each Company

Closing Remarks

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➢ Anhanguera Merger:

- Consistent progress on the 26 integration fronts
- Unification of the budget system concluded
- 205 ongoing integration projects with clear methodologies and strict monitoring of deliveries
- Start of process to integrate the academic models (2 years ahead of the original schedule)

➢ 2015/1 Student Enrollment and Re-enrollment process already launched

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