Kroton Educacional







Conference Call – 2Q11 Results

August 10th 2011

KROT11 NÍVEL 2 BM&FBOVESPA | PITÁGORAS | UNIC | UNIME | FAMA | Projecta melhor escola

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Initial Highlights

- **Students:**
  - ✓ Growth of 10% in the post-secondary student base (undegrad/grad/distance), considering the M&A transactions (sale of SUESC and 3 acquisitions).
  - ✓ Organic growth of 5% in the post-secondary student base (undegrad/grad/distance).
  - ✓ Graduate and Distance learning reach around 3,300 enrolled students at 146 centers.
- **Integration of the acquired units:**
  - ✓ 3 units acquired in July (6,500 students)
  - ✓ Integration process in advanced stage: the three units acquired began the second half of the year with a new Kroton academic model, ensuring a 24% reduction in professors and staff.
- **Consolidated financial results (pro forma):**
  - ✓ Net revenue growth of 9.4% from 2Q10.
  - ✓ EBITDA of R$16.1 million (margin of 9.5%) in the quarter and R$68.1 million (margin of 18.7%) in the first half.
- **Follow-on**
  - ✓ Proceeds of R$363.8 million will be used to support the strategy of inorganic growth.

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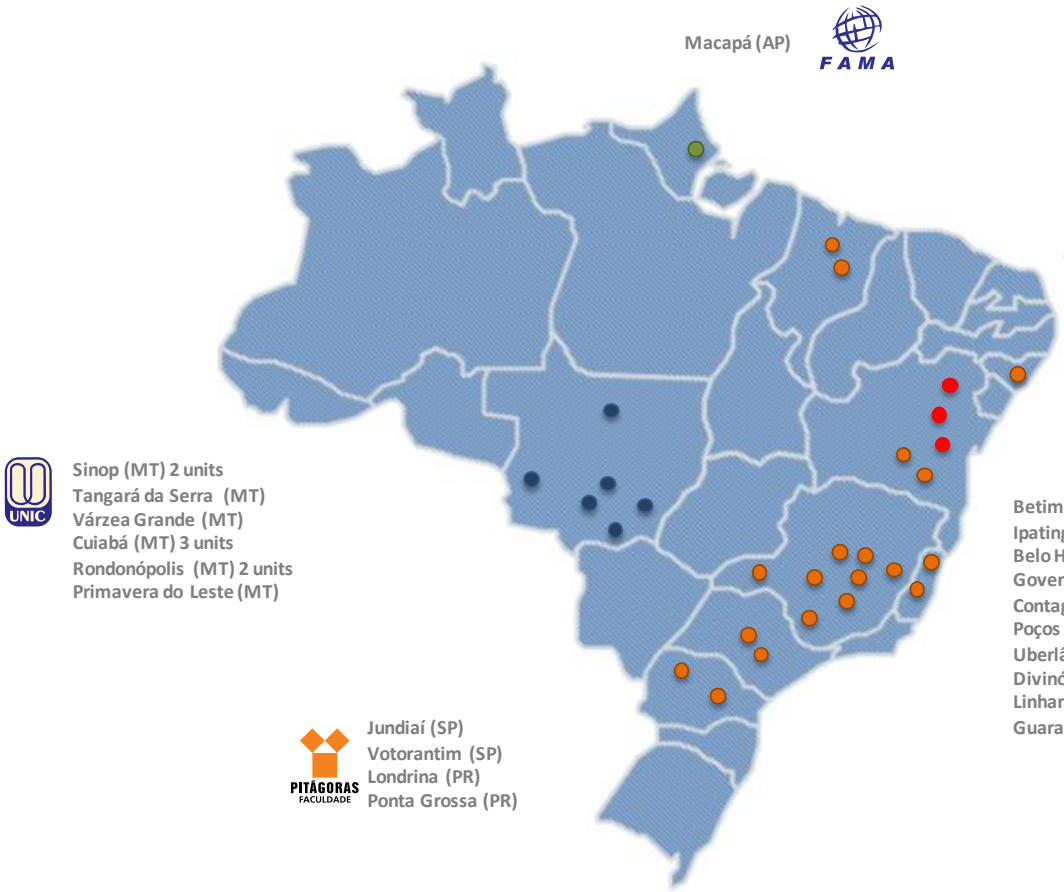




Operating Results

Post Secondary – New Operational Map

- ✓ 39 Units
- ✓ 29 Cities
- ✓ 9 States



Main events as of July 2011:

- Sale of 1 unit in Rio de Janeiro (RJ), improving efficiency and business margins
- Closing of a new Belo Horizonte Unit and transfer of students to a Unit nearby, with margin gains
- Acquisition of institutions in São Luís and Imperatriz, both in Maranhão state, with 5,007 students
- Acquisition of institution in Ponta Grossa in Paraná state, with 1,486 students

Kroton Integration Process

Integration Schedule FAMA São Luís and Fama Imperatriz:

Institution: FAMA - São Luís (MA) e FAMA - Imperatriz (MA)

Date of Acquisition (closing): 7/18/2011

Beginning of Integration Process: 6/1/2011 **Target for Completion of Integration:** 10/16/2011

Integration Area	June	July	August	September	October	% completed 08/02/2011	Highlights
Marketing						80%	2011/2 Kroton Admission Exam
HR and Payroll Management						10%	Payroll Implemented
Academic						60%	Revised Curriculum Structures Kroton Model Classes
Regulatory and Legal Affairs						70%	Incorporation of Processes
Cash Management						40%	Cash Management
Budgeting and Accounting Management						50%	Emergency Budgeting 2011/2 Budget
Student Management						70%	Educational ERP
Infrastructure and Administration						30%	Administrative and Facility Improvements
Supplies and IT						30%	Corporate ERP

Closing: 07/18/2011

Target for completion of integration: 10/13/2011

90 days Integration

- Kroton Academic Model implemented in the 3 units acquired after August 2011 for freshmen and veterans
- 100% of the faculty lay-offs already done

Post Secondary – Quality and Innovation

Ratio	< 3	= 3	> 3	Total = or > 3
Course Concept (CC)	3.1%	50.4%	46.6%	96.9%
Institutional Concept (CI)	3.0%	69.8%	27.2%	97.0%

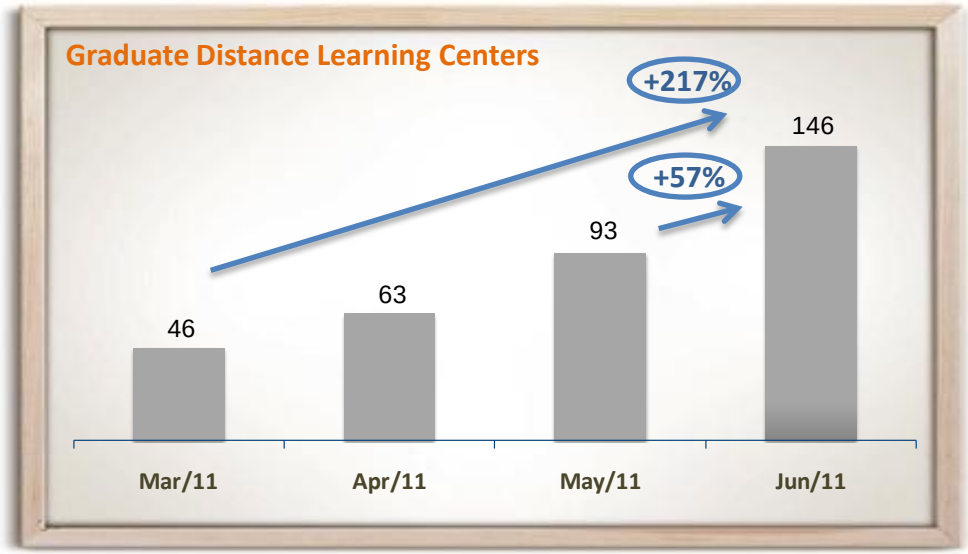


- In recent surveys by the Ministry of Education (MEC), Kroton's performance was above average in all metrics, reaching a score of 97%
- Partnership with Microsoft: innovation projects with several fronts of academic and corporate operations

Distance Learning – Nacional Presence

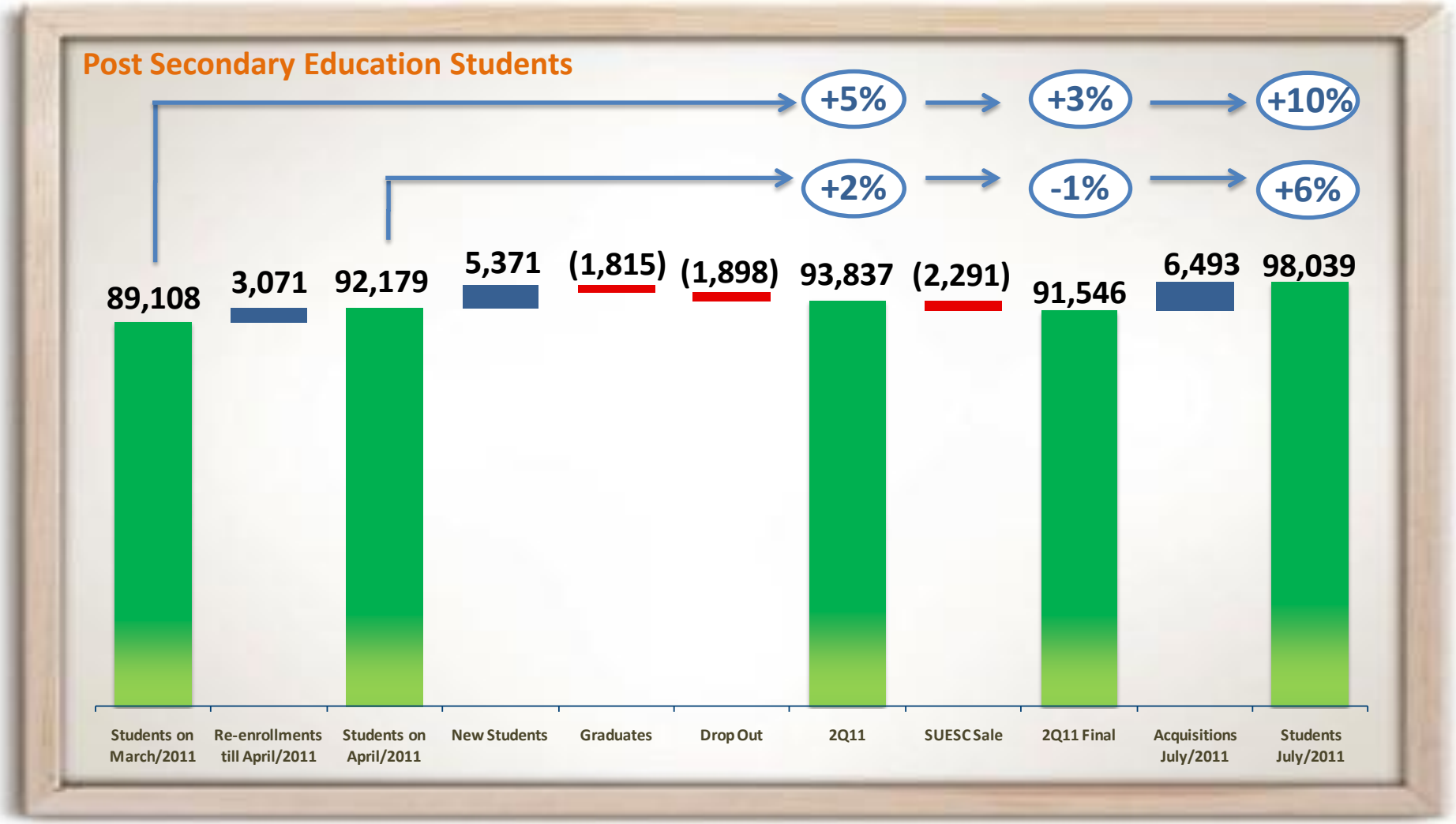
Mode	Methodology	Courses implemented till 06/30/2011	Centers as of 06/30/2011
Online	100% online content. On-campus exams	14	95
Telepresencial	Content developed through the Network of Primary and Secondary Education Satellites. On-campus exams.	4	78
Total - Graduate Distance Learning		**18**	**146***

*There are 27 common centers between the 2 projects.



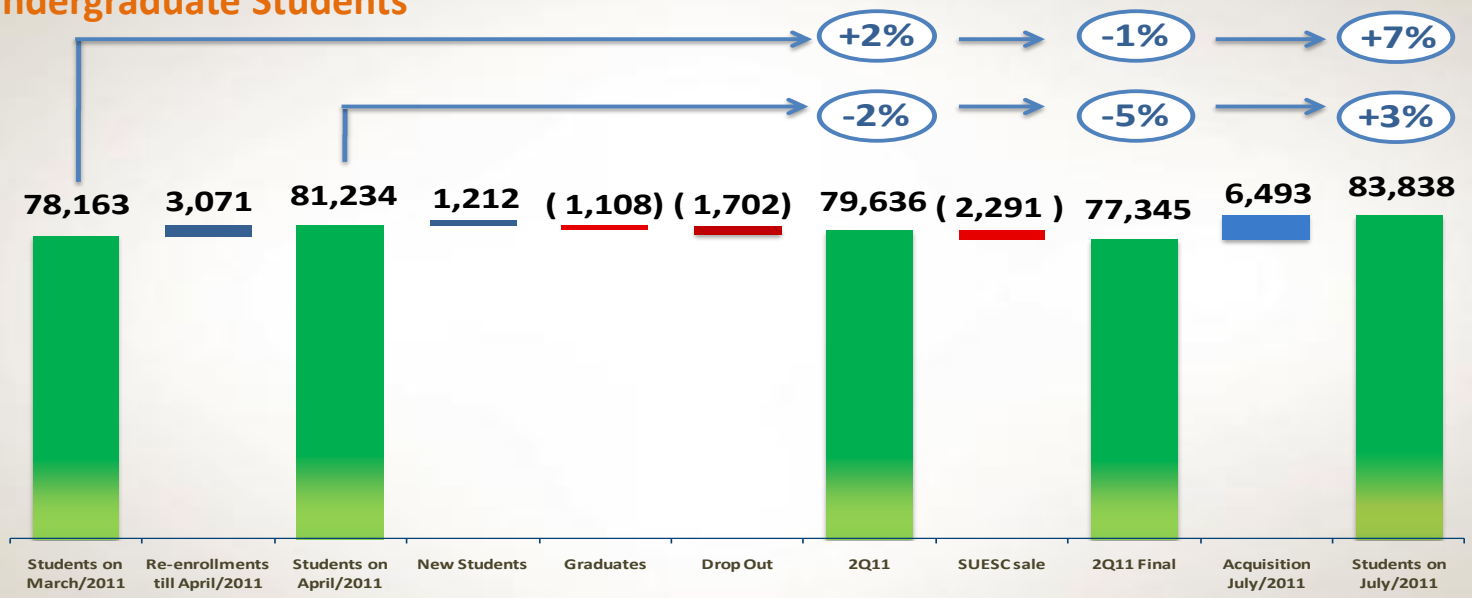
- **Graduate: 146 Centers in 22 states and 127 cities**
- **Undergraduate: approval of MEC for 76 Centers in 17 states and 66 cities**

Post Secondary – Growth of Students

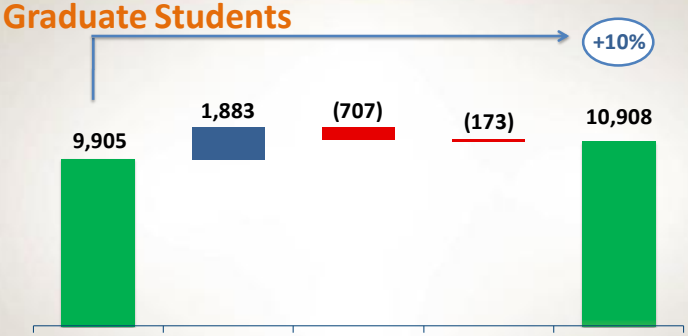


Post Secondary – Growth of Students

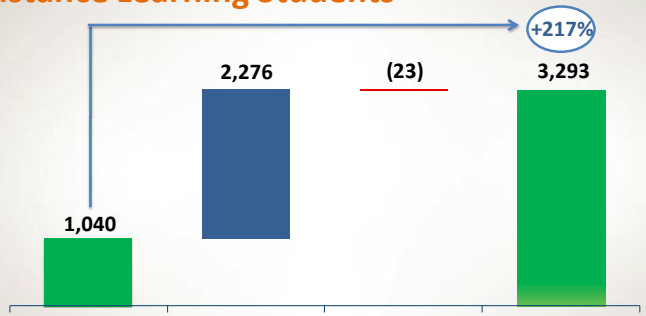
Undergraduate Students



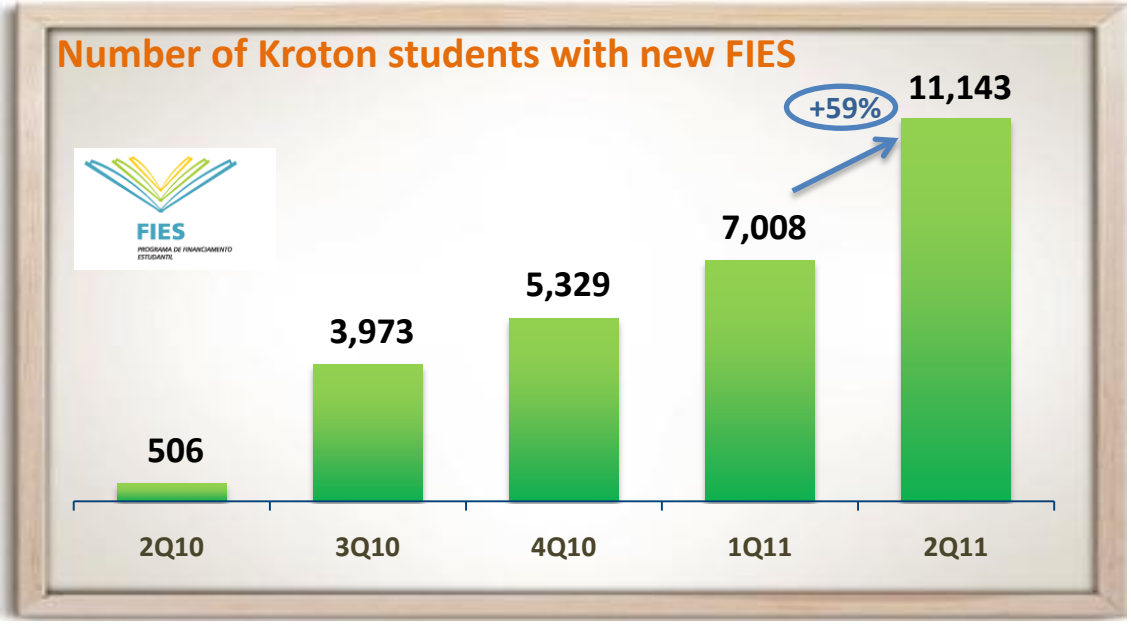
Graduate Students

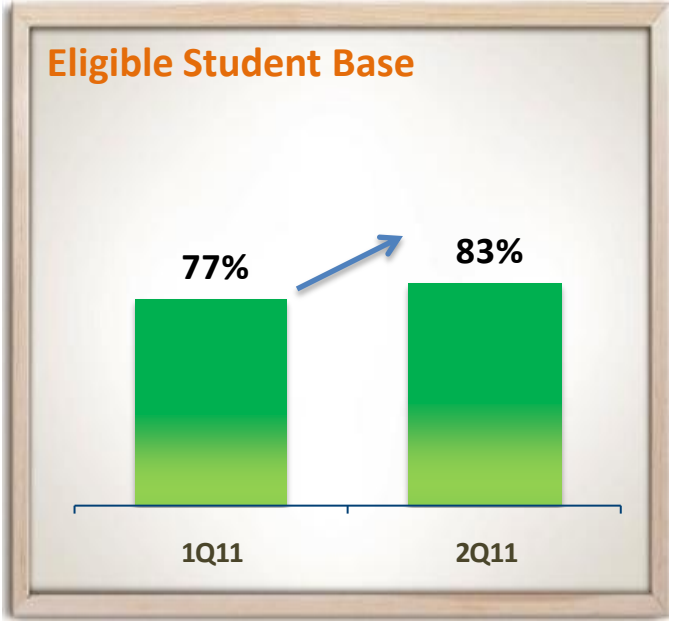


Distance Learning Students



Post Secondary – New FIES

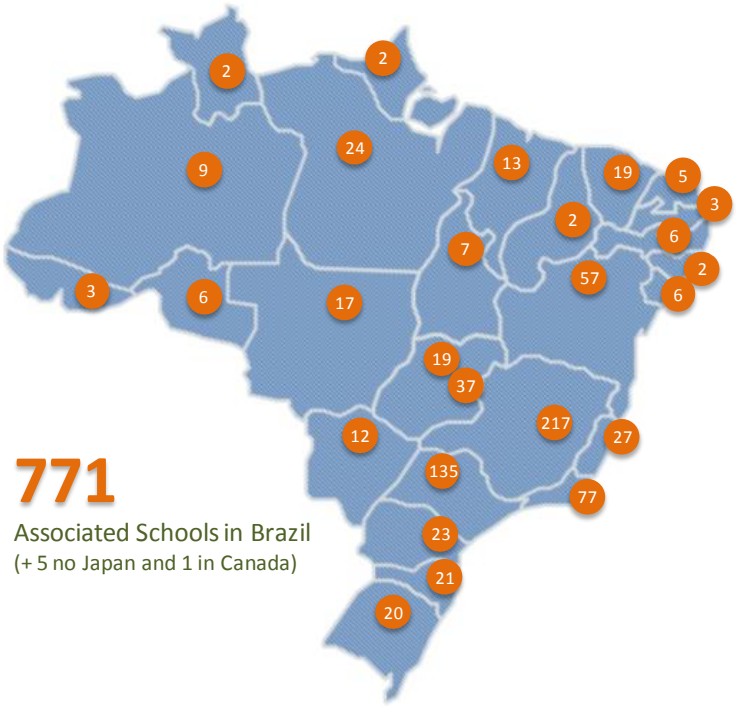




- Number of FIES students in June reaches 18.2% of the student base
- Expansion in students eligibility, from 77% to 83% of the base, due to the on-site evaluations conducted by the Ministry of Education, followed by improvements in concepts
- Around 1,500 students in approval process as of June 30

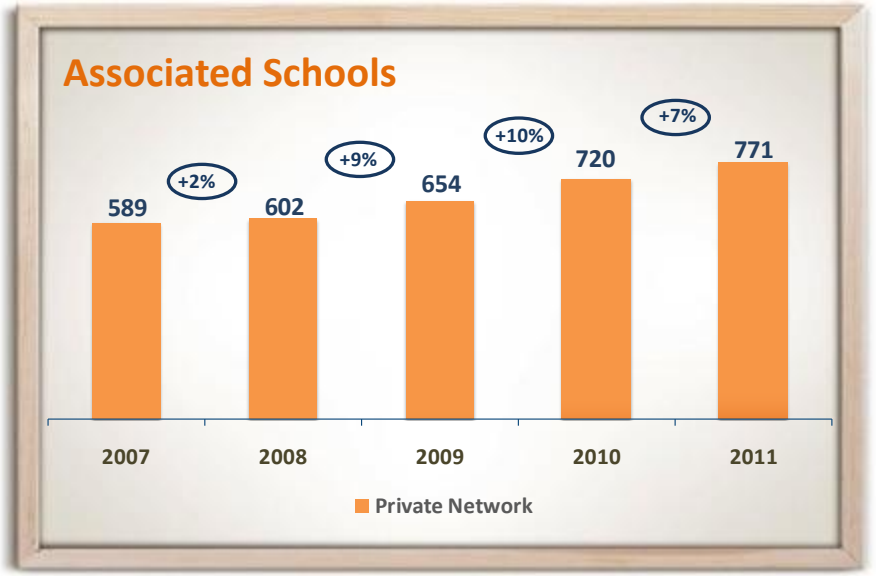
- New FIES students: 11,143
- Former FIES students: 2,905
- **Total FIES students: 14,048**
- Kroton student body: 77,345
- **% FIES students: 18.2%**

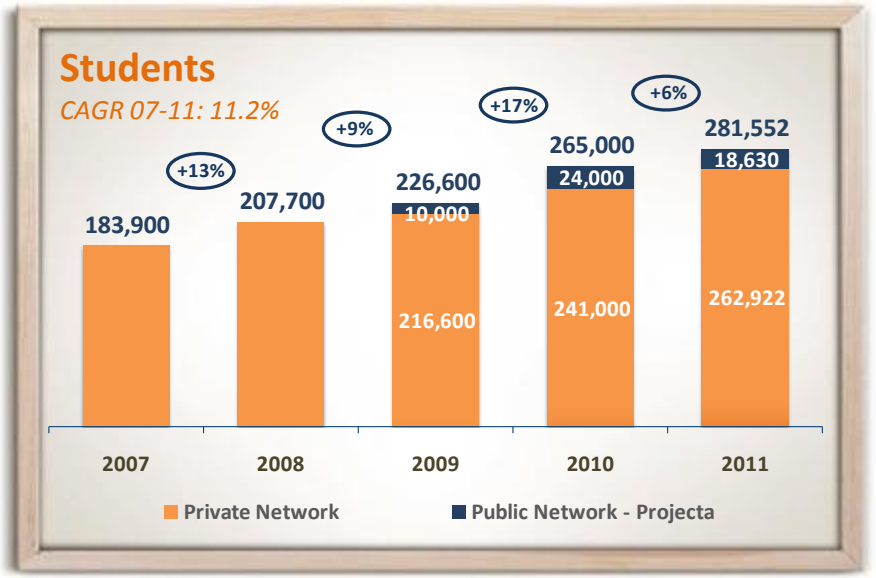
Primary and Secondary Education – Growth of Schools and Student



771

Associated Schools in Brazil
(+ 5 no Japan and 1 in Canada)





- Growth in student base of 6%
- Growth in base of Associated Schools of 7%
- High level of renewals of Associated Schools: 93%

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Financial Results

Note: Pro forma Results

- Origin:
  - ✓ Problems in communication between the systems of the Company and the Minas Gerais State Finance Ministry for the issue of Electronic Invoice in June and the consequent extension, as an exceptional case, of the deadline to the beginning of July for the receipt of orders by Associated Schools.

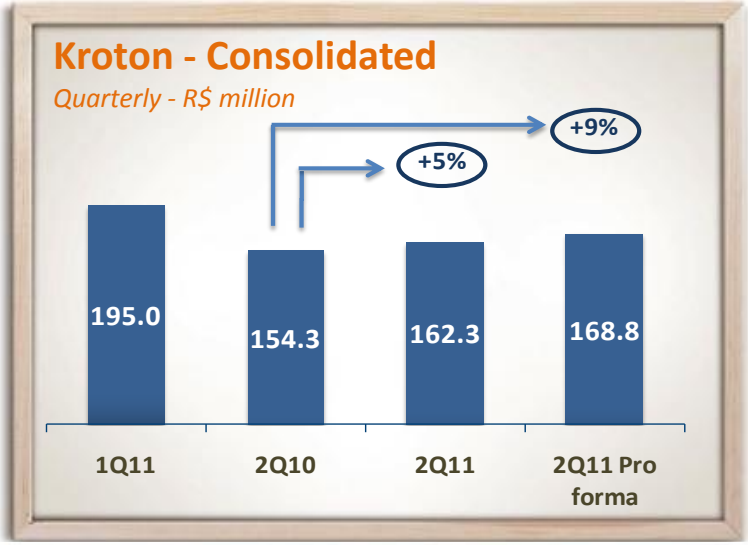
- Budget vs. Sales:

Primary and Secondary Education *Amounts in R$ ('000)*	Jun/11	Jul/11	Total
Budget	21,986	16,304	38,290
Actual Sales	13,638	23,551	37,189
Pro forma Adjustment	6,549	(6,549)	-
Pro forma Sales	20,187	17,002	37,189
Difference (Budget - Sales)	(1,799)	698	(1,101)

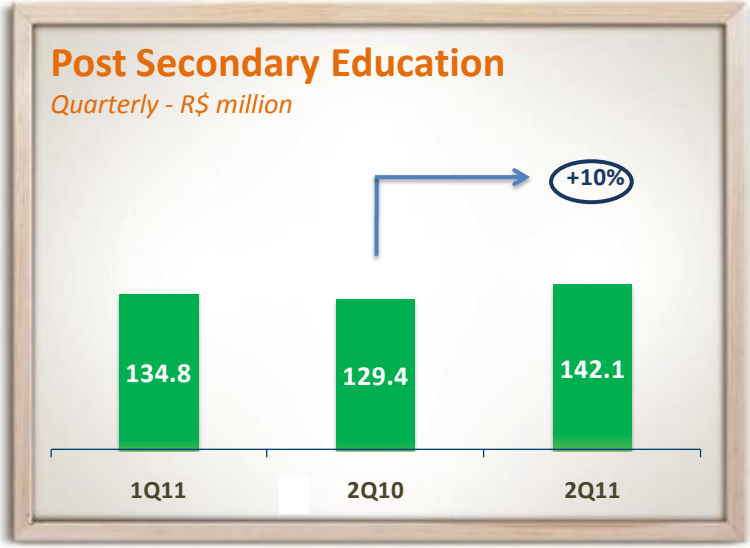
- Assumptions:
  - ✓ transfer of revenue obtained in July but pertaining to June (R$ 6.5 million).
  - ✓ 20% charge on the additional billing booked in June relating to the cost of goods (R$ 1.3 million), in line with the amount in 1Q11.
  - ✓ 10% tax rate (R$ 0.6 million) on the taxable income, also repeated in earlier periods.

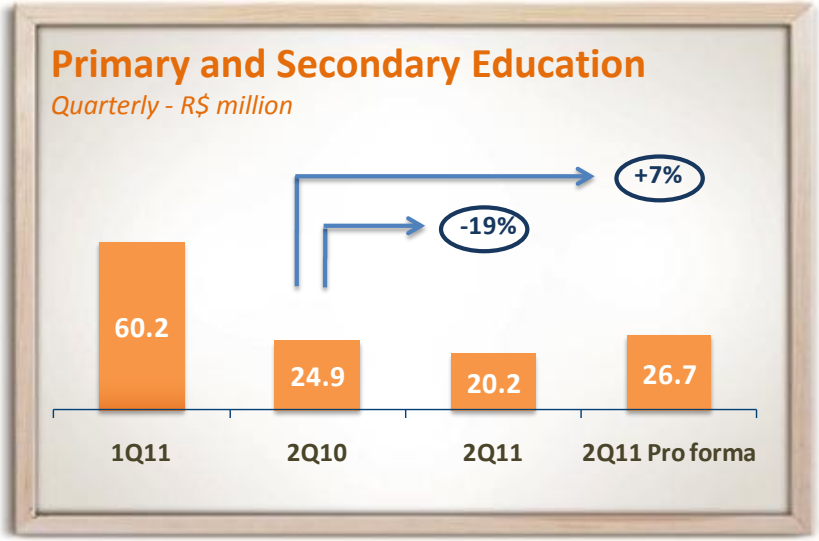
The 2Q11 earnings release presents all the analyses considering the accounting results (without pro forma effect). The pro forma numbers are provided as a complementary analysis to enable comparison with the results of previous quarters, especially of 2Q10.

Net Revenue



- Growth of 7.0% in the average undergraduate ticket from 1Q11, sustained by the significant number of admissions, notably in April, which affected revenues in 2Q11
- Average graduate ticket of R$158, in line with the previous quarter
- Growth of 7.3% in the average Primary and Secondary Education ticket from 2010





Undergraduate Average Ticket
2Q11: R$ 591.64

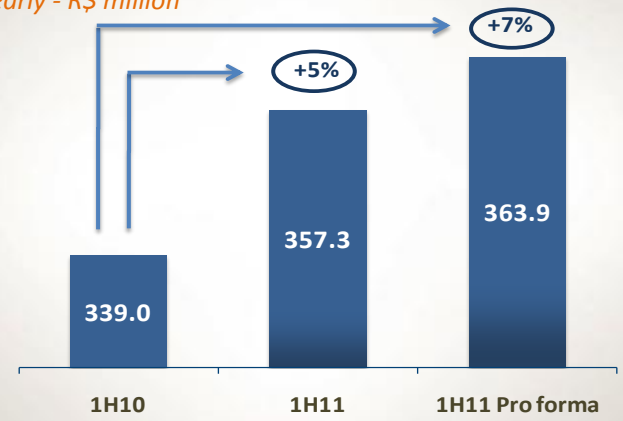
Graduate Average Ticket
2Q11: R$ 158.20

Primary and Secondary Average Annual Ticket
2011: R$ 375.19

Net Revenue

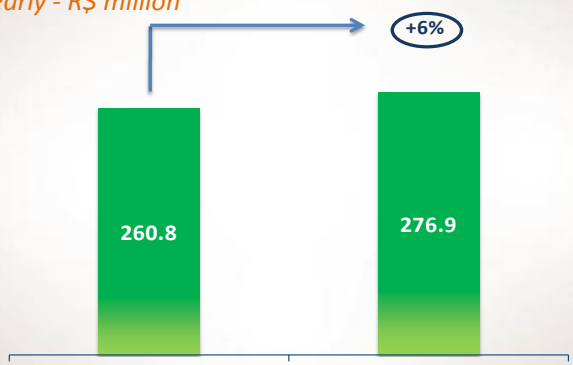
Kroton - Consolidated

Half yearly - R$ million



Post Secondary Education

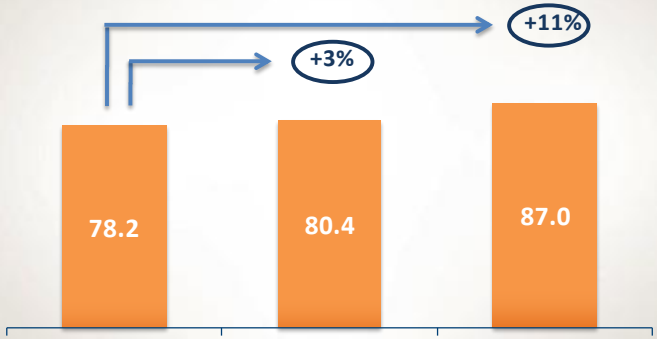
Half Yearly - R$ million



17

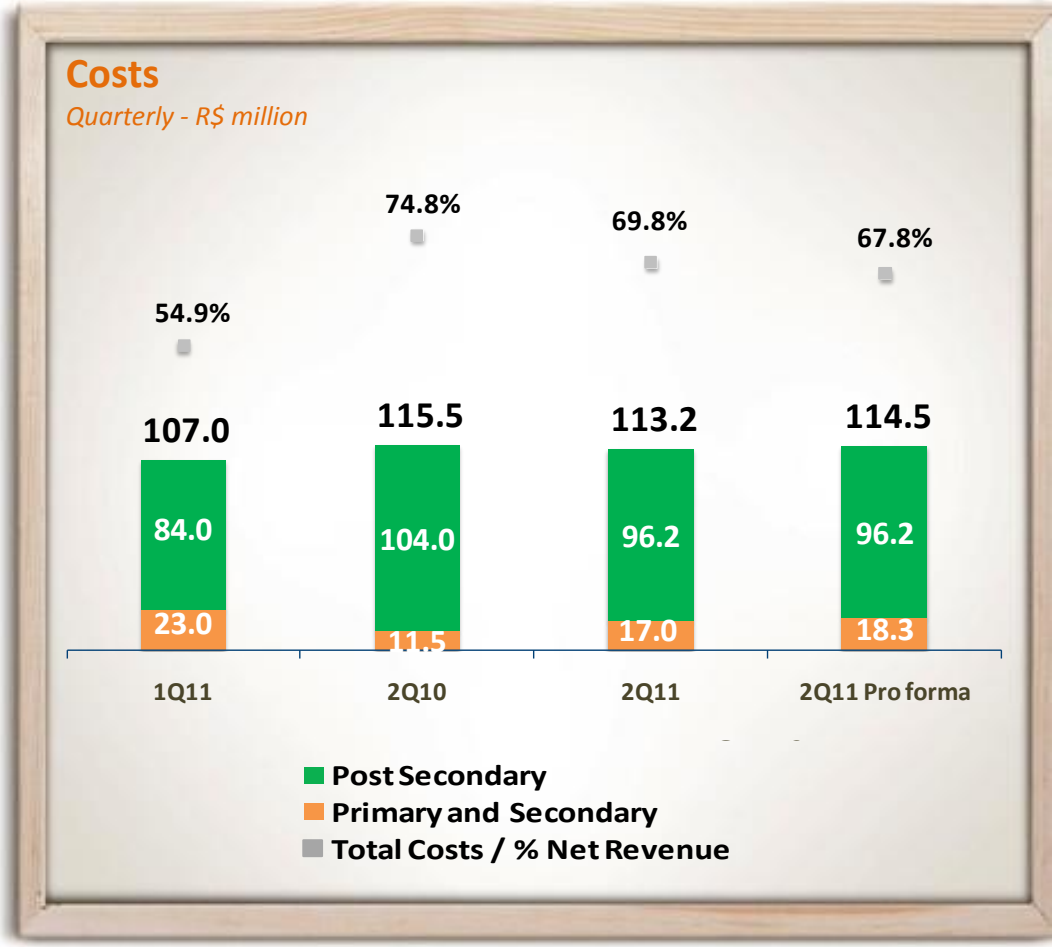
Primary and Secondary Education

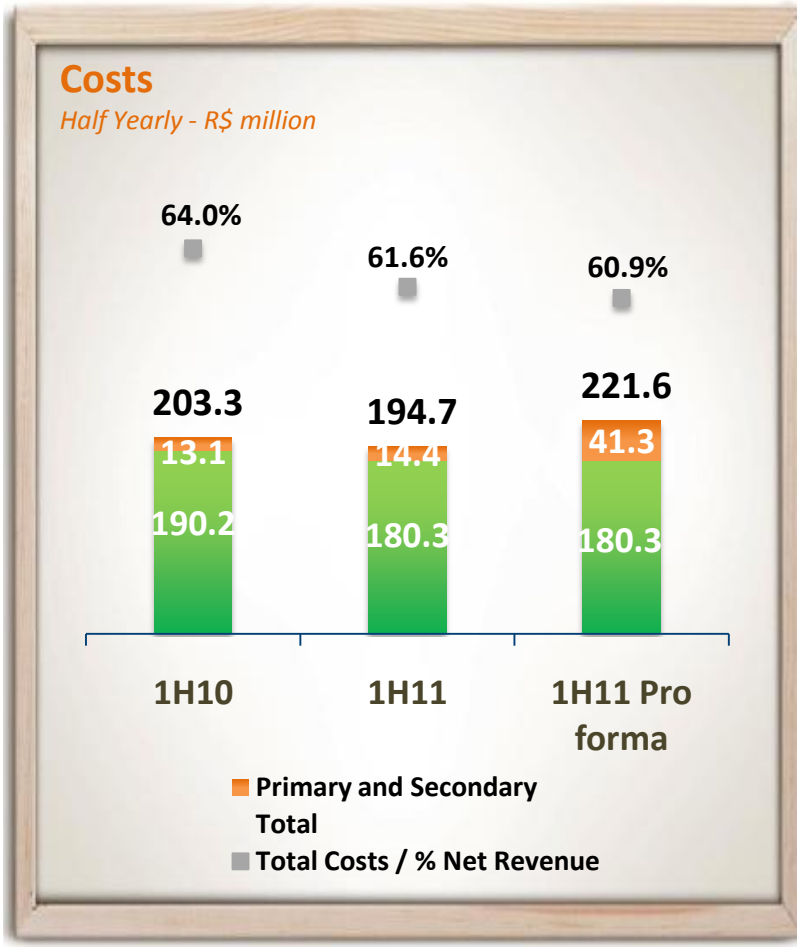
Half Yearly - R$ million



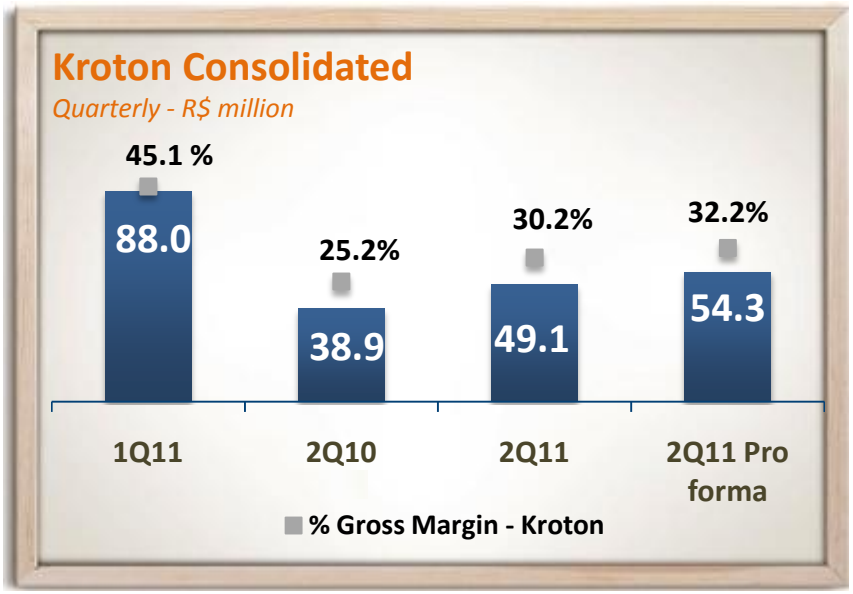
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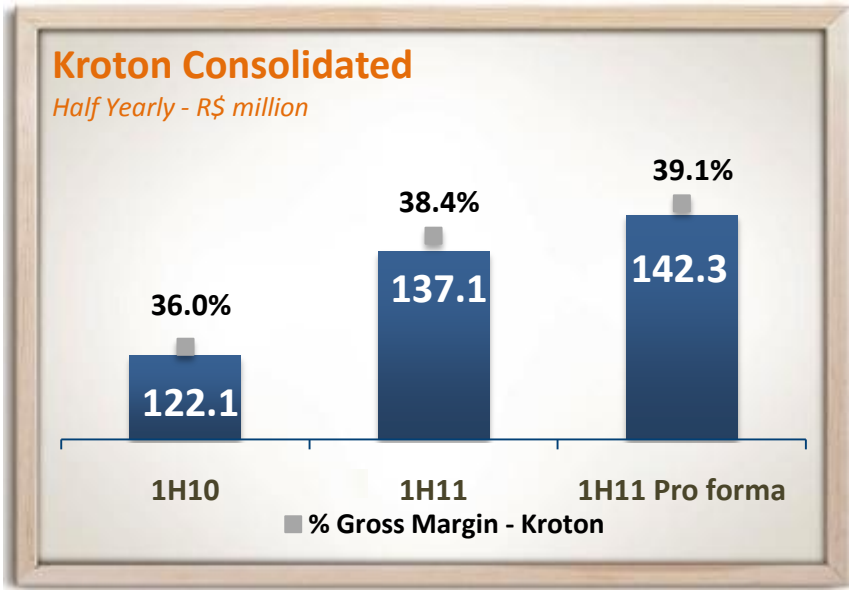
Costs of Goods and Services



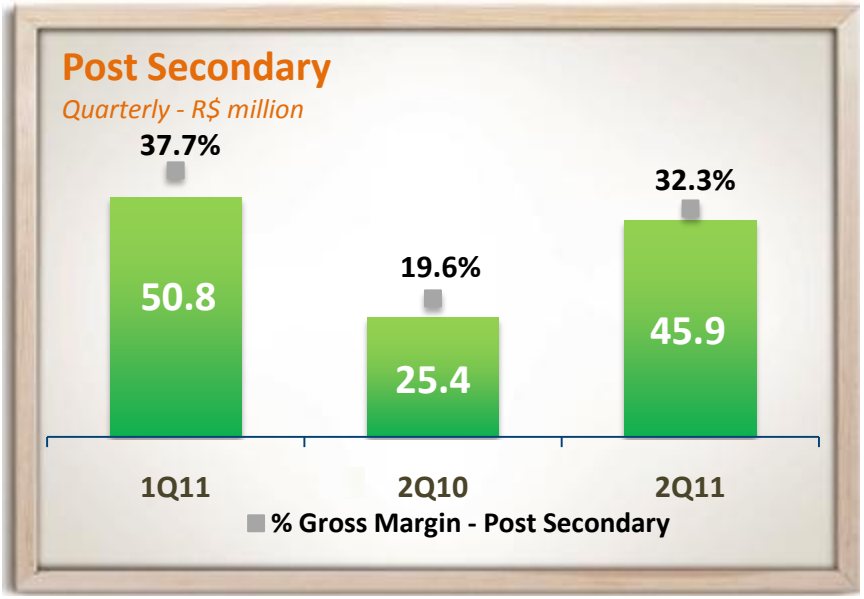


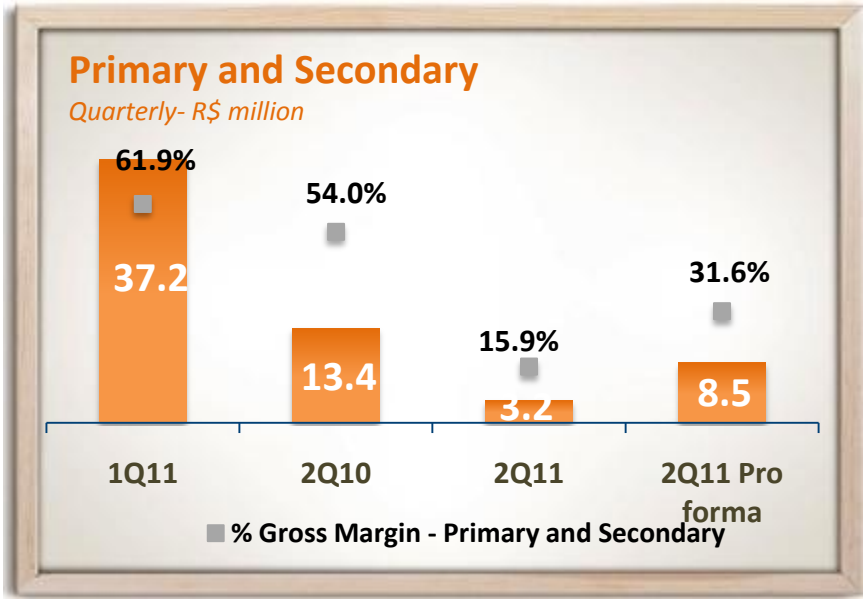
Consolidated Gross Income

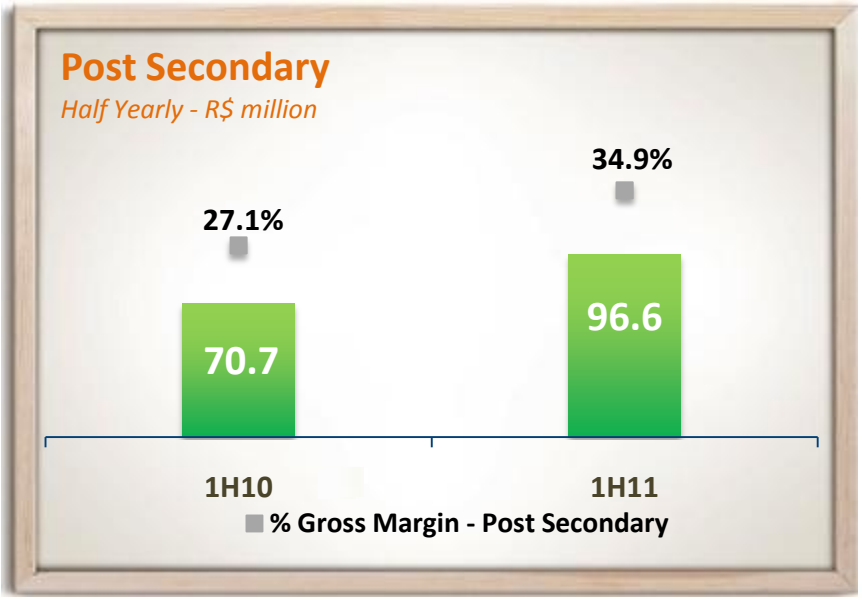


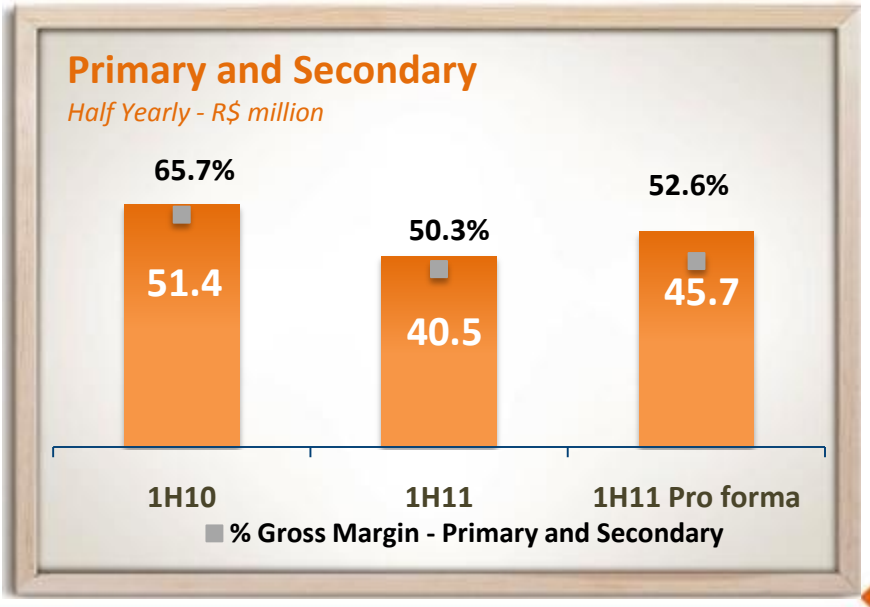


Gross Income by Segment

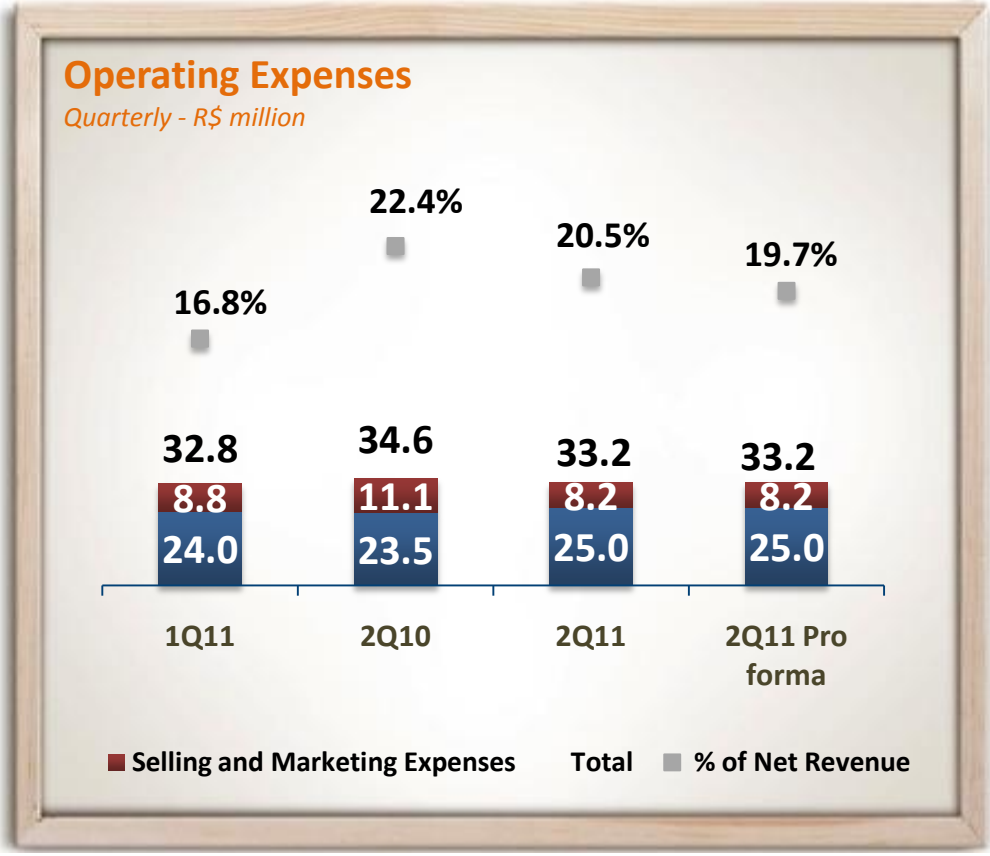








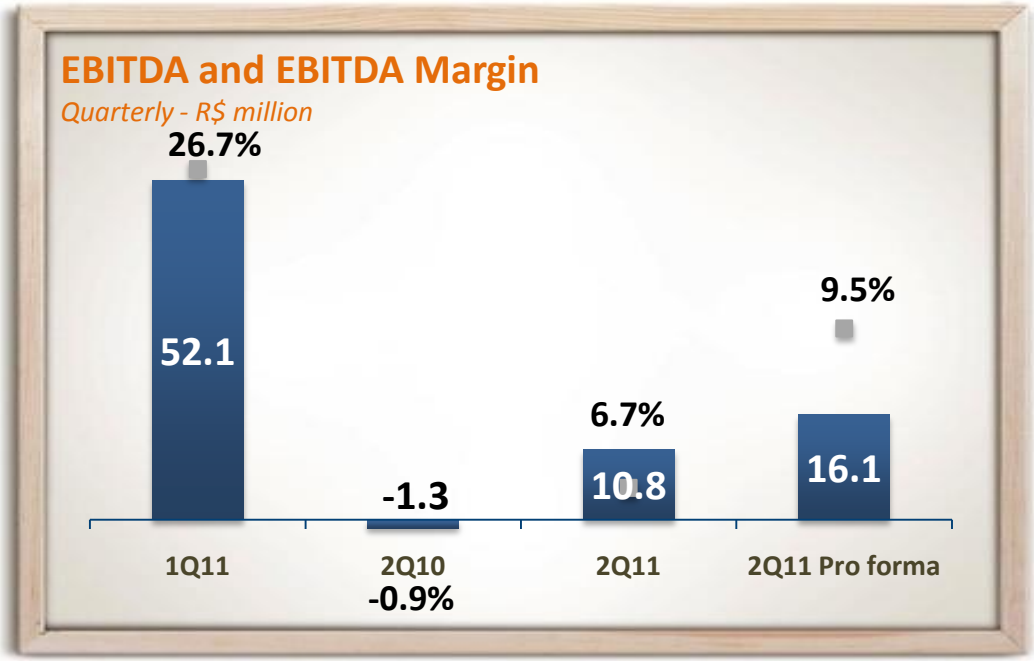
Operating Expenses

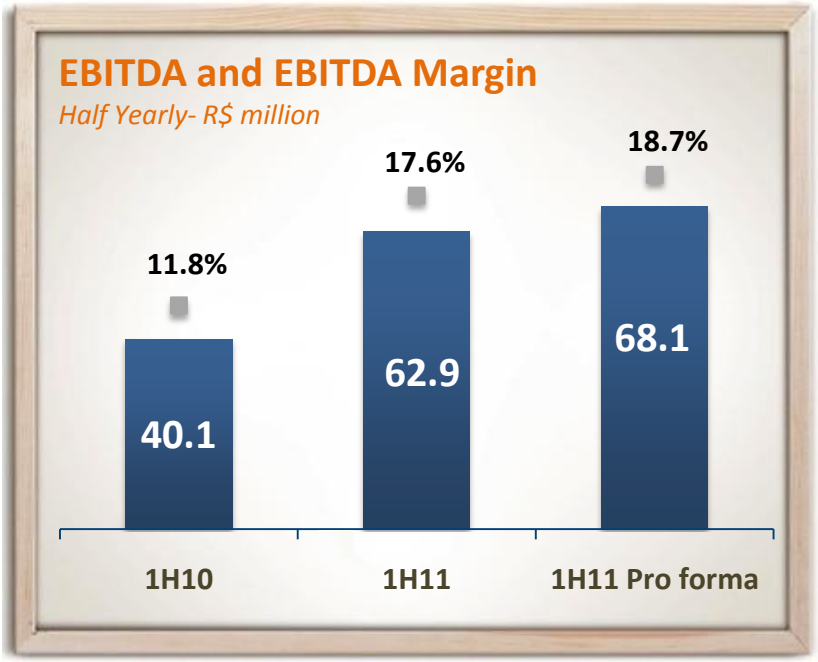




Net Expenses / Revenues (%)	1Q11	2Q10	2Q11	2Q11 Pro forma	1H10	1H11	1H11 Pro forma
Personnel, General and Administrative	12.3%	15.2%	15.4%	14.8%	13.8%	13.7%	13.5%
Selling and Marketing	4.5%	7.2%	5.1%	4.9%	7.4%	4.8%	4.7%

EBITDA



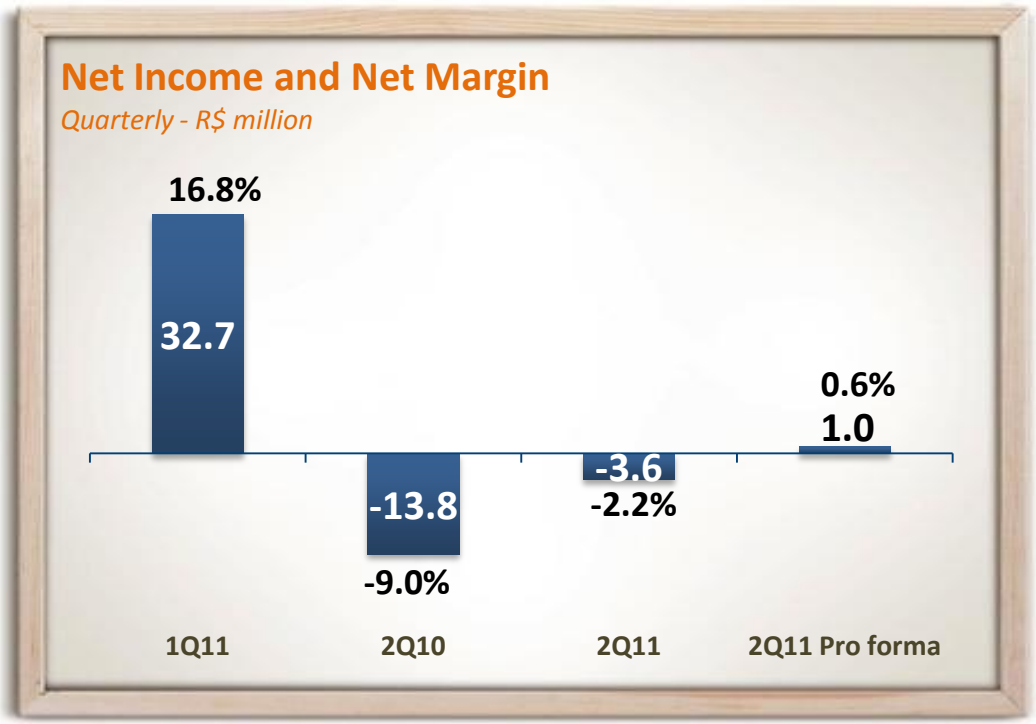


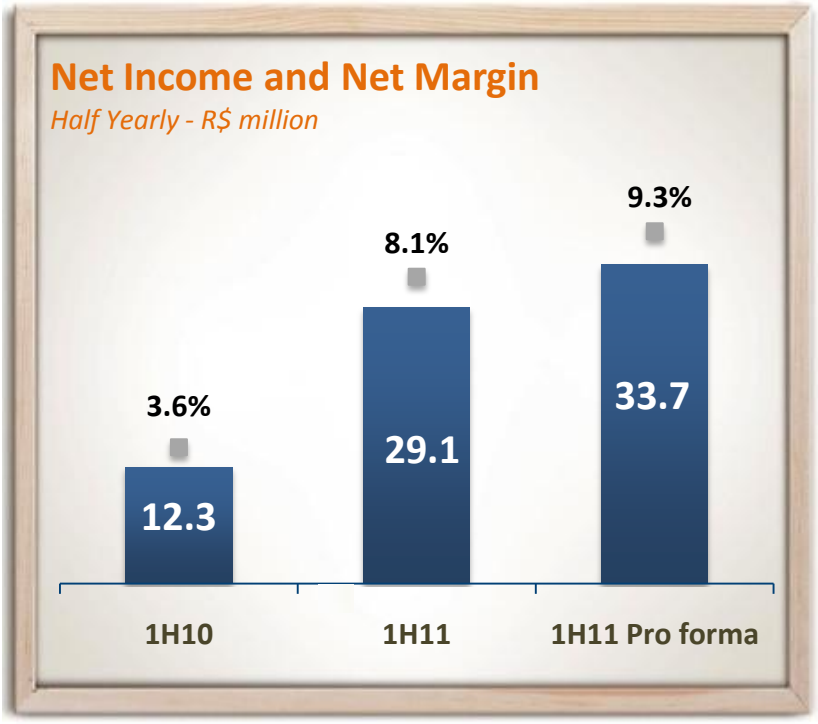
R$ Thousand	2Q10	1Q11	2Q11
Non Recurring	(11,142)	(474)	(4,639)

R$ Thousand	1H10	1H11
Non Recurring	(15,182)	(5,113)

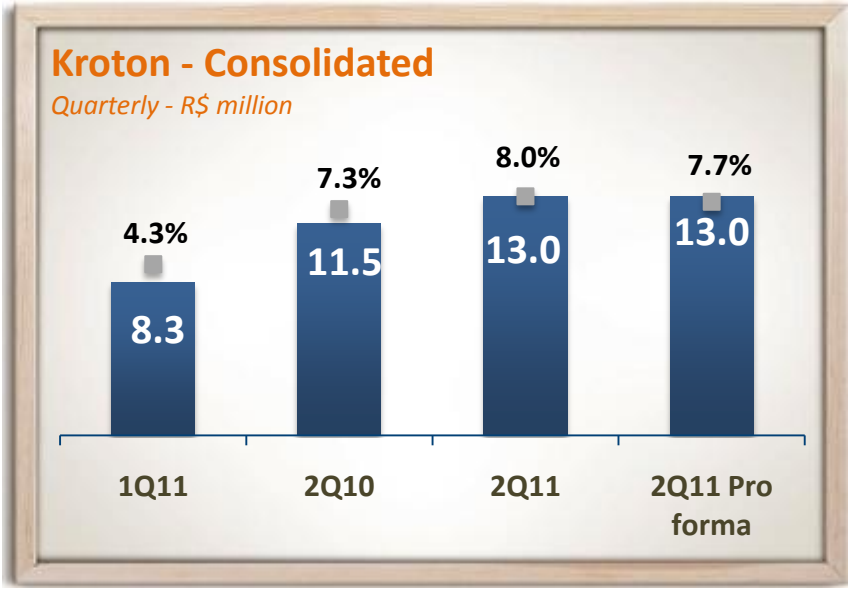
- R$ 3.2 million – investment write-off after the sale of the SUESC Unit in Rio de Janeiro.
- R$ 1.4 million – payment of fines relating to contract terminations at the Units discontinued in 2011 and others

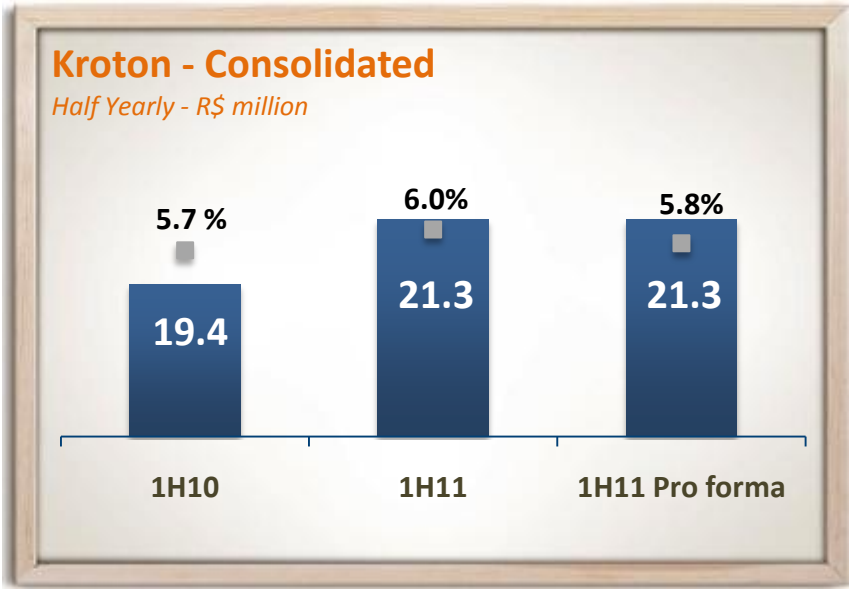
Net Income

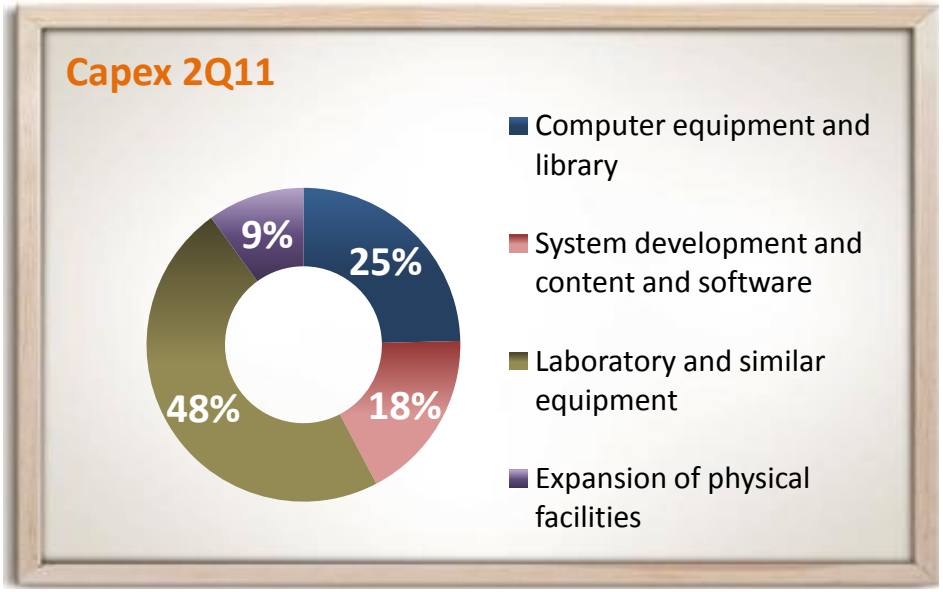

Net Income and Net Margin
Quarterly - R$ million
16.8%
32.7
-13.8
-9.0%
-3.6
-2.2%
0.6%
1.0
1Q11
2Q10
2Q11
2Q11 Pro forma


Net Income and Net Margin
Half Yearly - R$ million
3.6%
12.3
8.1%
29.1
9.3%
33.7
1H10
1H11
1H11 Pro forma

Capex


Kroton - Consolidated
Quarterly - R$ million
4.3%
7.3%
8.0%
7.7%
8.3
11.5
13.0
13.0
1Q11
2Q10
2Q11
2Q11 Pro forma


Kroton - Consolidated
Half Yearly - R$ million
5.7 %
6.0%
5.8%
19.4
21.3
21.3
1H10
1H11
1H11 Pro forma


Capex 2Q11
9%
25%
48%
18%
Computer equipment and library
System development and content and software
Laboratory and similar equipment
Expansion of physical facilities

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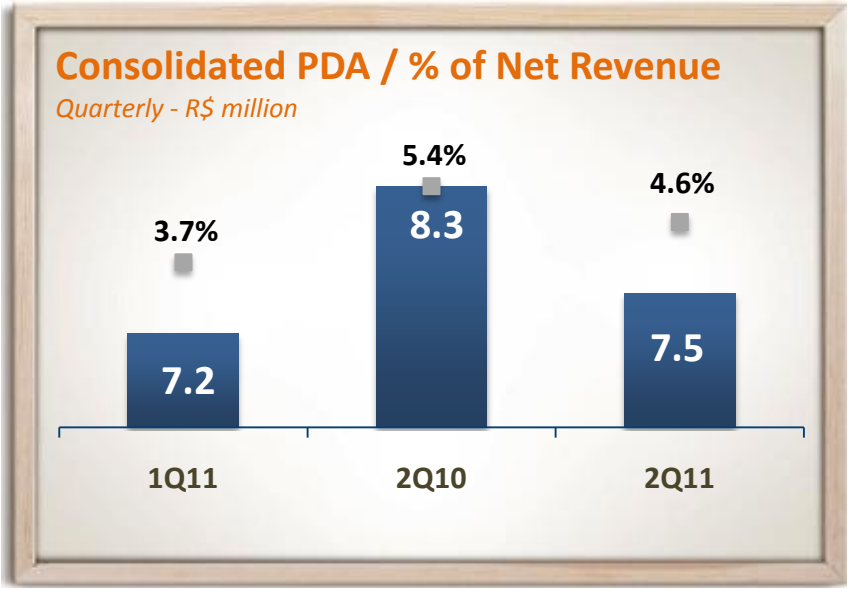


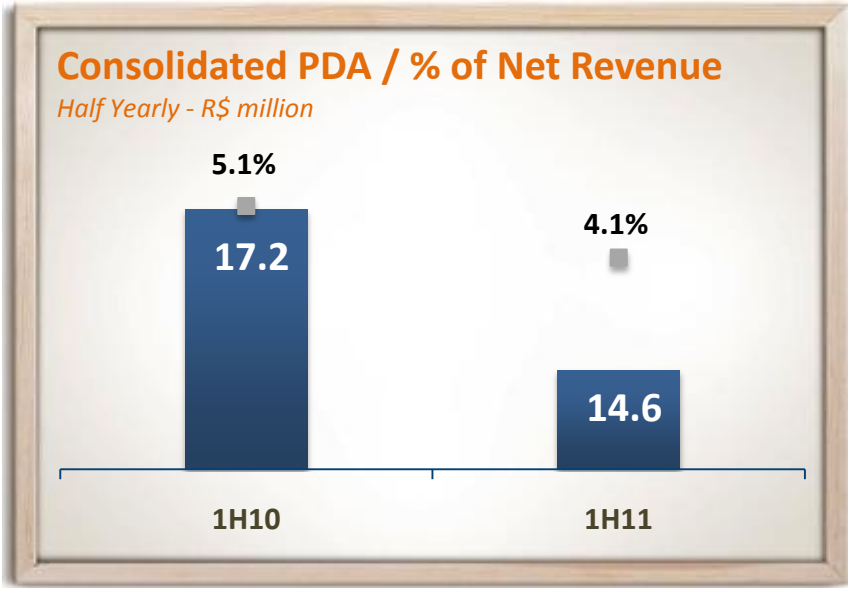




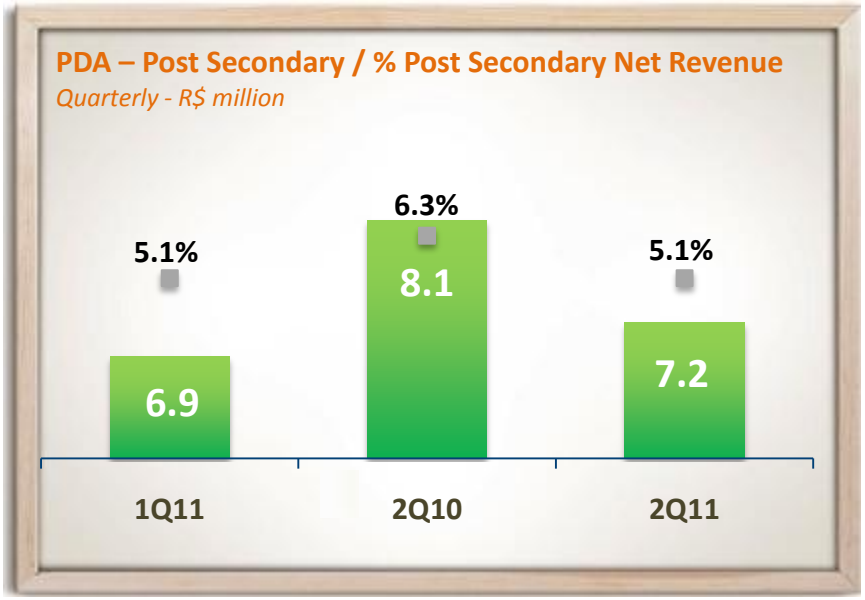
Provision and Receivables

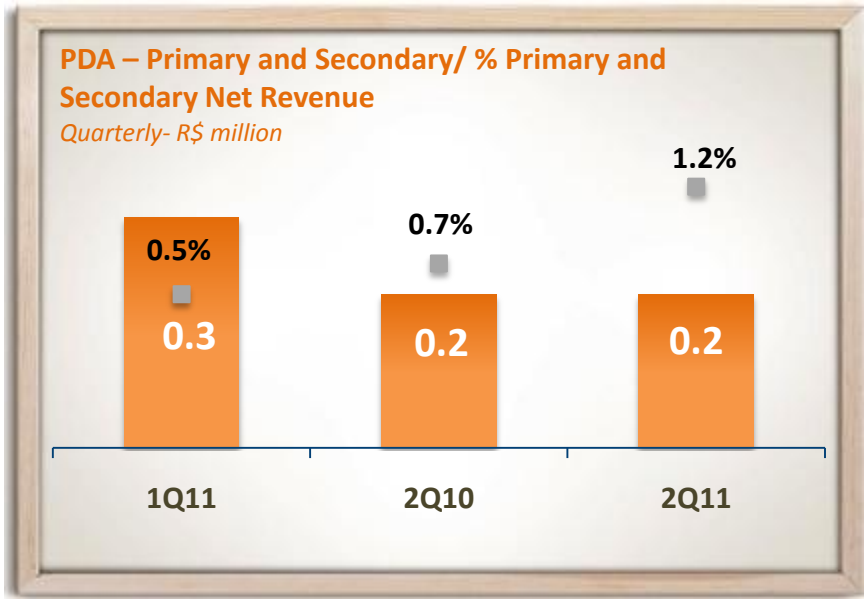
Consolidated Provision for Doubtful Account

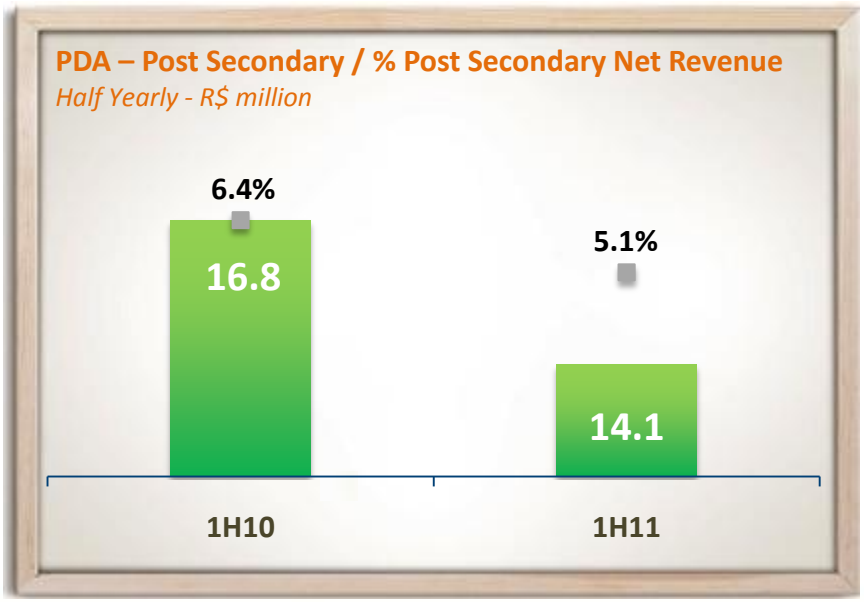


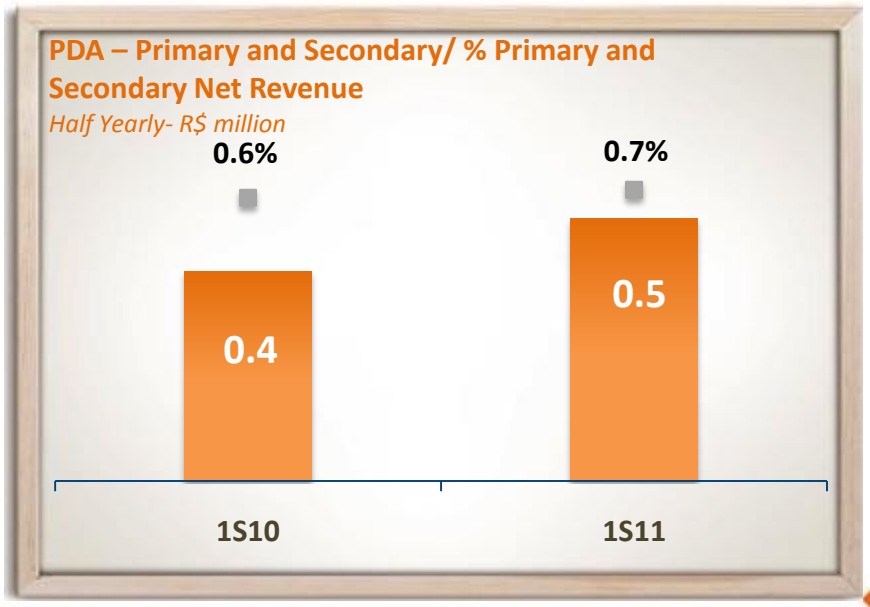


Provision for Doubtful Account by Segment









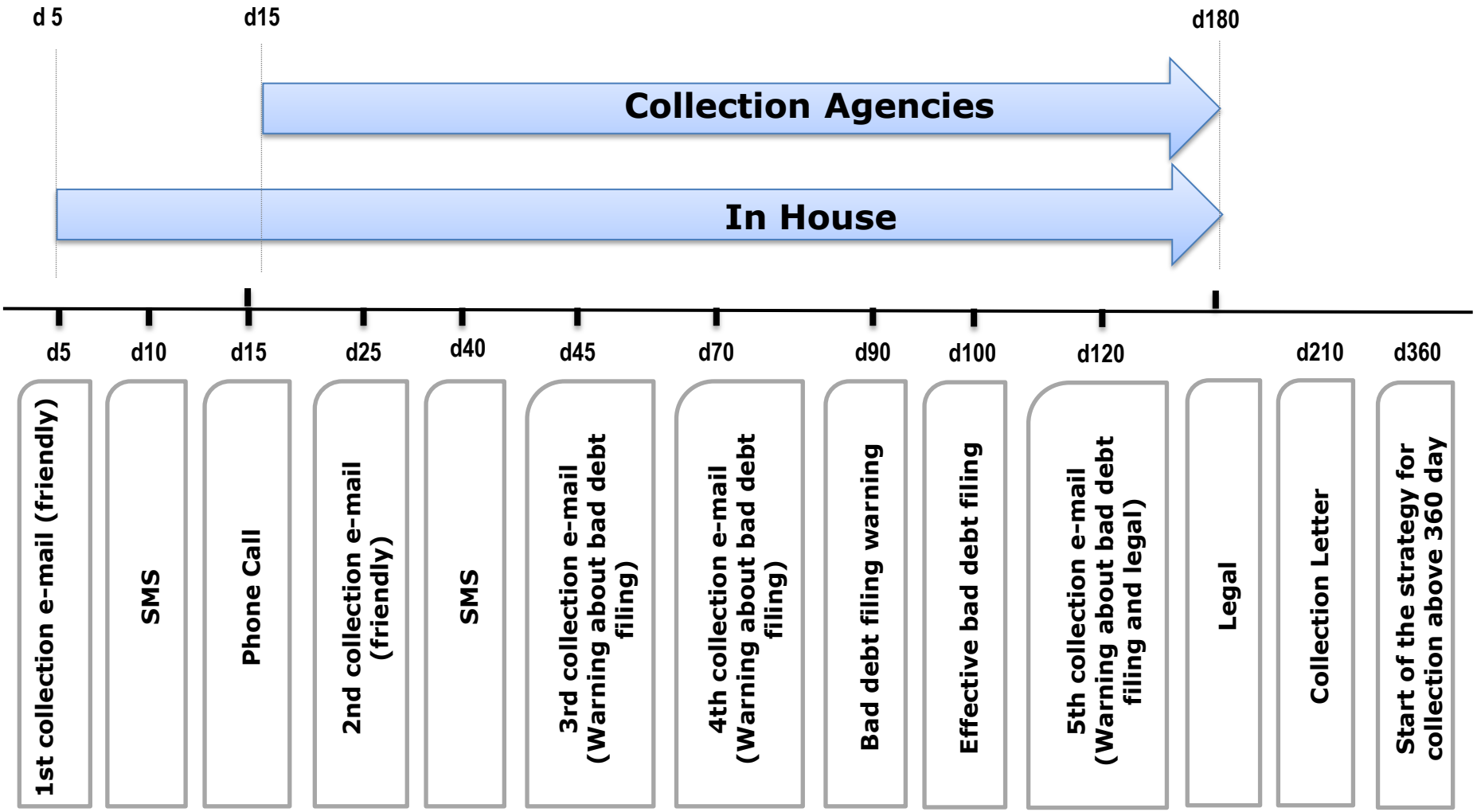
Accounts Receivable

In R$ (´000)

Kroton – Post Secondary Education	2Q11	2Q10	Chg%	1Q11	Chg%
Net Accounts Receivable – Post Secondary	**163,075**	**96,870**	**68.3%**	**137,953**	**18.2%**
Tuitions and Agreements to Receive	93,196	75,560	23.3%	91,718	1.6%
FIES	51,780	4,650	n.a.	27,779	86.4%
Direct Student's Financial Credit	18,099	16,660	8.6%	18,456	-1.9%
Accounts Receivable Turnover (days)					
Tuitions and Agreements to Receive/ Total Receivable	59	70	-11 days	61	-2 days
Tuitions and Agreements to Receive/ Accounts Receivable ex-FIES	69	72	-3 days	67	+2 days

Kroton – Primary and Secondary Education	2Q11	2Q10	Chg%	1Q11	Chg%
Accounts Receivable	33,607	44,219	-24.0%	57,011	-41.1%
Accounts Receivable Turnover (days)	98	145	-47 days	160	-62 days

Kroton Collection Schedule



Kroton Educacional







Follow-on and Closing Remarks

Follow-on and Investor Relations

- More than 80 meetings held
- More than 90 investors visited
- 14 cities in Brazil, USA and Europe

Offer Summary	
Total *Units* Offered (Price per *Unit*: R$ 19.25)	20,552,200
Total Primary *Units* Issued + *Greenshoe* (Price per *Unit*: R$ 19.25)	19,752,200
Total Funded (Primary + *Greenshoe*), net of Commissions	R$ 363.8 million
Free-float pre follow on	44.8%
Free-float after follow on	58.4%



Final Remarks

1 Margin Expansion

70% EBITDA growth, from R$ 40.1 million in 1H10 , to R$ 68.1 million in 1H11

EBITDA margin growth, from 11.8% in 1H10, to 18.7% in 1H11

174% increase in net income, from R$ 12.3 million in 1H10, R$ 33.7 million in 1H11

Net Margin growth, from 3.6% in 1H10 to 9.3% in 1H11

2 Acquisitions

3 acquisitions held

Efficient integration process

Active pipeline and new acquisitions expected for the 2H11

3 Organic Growth

Net revenue growth of 9.4%, from R$ 339.0 million in 1H10, to R$ 364.0 million in 1H11

2% organic growth for undergraduate students (excluding the SUESC students and acquisitions)

10% organic growth for graduate on-campus students

217% organic growth for graduate distance learning students (successful start up, reaching 3,300 students in less than 6 months)

146 distance learning centers (creating one of the most capilar networks in Brazil in less than 6 months)

Kroton
Educacional







Investor Relations

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