

Kroton Educacional

2Q14 Earnings Conference Call

August 2014

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Initial Highlights - Kroton

- Merger with Anhanguera
- Adjusted Financial Performance: Kroton (ex-Anhanguera) (R$ MM)

	2Q14			1H14		
		Margin	Annual Growth		Margin	Annual Growth
EBITDA	R$ 326.0	45.0%	118.8%	R$ 657.7	47.0%	79.1%
Net Income	R$ 286.0	39.5%	153.1%	R$ 576.2	41.2%	93.0%

- Operating Cash Generation: Kroton ex-Anhanguera (R$ MM)

	2Q14 Pro Forma[1]		1H14 Pro Forma[1]	
		EBITDA to Cash[2]		EBITDA to Cash[2]
Before Capex[3]	R$ 312.2	97.9%	R$ 537.8	81.8%
After Capex[3]	R$ 262.6	82.3%	R$ 443.3	67.4%

[1] 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, and excludes the amount of R$117.3 million related to the balance of FIES credits in 1Q14, for which repurchase was expected in March, but which was effected on April 2, 2014. For 1H14, 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)

Initial Highlights – Anhanguera

Adjusted Financial Performance: Anhanguera (R$ MM)[1]

	2Q14	Margin	Annual Growth	1H14	Margin	Annual Growth
EBITDA	R$ 91.8	18.1%	6.4%	R$ 245.0	23.4%	15.4%
Net Income	R$ 49.8	9.8%	15.1%	R$ 156.1	14.9%	32.0%

Operating Cash Generation: Anhanguera (R$ MM)[12]

	2Q14 Pro Forma[3]	Annual Growth	1H14 Pro Forma[3]	Annual Growth
Before Capex	R$ 179.5	84.0%	R$ 241.6	112.2%
After Capex	R$ 143.3	190.9%	R$ 170.3	183.2%

[1] Accounting criteria differ from those practiced by Kroton

[2] The calculation of Pro forma Operating Cash Flow excludes payments related to tax installments and the repayment of commitments payable, which are lines allocated to Financing Activities.

[3] Includes the amount of R$ 112.9 million related to the balance of FIES credits in 2Q14, for which repurchase was expected in June, but was effected on July 2, 2014 and excludes the amount of R$80.9 million related to the balance of FIES credits in 1Q14, for which repurchase was expected in March, but was effected on April 2, 2014. For 1H14, in addition to considering the above amount, excludes the amount of R$64.6 million related to the balance of FIES credits in 4Q13, for which repurchase was expected in December, but was effected on January 6, 2014.

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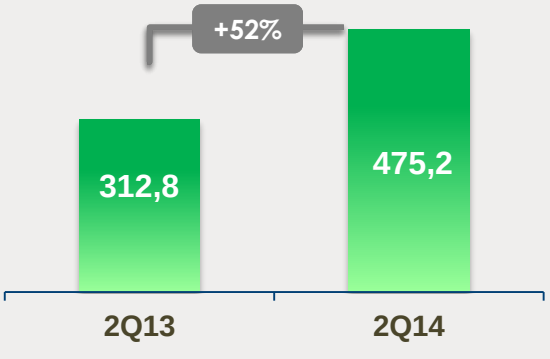


Financial Performance

Financial Performance – On-Campus Business

Net Revenue (NR)

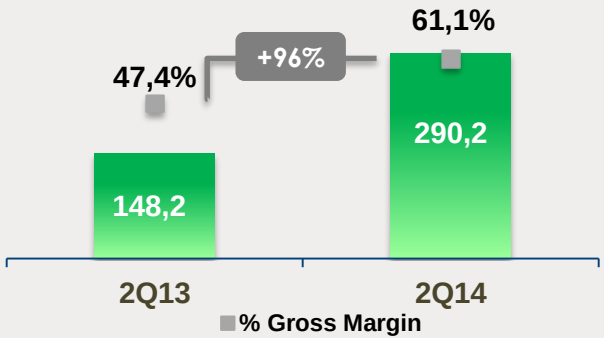
Quarterly - R$ million



% Business NR / Total NR	
65%	66%

Gross Income (GI)

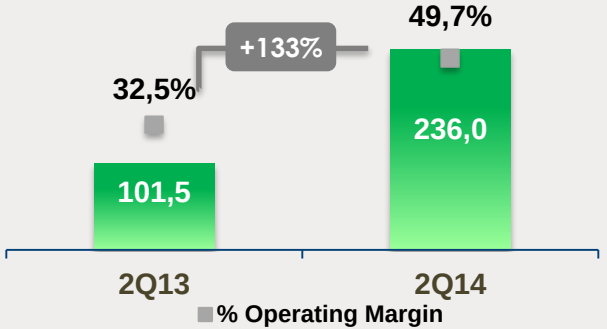
Quarterly - R$ million



% Business GI / Total GI	
57%	61%

Operating Result (OR)

Quarterly - R$ million



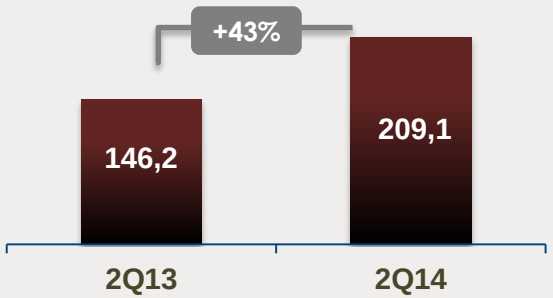
% Business OR / Total OR	
55%	63%

- Net Revenue in the business grew 52% on 2Q13, supported by the normalization of students (especially FIES), whose revenue from prior quarters was fully recognized in the period
- Gross Income in the business grew 96% to R$290.2 million, with gross margin of 61.1%, expanding 13.7 p.p. on 2Q13
- Operating Income in the business grew 133% to R$236.0 million in 2Q14, with margin of 49.7%, expanding 17.2 p.p. on the prior year.

Financial Performance – Distance Learning Postsecondary Business

Net Revenue (NR)

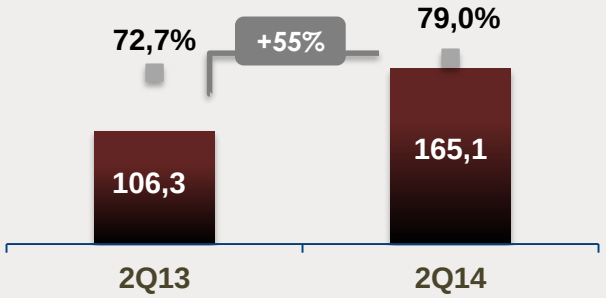
Quarterly - R$ million



% Business NR / Total NR	
30%	29%

Gross Income (GI)

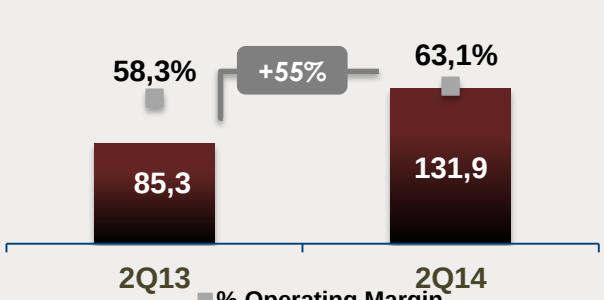
Quarterly - R$ million



% Business GI / Total GI	
41%	35%

Operating Result (OR)

Quarterly - R$ million



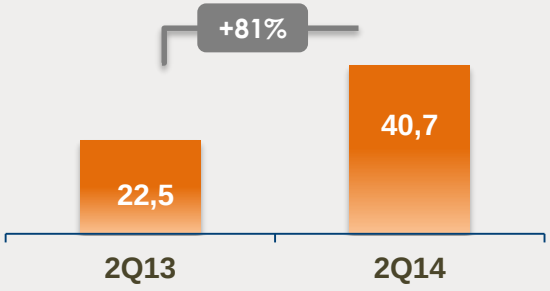
% Business OR / Total OR	
46%	35%

- Net Revenue of R$ 209.1 million, 43% higher than in 2Q13
- Gross Income grew 55% on 2Q13 to R$165.1 million, with gross margin of 79.0%, up 6.3 p.p.
- Operating Income of R$131.9 million, up 55% on 2Q13, with margin of 63.1% (+4.8 p.p.), demonstrating the efficiency gains captured in the Distance Learning business

Financial Performance – Primary and Secondary Education Business

Net Revenue (NR)

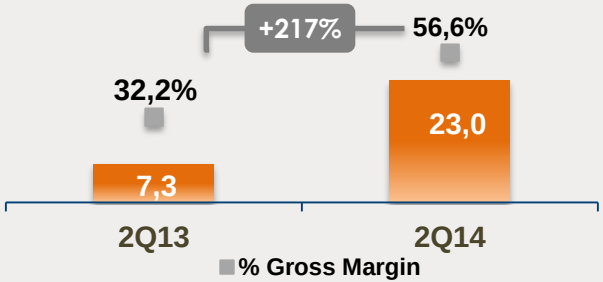
Quarterly - R$ million



% Business NR / Total NR	
5%	6%

Gross Income (GI)

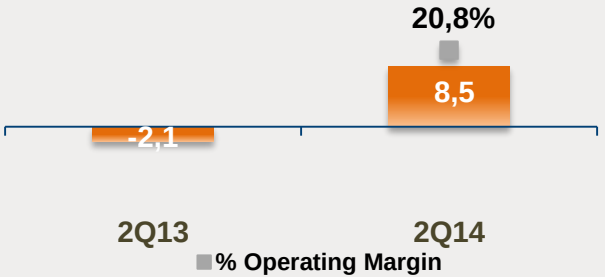
Quarterly - R$ million



% Business GI / Total GI	
3%	5%

Operating Result (OR)

Quarterly - R$ million



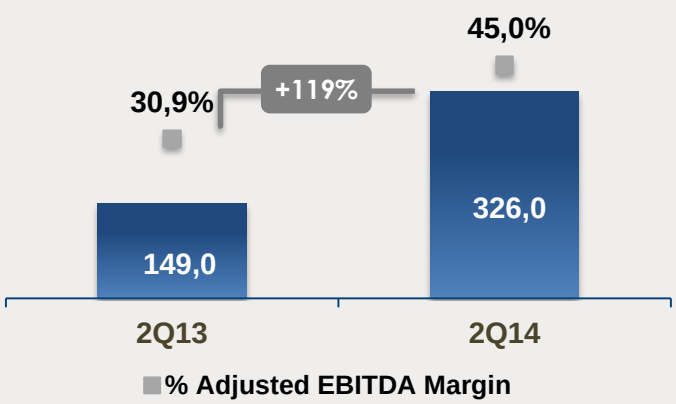
% Business OR / Total OR	
-	2%

- Primary and Secondary Education Net Revenue of R$40.7 million, 81% higher than in 2Q13, reflecting the anticipation of book collection sales due to the World Cup
- As a consequence of the revenue performance, gross income and operating result post strong growth both nominally and in terms of margins

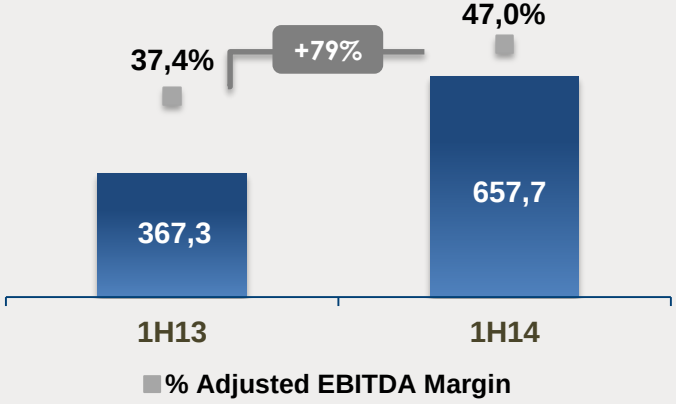
EBITDA

Adjusted EBITDA and Adjusted EBITDA Margin

Quarterly - R$ million



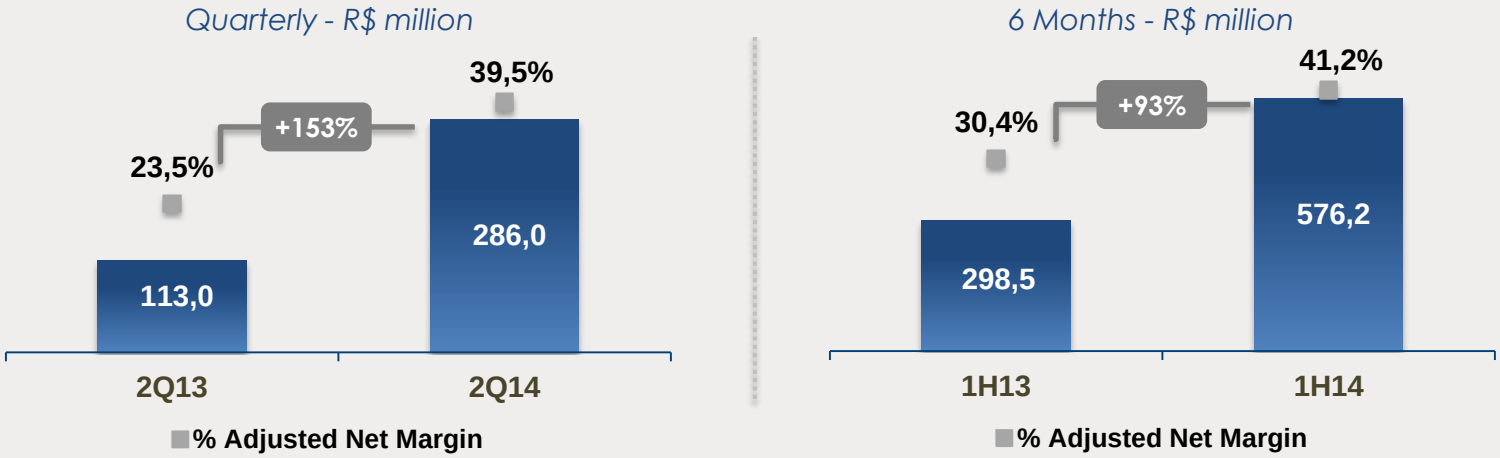
6 Months - R$ million



- In 2Q14, Adjusted EBITDA of R$326.0 million, with EBITDA margin of 45.0% (+14.1 p.p. vs. 2Q13)
- In 1H14, Adjusted EBITDA of R$657.7 million (+79% vs. 1H13), with EBITDA Margin of 47.0% (+ 9.6 p.p. vs. 1H13)

Net Income

Adjusted Net Income and Adjusted Net Margin



- In 2Q14, Adjusted Net Income of R$286.0 million, with Adjusted Net Margin of 39.5%
- In 1H14, Adjusted Net Income of R$576.2 million, 93% higher than in 1H13, with Adjusted Net Margin of 41.2% (+10.8 p.p.)

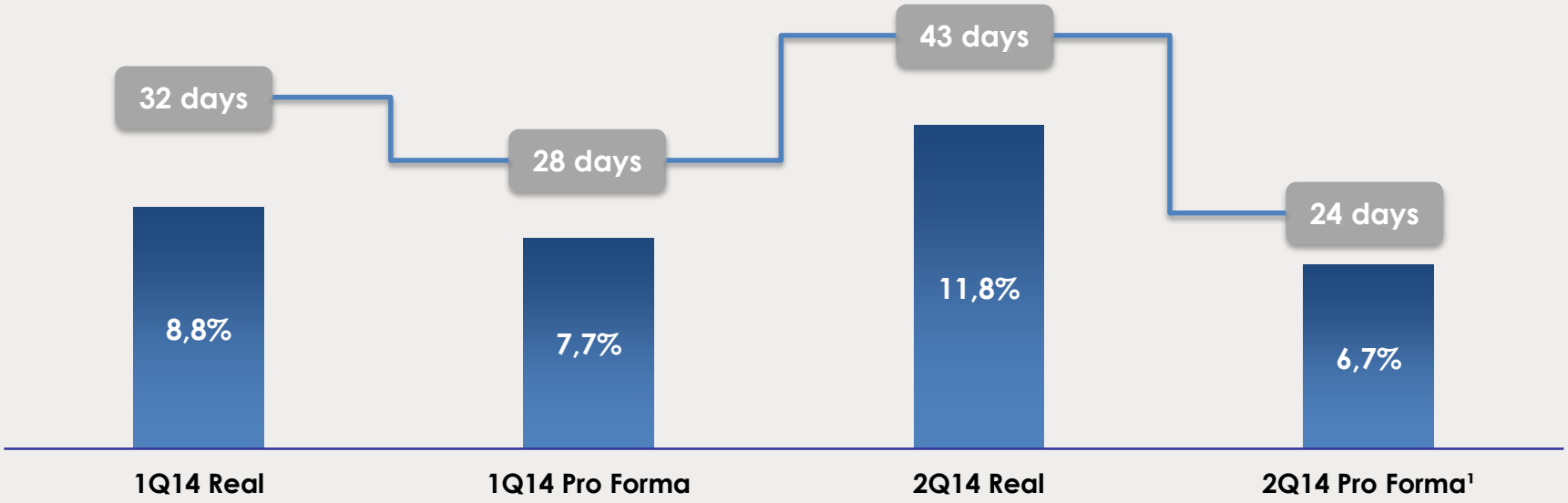
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Working Capital, Provisioning and Receivables

Working Capital

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



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

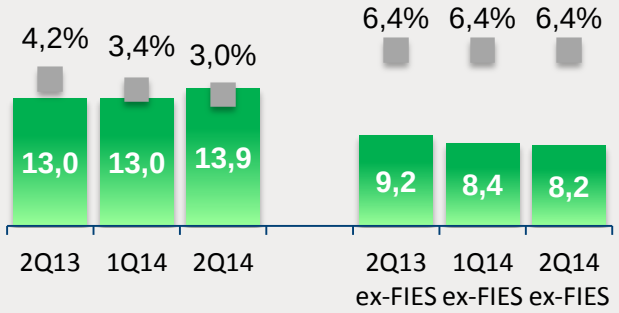
- Decrease of 4 days in working capital between 1Q14 pro forma and 2Q14 pro forma

¹ 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

Provision for Doubtful Accounts (PDA) – Quarterly

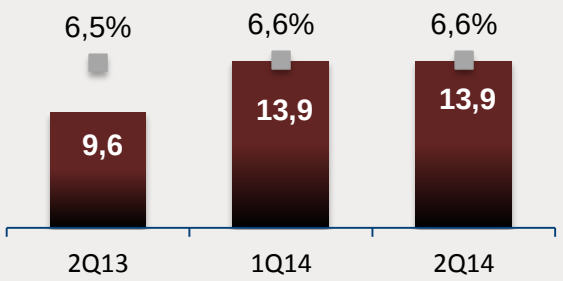
On-Campus Postsecondary

Quarterly - R$ million and % NR of Business (Ex-Pronatec)



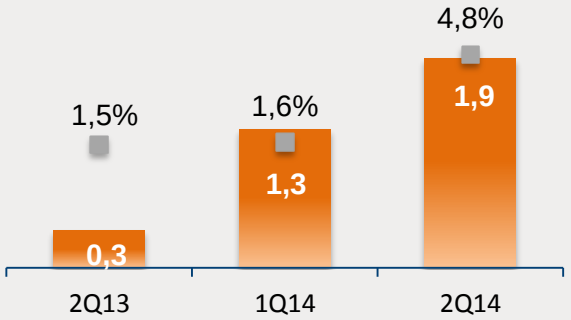
DL Postsecondary

Quarterly - R$ million and % NR of Business



Primary and Secondary

Quarterly - R$ million and % NR of Business



- Provisioning in On-Campus Postsecondary Education was 3.0% in 2Q14, down 1.2 p.p. from 2Q13, 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 6.6%, stable from prior quarters and also very close to the Postsecondary ex-FIES level
- PDA in Primary and Secondary Education was 4.8% of net revenue, up 3.3 p.p. from 2Q13 reflecting the adjustment in coverage ratio to cope the anticipation of book collection deliveries

Accounts Receivable (Pro Forma)

Postsecondary Education Values in R$ ('000)	2Q14[1] Pro Forma	2Q14	2Q13	% Chg.	1Q14[2] Pro Forma	% AH% Chg.
Net Accounts Receivable	**227,456**	**350,654**	**199,959**	13.8%	**215,872**	**5.4%**
Short Term - Tuition and Agreements Receivable	108,808	108,808	109,335	-0.5%	82,987	31.1%
Long Term Receivables	18,354	18,354	8,771	109.3%	18,721	-2.0%
FIES	100,294	223,493	81,852	22.5%	114,164	-12.1%

Distance Learning Values in R$ ('000)		2Q14	2Q13	% Chg.	1Q14	% Chg.
Net Accounts Receivable	**-**	**110,794**	**60,742**	**82.4%**	**84,869**	**30.5%**

Primary and Secondary Education Values in R$ ('000)		2Q14	2Q13	% Chg.	2Q13	% Chg.
Net Accounts Receivable	**-**	**57,007**	**25,831**	**120.7%**	**65,789**	**-13.3%**

- Pro Forma accounts receivable in On-Campus Education increased from 1Q14, due to the seasonality of the period, which generates increases in tuition and agreements accounts receivable
- Increase in Distance Learning accounts receivable from 2Q13, due to student growth
- Increase in K-12 accounts receivable from 2Q13, reflecting the anticipation of book collection sales in the period

[1] 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.
[2] Includes the amount of R$117.3 million related to the balance of FIES credits in 1Q14, for which repurchase was expected in March, but which was effected on April 2.

Accounts Receivable Average Term

On-Campus Postsecondary - Accounts Receivable Average Term (days)	2Q14[1] Pro Forma	2Q14	2Q13	Days Chg.	1Q14[2] Pro Forma	Days Chg.
Criterion (1) Total Net Accounts Receivable / Net Revenues	50	79	66	-16 days	53	-03 days
Criterion (2) Net Accounts Receivable (ex-FIES) / Net Revenues	26	26	38	-12 days	22	04 days
Criterion (3) Net Accounts Receivable (ex-FIES) / Net Revenues (ex-FIES)	74	74	77	-03 days	56	18 days
Criterion (4) FIES Net Accounts Receivable / FIES Net Revenues	37	82	55	-18 days	50	-13 days
DL Postsecondary - Accounts Receivable Average Term (days)		**2Q14**	**2Q13**	**Days Chg.**	**1Q14**	**Days Chg.**
Net Accounts Receivable / Net Revenues	-	54	41	13 Days	46	08 Days
K-12 Education - Accounts Receivable Average Term (days)		**2Q14**	**2Q13**	**Days Chg.**	**1Q14**	**Days Chg.**
Net Accounts Receivable / Net Revenues	-	111	61	50 Days	142	-31 Days

- On-Campus Postsecondary (pro forma):
  - Average term (Criterion 1): down 16 days from 2Q13 due to the Company's collection practices
  - Ex- FIES average term (Criterion 2): down 12 days from 2Q13, due to the higher share of FIES students in the base
  - Ex-FIES average term (Criterion 3): down 3 days from 2Q13
  - FIES average term (Criterion 4): considering the repurchases made in 2Q14, the number of days would be 37, down 18 days from 2Q13
- Distance Learning: up 13 days from 2Q13, due to the convergence of billing, renegotiation and provisioning practices
- K-12: up 50 days from 2Q13, due to the anticipation of book collection sales, with this level also similar to the one in July 2013

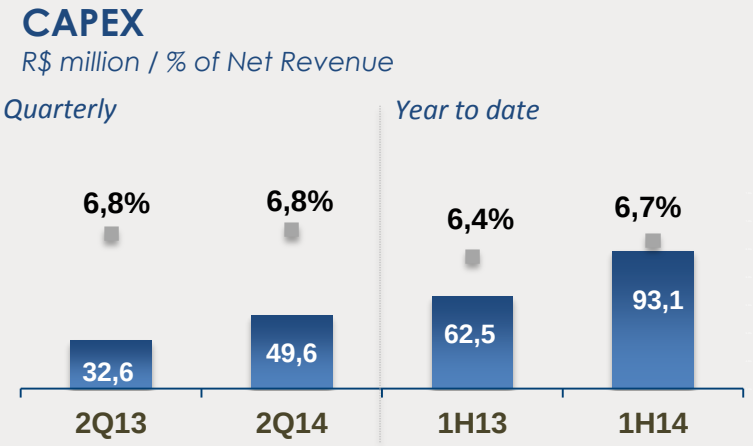
[1] Includes the amount of R$123.2 million related to the balance of FIES credits in 2Q14, for which repurchase was expected in June, but which was effected on July 3.
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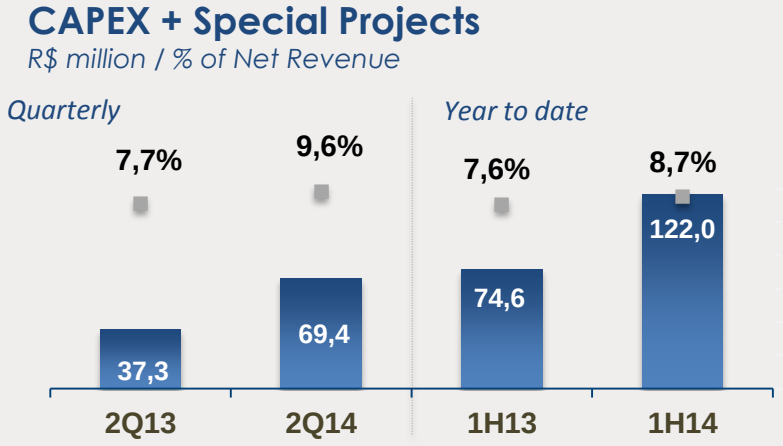


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Capital Expenditure and Debt

Capital Expenditure





- CAPEX as a ratio of Net Revenue in 2Q14 was 6.8%, stable in relation to 2Q13. In 1H14, CAPEX was R$93.1 million, or 6.7% of Net Revenue in the period
- Adding Special Projects, CAPEX reached R$69.4 million in 2Q14, or 9.6% of Net Revenue, up 1.9 p.p. from 2Q13. in 1H14, CAPEX as a ratio of Net Revenue was 1.1 p.p. higher than in 1H13, though in line with the Company's guidance

Net Debt

Consolidated Amounts in R$ ('000)	2Q14	2Q13	% Chg.	1Q14	% Chg.
Cash and Cash Equivalents	489,862	356,750	37.3%	532,586	-8.0%
Loans and Financing	398,006	550,812	-27.7%	564,932	-29.5%
Net Cash (Debt)[1]	**91,856**	**(194,062)**	**n.a.**	**(32,346)**	**n.a.**
Other Short and Long Term Debt	203,774	246,649	-17.4%	239,716	-15.0%
Net Cash (Debt)[2]	**(111,918)**	**(440,711)**	**-74.6%**	**(272,063)**	**-58.9%**

- Cash and Cash Equivalents increased from 2Q13, driven by cash generation in the period,
- Between 1Q14 and 2Q14, there were a significant reduction in the line Loans and Financing, reflecting the R$150 million debentures prepayment in the period
- Low leverage ratios: Total Net Debt[2] / EBITDA[3] = 0.12x

[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$910 million

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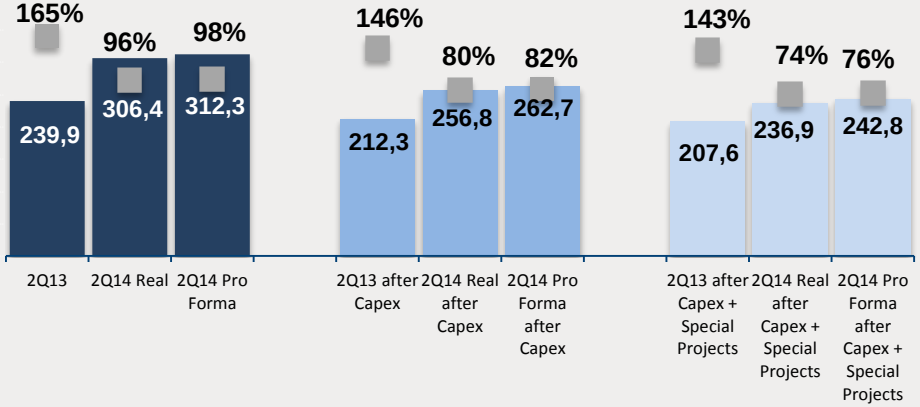


Cash Generation

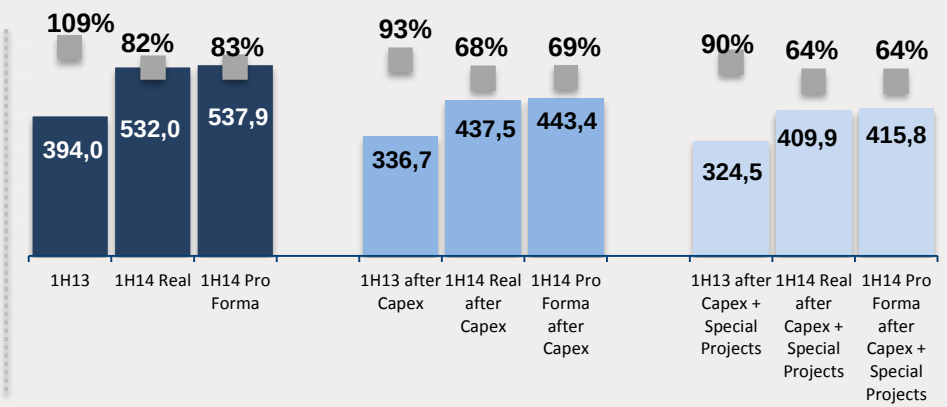
Cash Generation

Operating Cash Generation[1]

Quarterly – R$ MM and % EBITDA



Year to date - R$ MM and % EBITDA



[1] 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, and excludes the amount of R$117.3 million related to the balance of FIES credits in 1Q14, for which repurchase was expected in March, but which was effected on April 2, 2014.

- Operating cash generation (pro forma) before CAPEX reached 98% of EBITDA in 2Q14 and 83% in 1H14
- After CAPEX, pro forma operating cash generation was R$262.7 million in 2Q14 and R$443.4 million in 1H14, representing EBITDA-to-Cash conversion rates of 82% and 69%, respectively
- Considering investments in Special Projects, pro forma cash generation was R$242.8 million in 2Q14 and R$415.8 million in 1H14, for EBITDA-to-Cash conversion rates of 76% and 64%, respectively

Note: EBITDA-to-Cash based on reported EBITDA

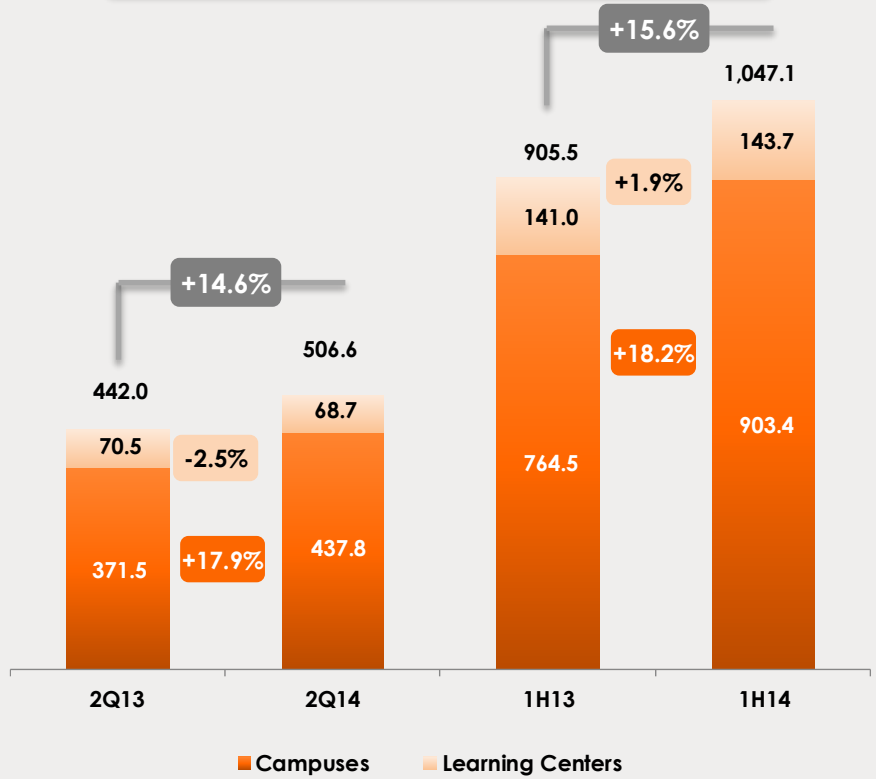


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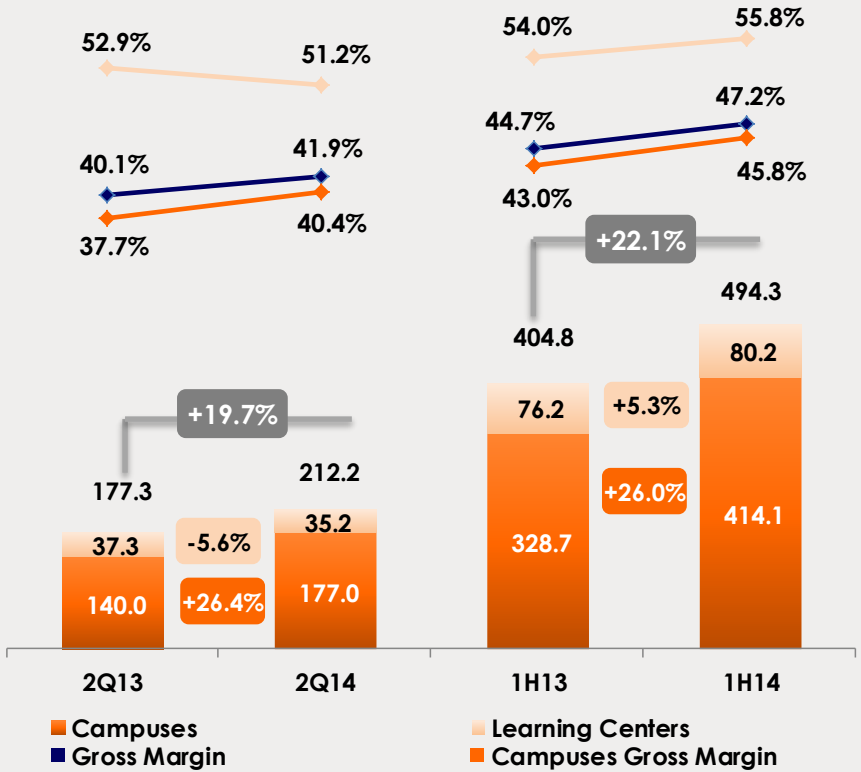
Anhanguera Financial Performance

Anhanguera[1]
Financial Performance 2Q14 / 1H14

Net Revenue



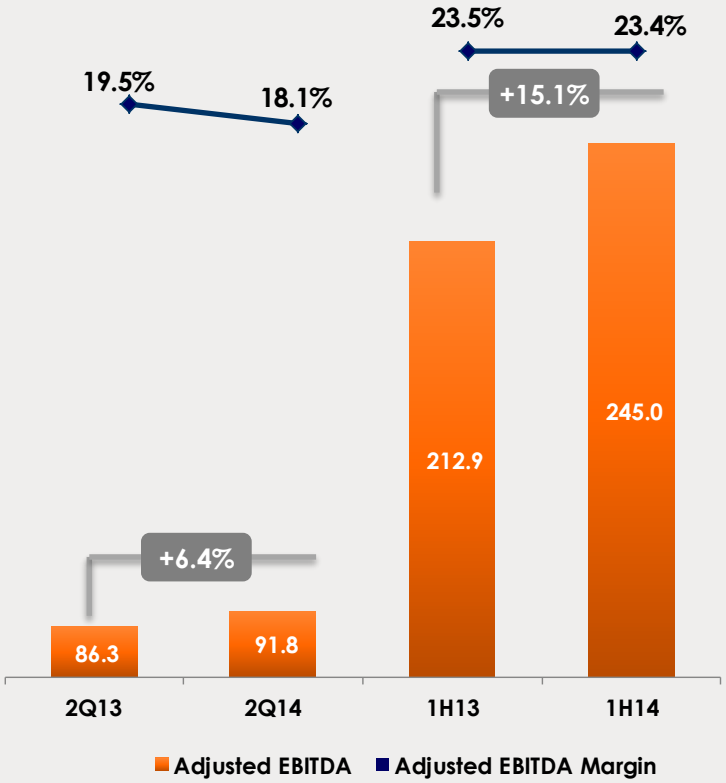
Gross Profit



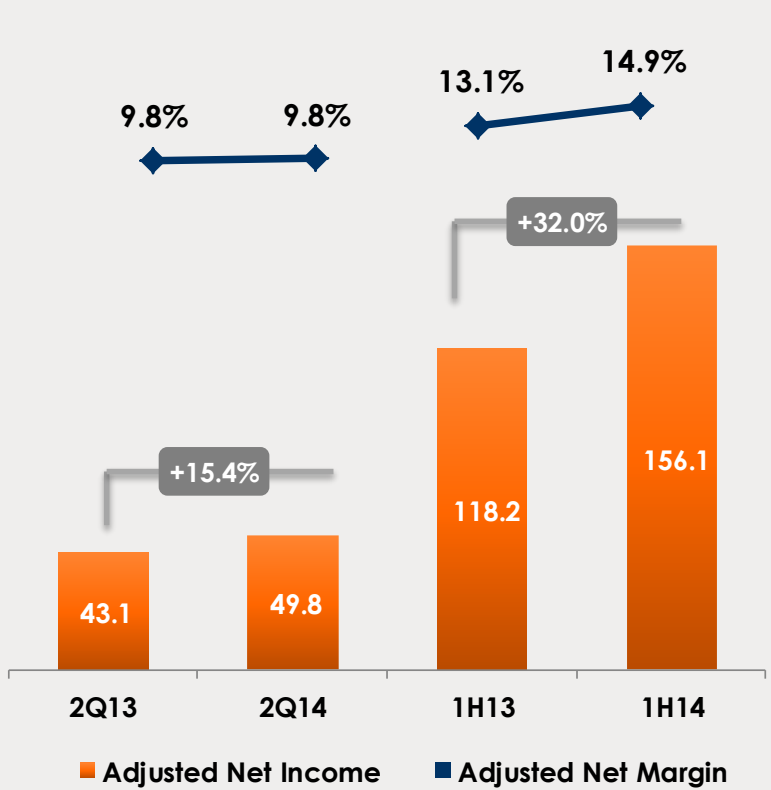
[1] Accounting criteria differ from those practiced by Kroton

Anhanguera[1]
Financial Performance 2Q14 / 1H14

Adjusted EBITDA

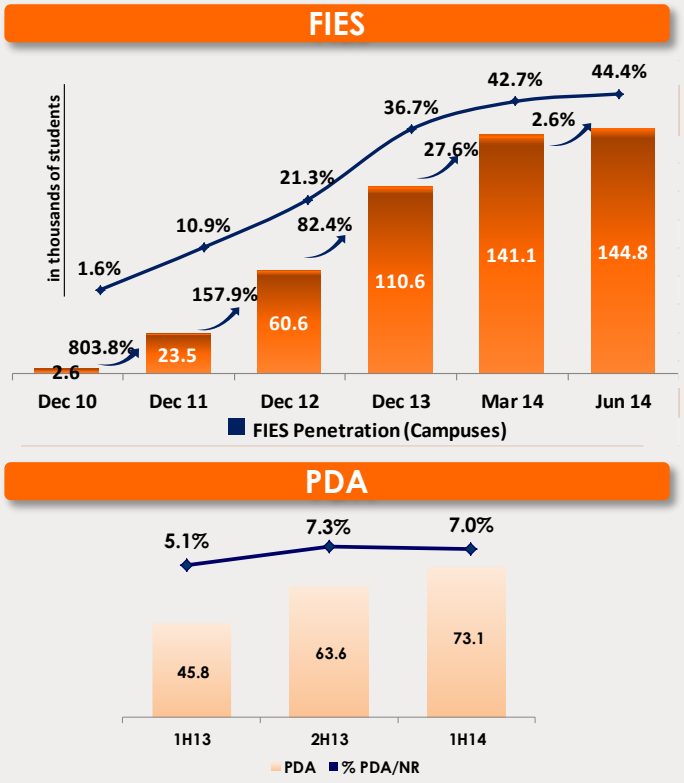


Adjusted Net Income



[1] Accounting criteria differ from those practiced by Kroton

Anhanguera[1]
PDA / Accounts Receivable



	1Q13	2Q13	1Q14	2Q14
Net Revenue	463.6	442.0	540.5	506.6
Gross AR	551.2	544.6	649.2	604.8
PDA Provision	62.8	63.2	72.7	90.0
Net AR Balance	**488.4**	**481.4**	**576.6**	**514.8**
FIES Balance	134.6	135.3	181.3	152.9
Net AR Balance x-FIES	**353.8**	**346.1**	**395.3**	**361.9**
Cash Consumption (AR)	102.4	-7.0	125.9	-61.8
Cash Consumption (AR) x-FIES	48.2	-7.7	78.8	-33.4

AR (days)	1Q13	2Q13	1Q14	2Q14
Total AR (days)	**95**	**98**	**96**	**91**
(1) Tuition	35	34	29	28
(2) Loan (AESA/Banks)	21	23	24	26
(3) FIES	26	27	30	27
(4) Pilot Plan	1	1	0	0
(5) Books / Learning Centers	12	12	12	11
Total AR x FIES	**69**	**71**	**66**	**64**
Recurring AR with Students (1) + (2)	**56**	**57**	**53**	**54**

[1] Accounting criteria differ from those practiced by Kroton

Anhanguera[1]
Cash Flow Pro-Forma[2]/ Net Debt

In R$ million	1H14	1H13	Chg (%)
Cash Earnings	**219.2**	**212.8**	**3.0%**
EBITDA	213.6	212.9	0.4%
(-) Income Tax and Social Contribution	5.6	(0.1)	na
Changes in Accounts Receivable	(64.2)	(95.5)	-32.8%
Changes in Working Capital (Others)	86.6	(3.4)	na
Cash From Operations	**241.6**	**113.9**	**112.2%**
Investments	(71.3)	(53.7)	32.7%
Cash after Investments	**170.3**	**60.1**	**183.2%**
FIES Anticipation	(41.0)	70.4	na
Financing Activities	(72.0)	(123.2)	-41.5%
Free Cash Flow	**57.3**	**7.4**	**677.3%**
Beginning Cash	243.4	408.1	-40.4%
Final Cash	300.7	415.4	-27.6%
Net Debt	**(452.2)**	**(606.2)**	**-25.4%**

[1] Accounting criteria differ from those practiced by Kroton. The calculation of Pro-forma Operating Cash Flow excludes payments related to tax installments and the repayment of commitments payable, which are lines allocated to Financing Activities

[2] Includes the amount of R$112.9 million related to the balance of FIES credits in 2Q14, for which repurchase was expected in June, but which was effected on July 2 , 2014 and excludes the amount of R$80.9 million related to the balance of FIES credits in 1Q14, for which repurchase was expected in March, but which was effected on April 2, 2014. For 1H14, in addition to considering the above amounts, excludes the amount of R$64.6 million related to the balance of FIES credits in 4Q13, for which repurchases was expected in December, but which was effected on January 6, 2014.

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Guidance and Closing Remarks

Kroton and Anhanguera – Pro forma Numbers[1]

- Financial Performance (R$ MM) and Margins (%)

	2Q14	1H14
Net Revenue	R$ 1,231.6	R$ 2,446.1
EBITDA	R$ 417.8	R$ 902.7
EBITDA Margin	33.9%	36.9%
Net Income	R$ 335.8	R$ 732.3
Net Margin	27.3%	29.9%
Operating Cash Generation	R$ 406.0	R$ 613.7

[1] Considers the different accounting practices adopted by each Company

Guidance

	2014E[1]
Net Revenue	R$ 4,700 million
Adjusted EBITDA[2]	R$ 1,500 million
Adjusted EBITDA Margin[2]	31.9%
Adjusted Net Income [23]	R$ 1,130 million
Adjusted Net Margin [23]	24.0%
Capex • Maintenance / Organic Growth • Special Projects [4]	6% of Net Revenue 4% of Net Revenue

[1] Considers 12 months of Anhanguera results
[2] EBITDA adjusted by non-recurring items and Net Income adjusted by non-recurring items and amortization of intangible assets
[3] The amount of Net Income is a Company estimate and may change based on developments in M&A or Cash/Debt
[4] Acquisition of properties and construction of buildings (brownfields) that may be divested in the future

Closing Remarks

- Strong Financial Results and Cash Flow
- Merger with Anhanguera
  - Planning Completed in June 2014:
    - 24 integration fronts with detailed planning and four different phases covering the passing of the baton (initial post-merger days) to full integration after combining the technology systems
    - 37,000 hours of work devoted to integration planning
    - 56 technology systems evaluated at both Companies, with 29 already chosen, each with a detailed timeline and implementation plan
  - Execution started in July 2014:
    - Team aligned and management structures already integrated
    - First technology system to be integrated in September 2014 and last in June 2015
    - 196 integration projects in progress with clear methodologies and strict monitoring of deliveries
- 2014/2 Student Enrolments and Re-enrolments – Kroton + Anhanguera
  - Ongoing process with completion scheduled for late September 2014
  - 75% of process completed to date
  - Expected growth between 10%-12% in the undergraduate student base in relation to the 3Q13 (considering Kroton + Anhanguera; On-Campus + Distance Learning; Enrollments + Student Retention)



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