

Kroton Educacional

4Q13 Earnings Conference Call

March 2014

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Initial Highlights

Operations

- Student base should grow by 23% between 1Q14 and 1Q13. Enrollment process will continue until Mar. 28
- Pronatec: 26,000 openings authorized and 14,000 students projected to enroll in 2014/1

Adjusted Financial Performance (R$ MM)

	4Q13		2013	
		Margin		Margin
EBITDA	R$ 173.1	33.4%	R$ 728.4	36.1%
Net Income	R$ 137.8	26.6%	R$ 582.4	28.9%

Operating Cash Generation Pro Forma[2] (R$ MM)

	4Q13		2013	
		EBITDA to Cash[1]		EBITDA to Cash[1]
Before Capex[3]	R$ 147.3	90.7%	R$ 732.2	104.1%
After Capex[3]	R$ 115.2	71.0%	R$ 622.0	88.4%

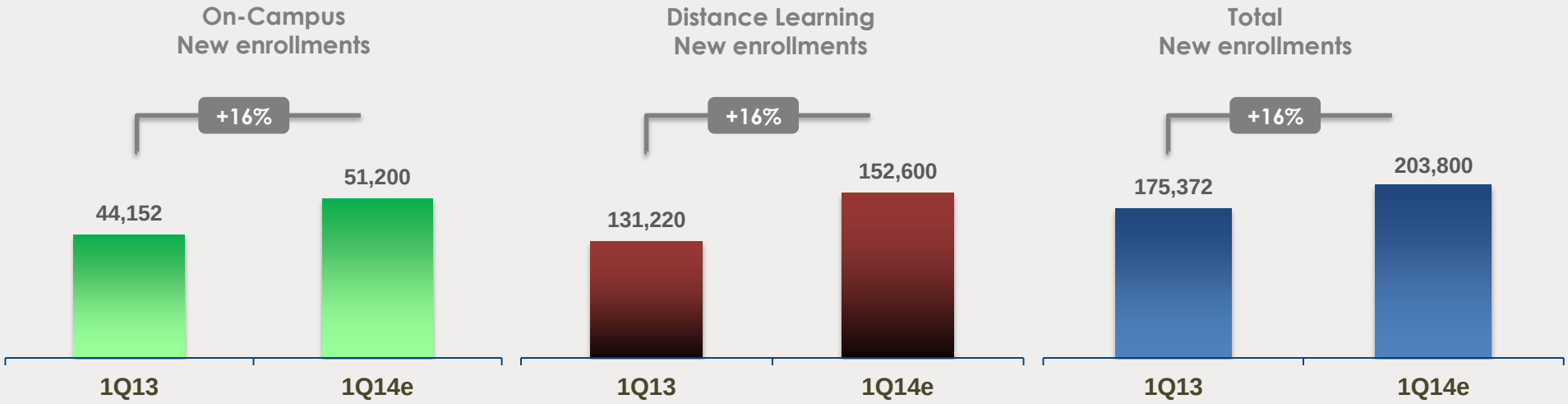
[1] Operating Cash Flow / EBITDA (without adjustments)
[2] Considers the amount of R$ 77.6 million related to the balance of FIES credits in 4Q13, for which repurchase was expected in December, but which was effected on January 8, 2014
[3] CAPEX (ex-Special Projects)

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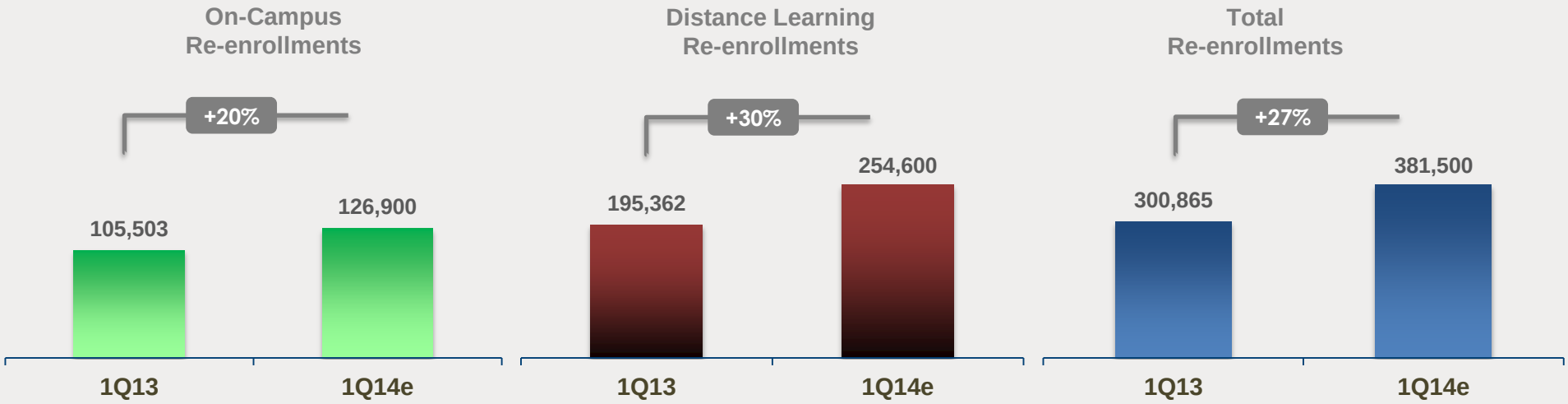
Operating Results

1Q14 New Enrollments Forecast – Undergraduate



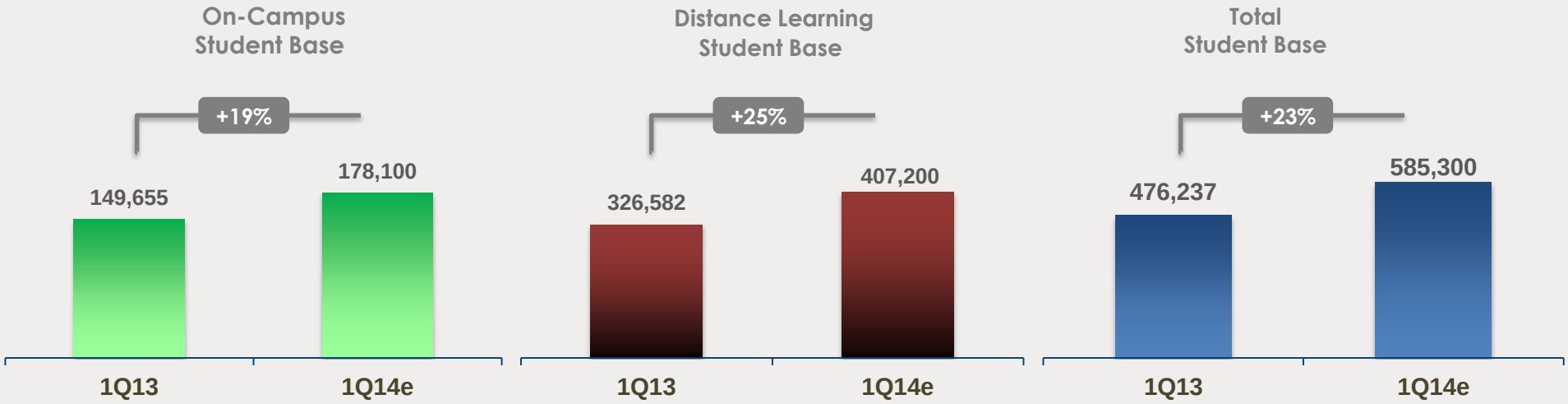
- Expected growth of 16% in the On-Campus segment, surpassing 50,000 new enrollments
- Expectation of 152,600 new enrollments in Distance Learning, up 16% from 1Q13
- New enrollments remain above the Company's daily targets, with the expectation of reaching over 203,000 new students by the end of the recruiting process

1Q14 Re-enrollments Forecast – Undergraduate



- Undergraduate On-Campus: expectation of 126,900 re-enrollments, up 20% on 1Q13
- Undergraduate Distance Learning: estimated growth of 30% from 1Q13 to reach over 250,000 students
- Total Undergraduate: projected growth of 27% in the total number of re-enrollments

1Q14 Undergraduate Student Base Forecast



- Expected growth of 19% in the On-Campus base and 25% in the Distance Learning base compared to 1Q13
- Total Undergraduate base should surpass the mark of 585,000 students, increasing 23%

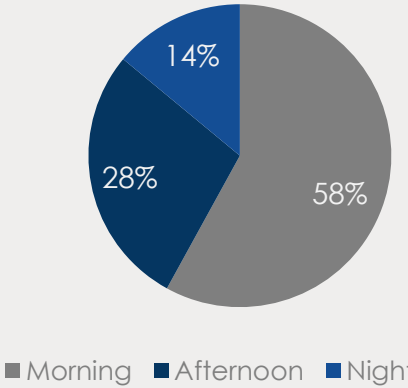
Pronatec

- Average student base during program's first semester was 5,290
- 25,898 seats authorized for first semester 2014, with the expectation of attracting 14,000 students

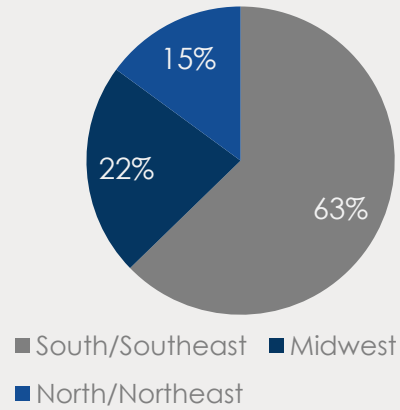
	Entry in 2013/2	Entry in 2014/1
New Students	7,986	~14,000
Average base	5,290	N/A
Units	18	35
Programs	10	30

Authorized Openings – 1H14

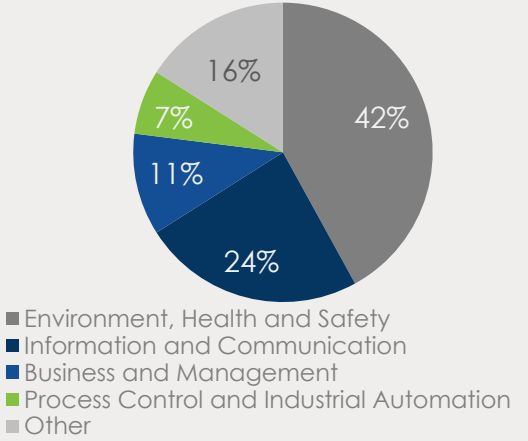
Enrollments by period



Enrollments by region



Enrollments by program

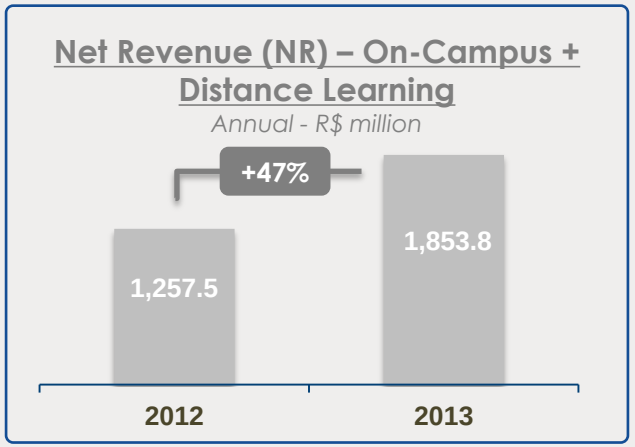


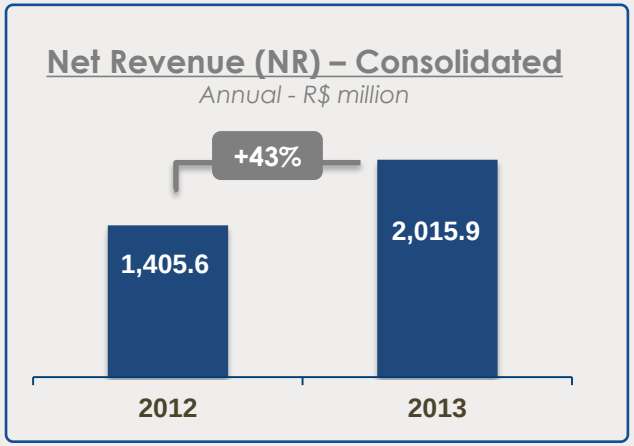
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Financial Performance

Financial Performance





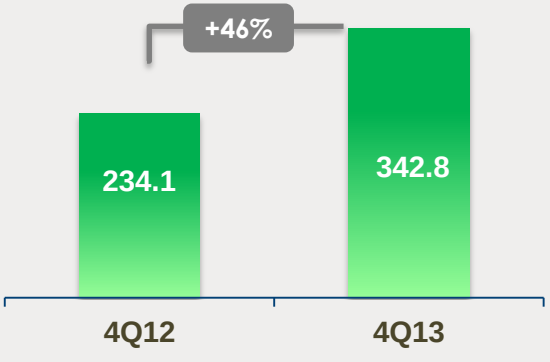
Net Revenue Growth 2013 vs. 2012	Total	Organic
On-Campus	41.9%	37.6%
Distance Learning	60.0%	48.2%
On-Campus + DL	47.4%	36.9%
K-12	9.5%	15.0%[1]
Consolidated	43.4%	37.7%

[1] K-12 organic growth considers only the strategic businesses

Financial Performance – On-Campus Business

Net Revenue (NR)

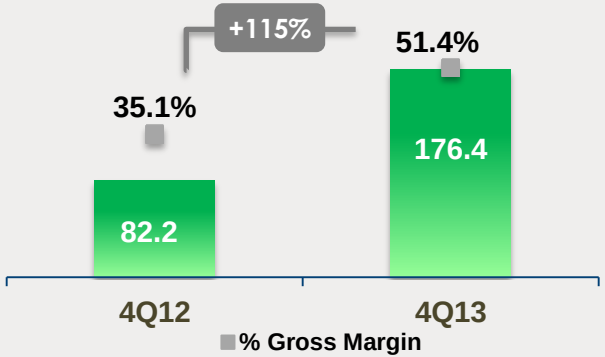
Quarterly - R$ million



% Business NR / Total NR	
64%	66%

Gross Income (GI)

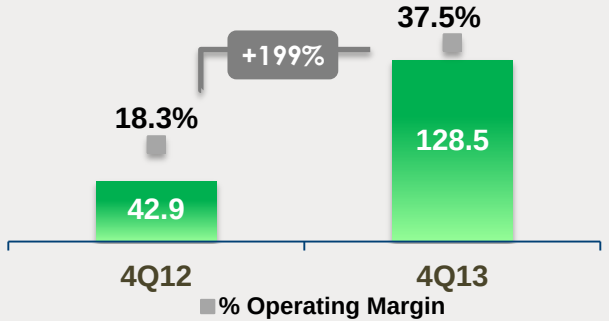
Quarterly - R$ million



% Business GI / Total GI	
50%	60%

Operating Result (OR)

Quarterly - R$ million



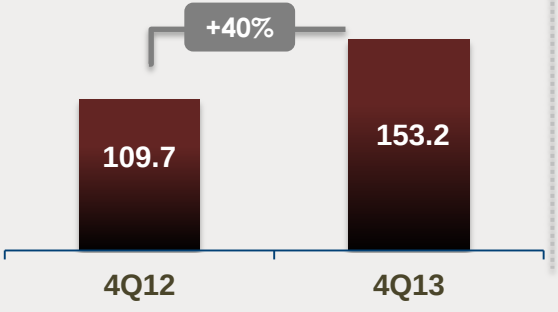
% Business OR / Total OR	
44%	62%

- Net Revenue from On-Campus Education up 46% from 4Q12, driven mainly by student base growth. Note that this figure considers the recognition of Net Revenue from Pronatec (cash effect) related to the receipt of payments for September and October that were effected in December (R$ 4.8 million)
- Gross Income grew 115% to R$ 176.4 million, with gross margin of 51.4%, expanding 16.3 p.p. from 4Q12
- The segment's Operating Income grew 199% from 4Q12 to R$ 128.5 million, with margin of 37.5%, or more than double the margin in the year-ago quarter

Financial Performance – Distance Learning Postsecondary Business

Net Revenue (NR)

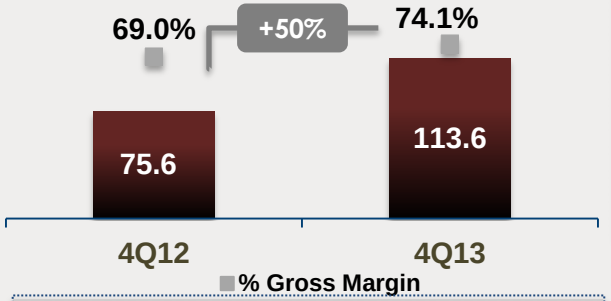
Quarterly - R$ million



% Business NR / Total NR	
30%	30%

Gross Income (GI)

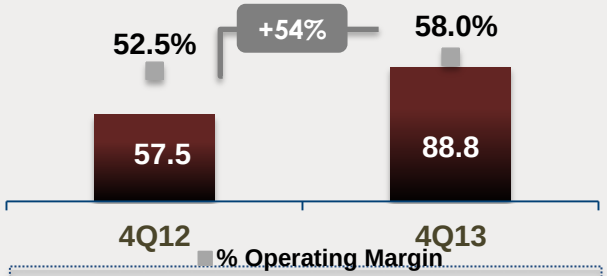
Quarterly - R$ million



% Business GI / Total GI	
46%	39%

Operating Result (OR)

Quarterly - R$ million



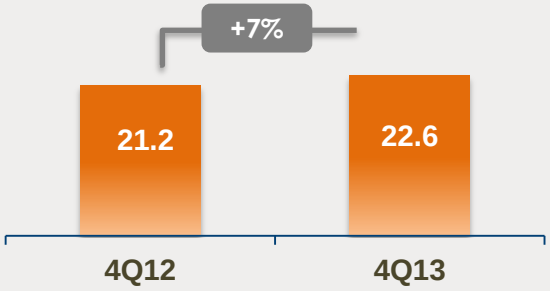
% Business OR / Total OR	
58%	43%

- Net Revenue of R$ 153.2 million, 40% higher than in 4Q12
- Gross income up 50% from 4Q12 to R$ 113.6 million, with gross margin of 74.1%, up 5.2 p.p.
- Operating Income of R$ 88.8 million, up 54% on 4Q12, with margin of 58.0% (+5.5 p.p.), demonstrating the efficiency gains in the combined Unopar and Uniasselvi operations

Financial Performance – Primary and Secondary Education Business

Net Revenue (NR)

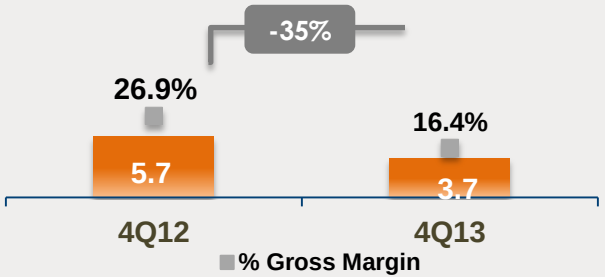
Quarterly - R$ million



% Business NR / Total NR	
6%	4%

Gross Income (GI)

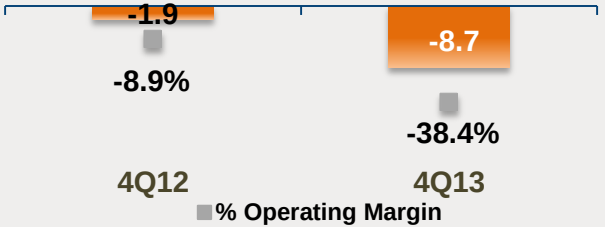
Quarterly - R$ million



% Business GI / Total GI	
3%	1%

Operating Result (OR)

Quarterly - R$ million

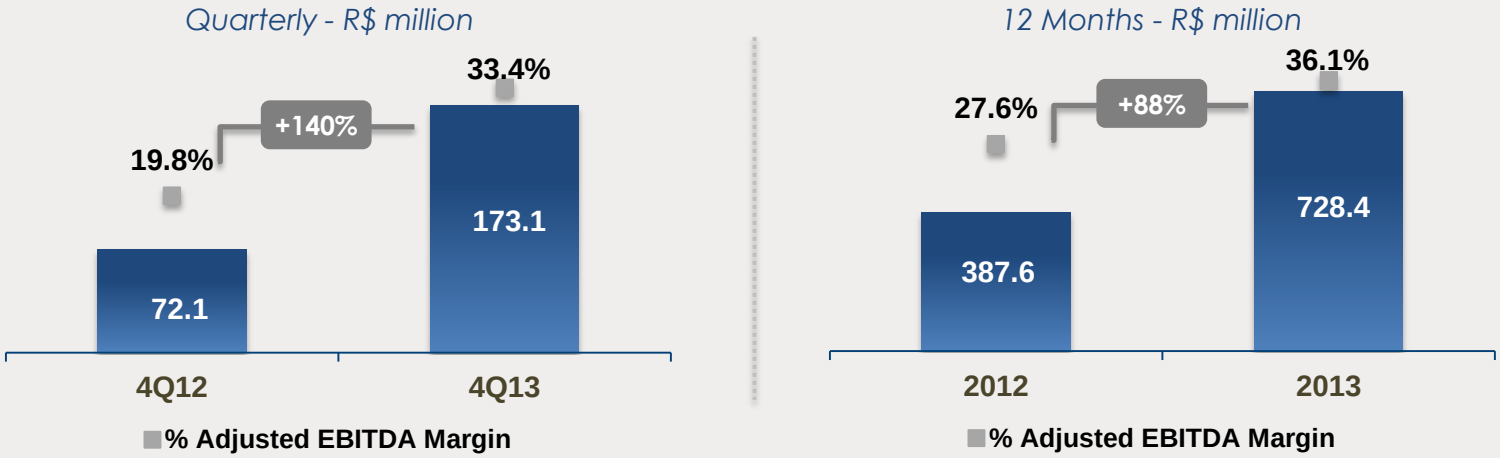


% Business OR / Total OR	
-	-

- Primary and Secondary Education net revenue of R$ 22.6 million, 7% higher than in 4Q12
- The contraction in gross and operating income from 4Q12 to 4Q13 was due to higher costs of goods sold and operating expenses. In the year, these lines showed improvement both nominally and in margins

EBITDA

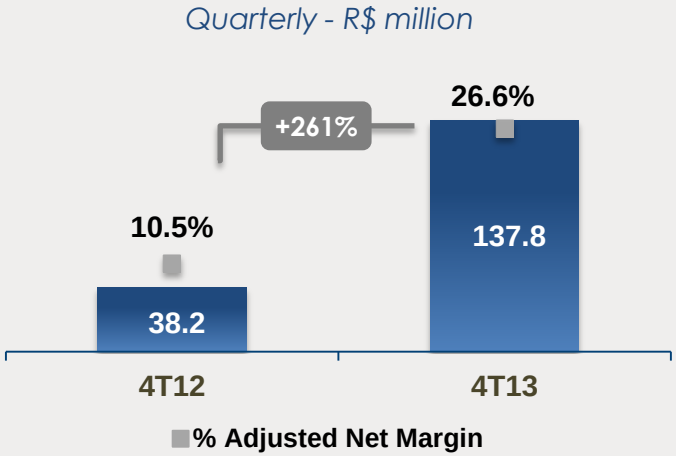
Adjusted EBITDA and Adjusted EBITDA Margin

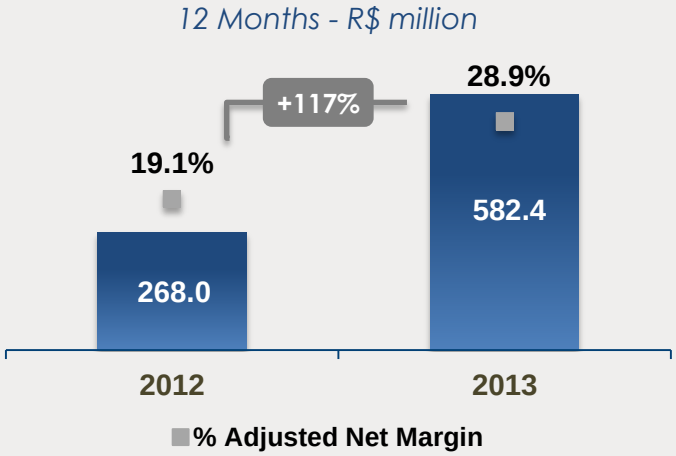


- In 4Q13, Adjusted EBITDA of R$ 173.1 million, with EBITDA margin of 33.4% (+13.6 p.p. vs. 4Q12)
- In 2013, Adjusted EBITDA of R$ 728.4 million (+88% vs. 2012), with margin of 36.1% (+8.5 p.p.)

Net Income

Adjusted Net Income and Adjusted Net Margin





- In 4Q12, Net Income of R$ 137.8 million, with net margin of 26.6% (+16.1 p.p. vs. 4Q12)
- In 2013, Net Income of R$ 582.4 million, up 117% on 2012, with net margin of 28.9% (+ 9.8 p.p. vs. 2012)

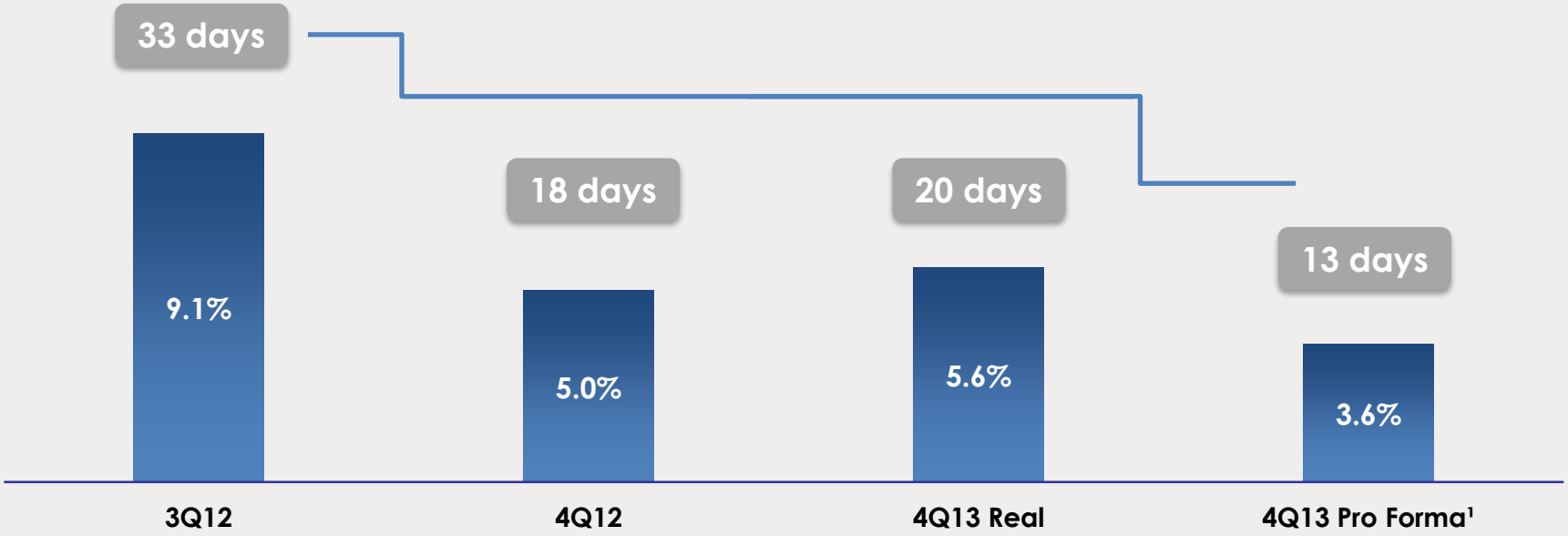


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Working Capital, Provisioning and Receivables

Significant improvement in working capital

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



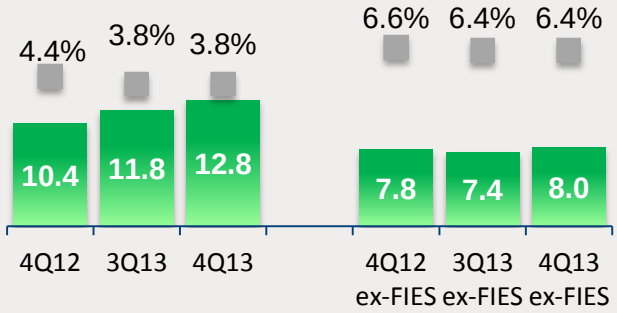
Working Capital = Current Assets (ex-Cash and Banks) – Current Liabilities (ex-debt/M&A)

[1] *Considers the amount of R$ 77.6 million related to the balance of FIES credits in 4Q13, for which repurchase was expected in December, but which was effected on January 8, 2014.*

Provision for Doubtful Accounts (PDA) – Quarterly

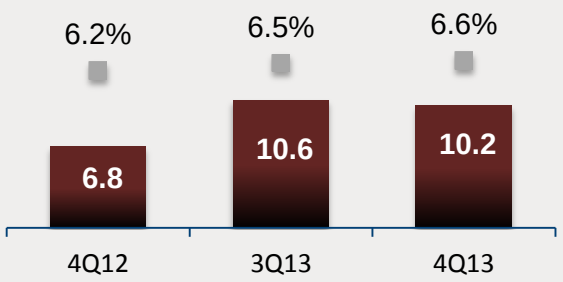
On-Campus Postsecondary

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



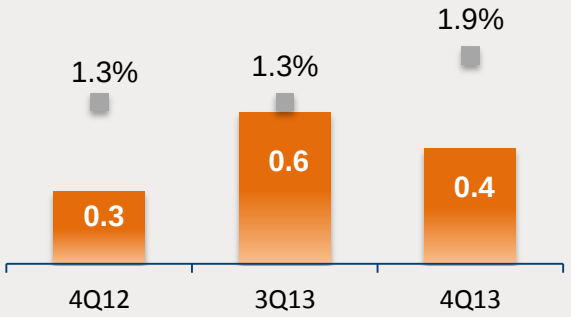
DL Postsecondary

Quarterly - R$ million and % NR of Business



Primary and Secondary

Quarterly - R$ million and % NR of Business



- Provisioning in On-Campus Postsecondary Education was 3.8% in 4Q13, down 0.6 p.p. from 4Q12, due to the higher share of FIES in the student base. Ex-FIES, PDA contracted 0.2 p.p. from 4Q12 and was stable from 3Q13. In 2013, the segment's PDA was 6.4%, compared to 6.1% in 2012 (or 4.0% vs. 4.5% ex-FIES)
- PDA in Distance Learning was 6.6%, relatively stable from the prior quarter and up from 4Q12. In 2013, the segment's PDA was 6.6%, compared to 6.3% in 2012
- PDA in Primary and Secondary Education was 1.9% of net revenue, up 0.6 p.p. from 4Q12, due to seasonality. However, in 2013, the segment's PDA remained stable (1.6% in 2013 vs. 1.5% in 2012), reflecting the robust collection and recovery policies in the relationship with the Associated Schools

Accounts Receivable

Postsecondary Education Values in R$ ('000)	4Q13[1]	4Q12	% Chg.	3Q13	% Chg.
Net Accounts Receivable	**172,501**	**195,545**	**-11.8%**	**183,499**	**-6.0%**
Short Term - Tuition and Agreements Receivable	80,637	101.575	-20.6%	76,781	5.0%
Long Term Receivables	19,107	10.439	83.0%	7,823	144.2%
FIES	72,757	85.531	-12.9%	98,895	-26.4%

Distance Learning Values in R$ ('000)	4Q13	4Q12	% Chg.	3Q13	% Chg.
Net Accounts Receivable	**76,782**	**37,995**	**102.1%**	**60,156**	**27.6%**

Primary and Secondary Education Values in R$ ('000)	4Q13	4Q12	% Chg.	3Q13	% Chg.
Net Accounts Receivable	**27,769**	**25,965**	**6.9%**	**35,579**	**-22.0%**

[1] *Considers the amount of R$ 77.6 million related to the balance of FIES credits in 4Q13, for which repurchase was expected in December, but which was effected on January 8, 2014.*

- Pro forma accounts receivable in On-Campus Education decreased from 4Q12, driven by the reduction in FIES and Ex-FIES accounts receivable
- Increase in Distance Learning accounts receivable from 4Q12, due to revenue growth and the seasonality of the business
- Reduction in K-12 accounts receivable compared to 3Q13

Accounts Receivable Average Term

On-Campus Postsecondary - Accounts Receivable Average Term (days)	4Q13	4Q12	Days Chg.	3Q13	Days Chg.
Criterion (1) Total Net Accounts Receivable / Net Revenues	45[1]	74	-29 Days	56	-11 Days
Criterion (2) Net Accounts Receivable (ex-FIES) / Net Revenues	24	41	-17 Days	25	-01 Days
Criterion (3) Net Accounts Receivable (ex-FIES) / Net Revenues (ex-FIES)	56	71	-15 Days	55	01 Days
Criterion (4) FIES Net Accounts Receivable / FIES Net Revenues	36[1]	78	-42 Days	57	-21 Days
DL Postsecondary - Accounts Receivable Average Term (days)	**4Q13**	**4Q12**	**Days Chg.**	**3Q13**	**Days Chg.**
Net Accounts Receivable / Net Revenues	45	29	16 Days	38	07 Days
Primary and Secondary Education - Accounts Receivable Average Term (days)	**4Q13**	**4Q12**	**Days Chg.**	**3Q13**	**Days Chg.**
Net Accounts Receivable / Net Revenues	62	63	-01 Days	80	-18 Days

[1] *Considers the amount of R$ 77.6 million related to the balance of FIES credits in 4Q13, for which repurchase was expected in December, but which was effected on January 8, 2014.*

- On-Campus: average term (Criterion 1) down **29 days** from 4Q12
  - Ex-FIES average term (Criterion 2): down **17 days** due to the higher share of FIES students in the base
  - Ex-FIES average term (Criterion 3): down **15 days** due to improvements in the collections process and the reduction in short-term accounts receivable
  - FIES average term (Criterion 4): sharp reduction of **42 days**, due to operational improvements in FIES and the repurchases in the period
- Distance Learning: up **16 days**, due to the convergence of billing, renegotiation and provisioning practices



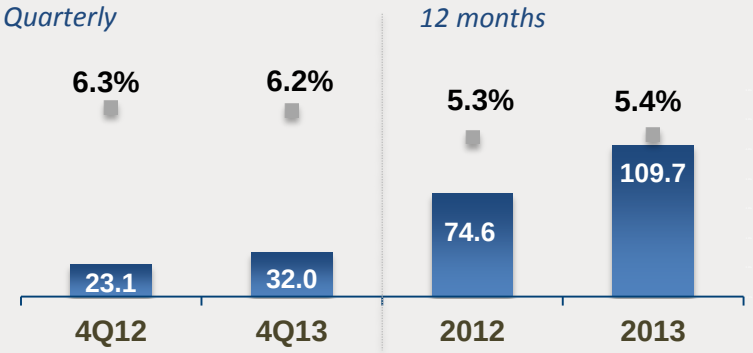
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CAPEX and Debt

Capital Expenditure

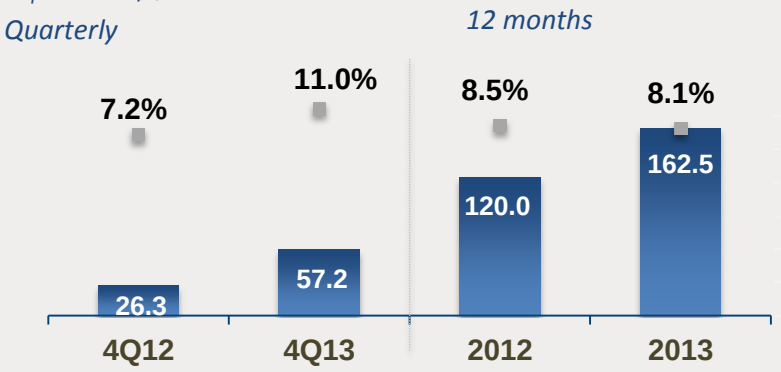
CAPEX

R$ million / % of Net Revenue



CAPEX + Special Projects

R$ million / % of Net Revenue



- CAPEX as a ratio of Net Revenue was 6.2% in 4Q13, down from 4Q12. In 2013, CAPEX was R$ 109.7 million, or 5.4% of period Net Revenue
- Adding Special projects, CAPEX reached R$ 162.5 million in 2013, or 8.1% of Net Revenue, with the impact of some special projects conducted mainly in 4Q13. In 2013, total CAPEX as a ratio of net revenue was 0.4 p.p., down from 2012 and also below guidance

Net Debt

Consolidated Amounts in R$ ('000)	4Q13	4Q12	% Chg.	3Q13	% Chg.
Cash and Cash Equivalents	423,086	219,460	92.8%	469,575	-9.9%
Loans and Financing	549,220	555,441	-1.1%	563,821	-2.6%
Net Cash (Debt)[1]	**(126,134)**	**(335,981)**	**-62.5%**	**(94,246)**	**33.8%**
Other Short and Long Term Debt	235,926	276,553	-14.7%	237,544	-0.7%
Net Cash (Debt)[2]	**(362,060)**	**(612,534)**	**-40.9%**	**(331,790)**	**9.1%**

- Cash and Cash Equivalents increased from 4Q12 due to cash generation in the period, which offset the disbursements for acquisitions and the interest on debentures
- Between 4Q12 and 4Q13, total net debt decreased 40.9%. On a pro forma basis, net debt decreased 53.6%
- Adequate debt ratios: Financial Net Debt[1] / EBITDA[3] = 0.17x
  Net Debt[2] / EBITDA[3] = 0.50x

[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 the acquisitions, including the amount to be paid over 6 years for the Uniasselvi acquisition
[3] Based on the 2013 Adjusted EBITDA

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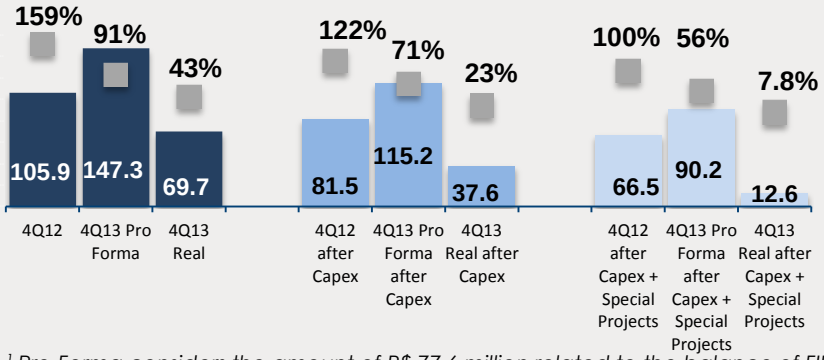


Cash Generation

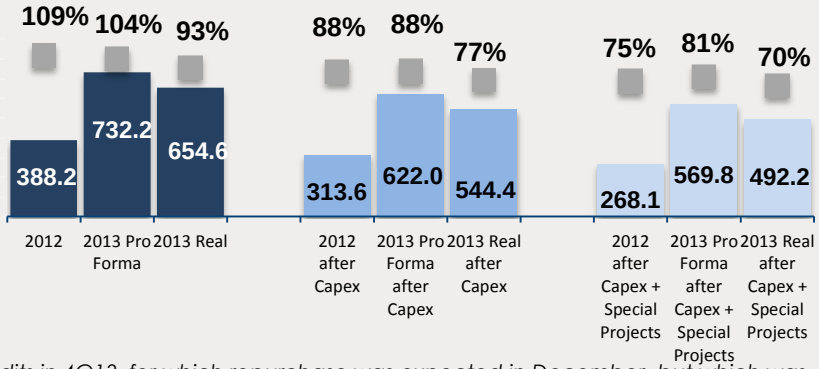
Cash Generation

Operating Cash Generation[1]

Quarterly – R$ million and % EBITDA



12 Months – R$ million and % EBITDA



[1] *Pro-Forma considers the amount of R$ 77.6 million related to the balance of FIES credits in 4Q13, for which repurchase was expected in December, but which was effected on January 8, 2014.*

- Operating cash generation (pro-forma) before CAPEX reached 91% of EBITDA in 4Q13 and 104% in 2013
- After capex, pro-forma operating cash generation was R$ 115.2 million in 4Q13 and R$ 622.0 million in 2013, representing an EBITDA to Cash conversion rate of 88% (same level in 2012)
- Including investments in Special Projects, pro-forma cash generation was R$ 569.8 million in 2013, for an EBITDA to Cash conversion rate of 81% (+6 p.p. vs. 2012)

Note: EBITDA to Cash based on reported EBITDA



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Guidance and Closing Remarks

Guidance

	2013	2014E	% Chg.
Net Revenue	R$ 2,016 million	**R$ 2,465 million**	**+22%**
EBITDA[1]	R$ 728 million	**R$ 910 million**	**+25%**
EBITDA margin[1]	36.1%	**36.9%**	**+0.8 p.p.**
Net income[2]	R$ 582 million	**R$ 760 million**	**+31%**
CAPEX • Maintenance/ Organic Growth • Special Projects [3]	5.4% of Net Revenue 2.9% of Net revenue	**6% of Net Revenue** **4% of Net Revenue**	-

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

Closing Remarks

- 2013 Financial Results:
  - Adjusted EBITDA of R$ 728.4 million, up 88% on 2012, with margin of 36.1%
  - Adjusted Net Income of R$ 582.4 million, up 117% on 2012, with net margin of 28.9%
  - Operating Cash Generation (Pro Forma) of R$ 569.8 million, with EBITDA to Cash of 81%
- Undergraduate student base should grow 23% between 1Q14 and 1Q13
- Pronatec: 26,000 seats authorized, with 14,000 new enrollments expected
- Launch of new Medicine program in Lauro de Freitas, Bahia
- 336 projects to be executed over the course of 2014
- Dividends
  - Board of Directors approves the distribution of R$ 27.7 million, corresponding to 25% of adjusted Net Income (ex-date: Mar/19/14)



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