

**4Q17** Results


**kroton** 

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A blue-tinted photograph of graduates in silhouette, celebrating with their caps and gowns. Several caps are flying in the air above them. The scene is set against a light blue background.

# 01 OPENING REMARKS

R\$ million and %	2017	2017 Guidance	Change
Net Revenue	R\$ 5,558	R\$ 5,485	+1.3%
Adjusted EBITDA	R\$ 2,451	R\$ 2,420	+1.3%
Adjusted EBITDA Margin	44.1%	44.1%	0.0 p.p.
Adjusted Net Income	R\$ 2,240	R\$ 2,105	+6.4%
Adjusted Net Margin	40.3%	38.4%	+1.9 p.p.
Total CAPEX (% of Net Revenue)	10.7%	8.9%	+1.8 p.p.

The image features a solid blue background with silhouettes of graduates in the foreground. The graduates are wearing caps and gowns, and many are holding up their caps and diplomas in a celebratory gesture. The text '02 OVERVIEW OF THE RESULTS' is centered in the upper half of the image in a white, sans-serif font. The number '02' is significantly larger than the words 'OVERVIEW OF THE RESULTS'.

# 02 OVERVIEW OF THE RESULTS

## On-Campus

4Q17 vs. 4Q16<sup>1</sup> – Chg. in % and p.p.

Net Revenue: **0.0% (stable)**

Gross Income: **▲ +2.1%**

Gross Margin: **▲ +1.4 p.p.**

Operating Result: **▲ +0.6%**

Operating Margin: **▲ +0.3 p.p.**

Net Revenue stable, with the **decrease in FIES and Pronatec students** being compensated by the **growth in PEP and Out-of-Pocket students** and **higher ticket**. Gross Income increasing, supported by the **rollout of the Operational Research software, KLS 2.0 and strategic sourcing**. Operating Result in line, with the **impact of higher PDA compensated by greater efficiency**.

## Distance Learning

4Q17 vs. 4Q16 – Chg. in % and p.p.

Net Revenue: **▼ -4.1%**

Gross Income: **▲ +0.6%**

Gross Margin: **▲ +4.1 p.p.**

Operating Result: **▲ +4.6%**

Operating Margin: **▲ +5.8 p.p.**

DL Net Revenue impacted by the **change in student mix**, with a higher weight of **100% online students**, in addition to the **decrease in LFG revenue**. Gross Income elevation sustained by the **optimization of the tutoring model**. Growth in Operating Result and Margin due to **greater efficiency and economies of scale**.

## Primary & Secondary Education

4Q17 vs. 4Q16 – Chg. in % and p.p.

Net Revenue: **▲ +14.6%**

Gross Income: **▲ +42.9%**

Gross Margin: **▲ +14.0 p.p.**

Operating Result: **▲ +53.1%**

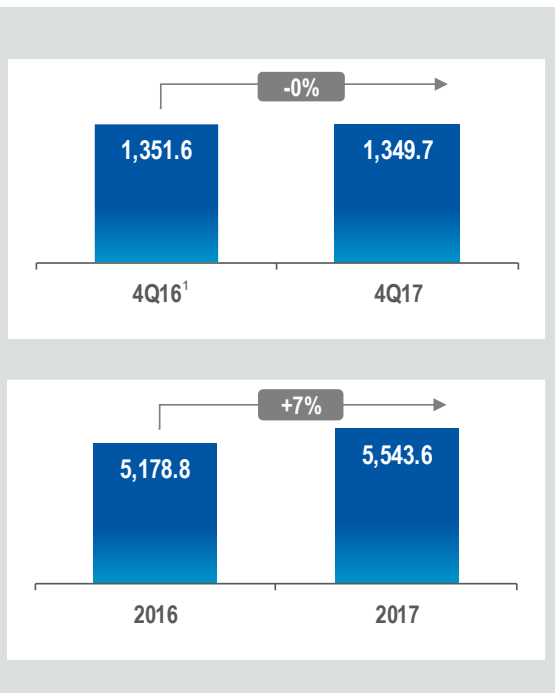
Operating Margin: **▲ +15.7 p.p.**

Increase in Net Revenue due to the **good performance of collection sales for the school year of 2018**. Better performance of Gross Income and Operating Result following the **efficiency increase**, leading to **reduction in the main cost and expenses lines**.

# Strong Consolidated Results

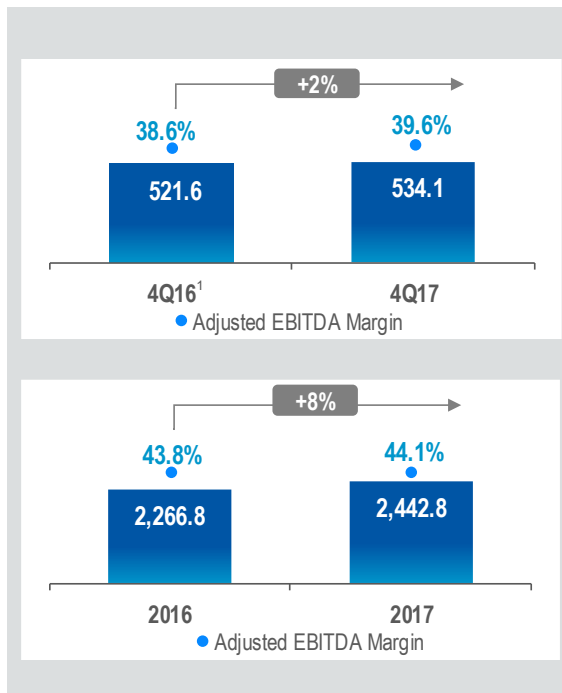
## Net Revenue

Quarterly and Annual – R\$ million



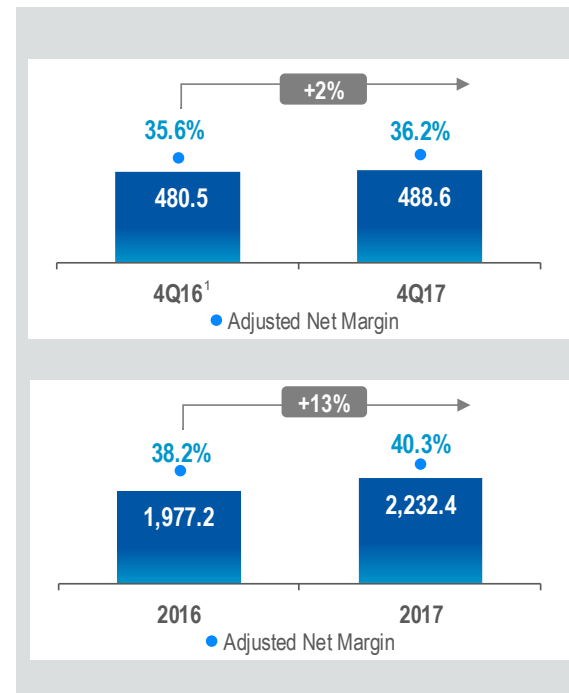
## Adjusted EBITDA

Quarterly and Annual – R\$ million



## Adjusted Net Income

Quarterly and Annual – R\$ million

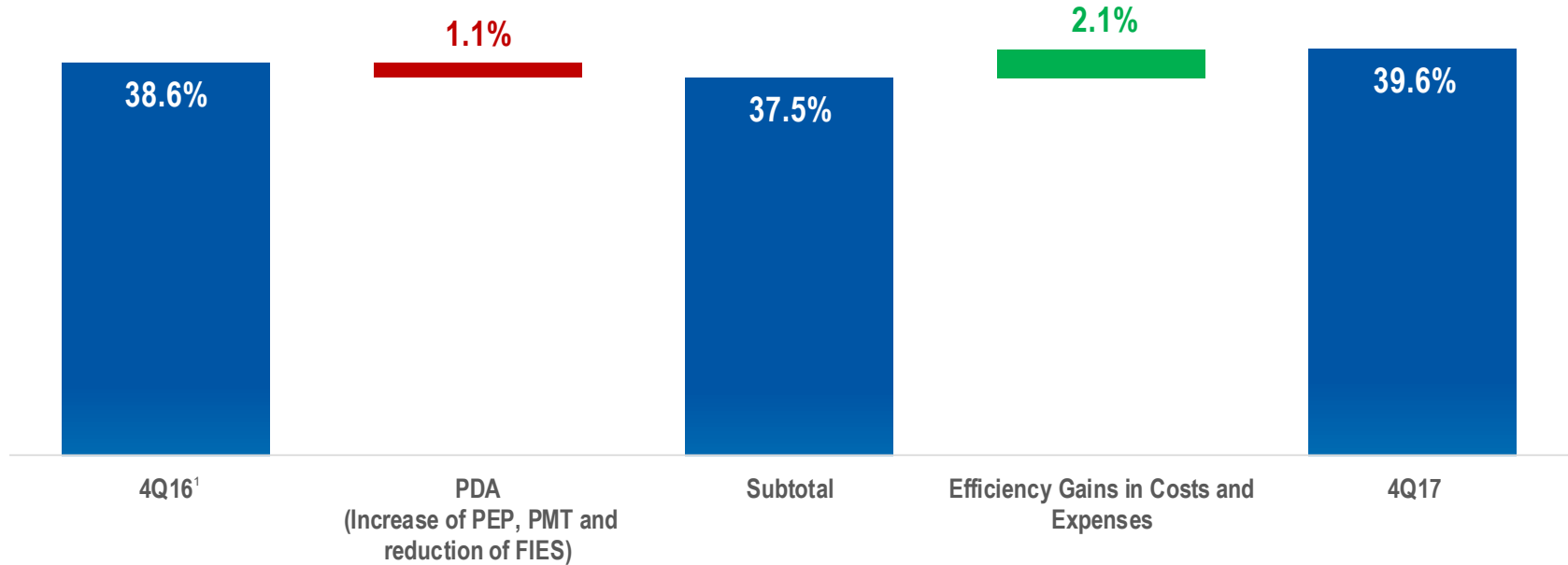


All numbers exclude Uniasselvi, FAIR and FAC/FAMAT

<sup>1</sup> Financial performance of 4Q16 based on pro forma data, as a consequence of the delay in the opening of the SisFIES system which occurred in 3Q16.

# Evolution of Adjusted EBITDA Margin 4Q16 x 4Q17

Once again, Kroton was able to compensate the pressure in PDA of an increase in the PEP and PMT student base and decrease in FIES students through efficiency gains and optimization of costs and expenses.



All numbers exclude Uniasselvi, FAIR and FAC/FAMAT

<sup>1</sup> Financial performance of 4Q16 based on pro forma data, as a consequence of the delay in the opening of the SisFIES system which occurred in 3Q16.



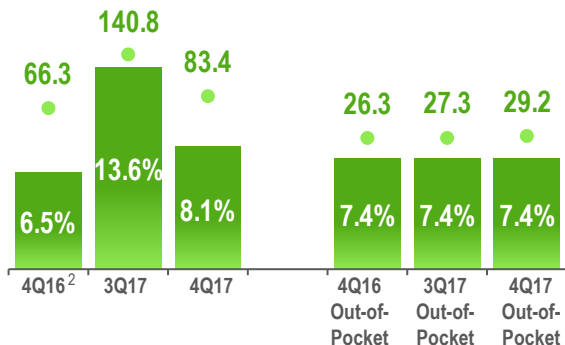


# 03 PDA AND AVERAGE RECEIVABLES TERM

# Provision for Doubtful Accounts (PDA)

## On-Campus

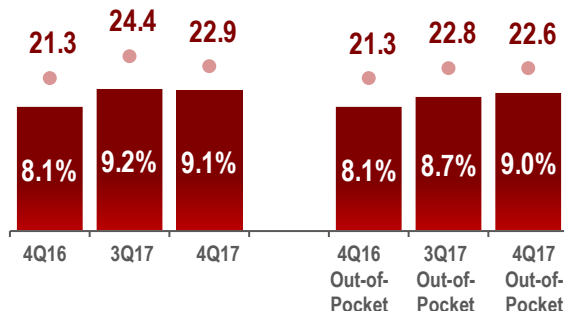
% Business NR and R\$ million<sup>1</sup>



Growth of 1.6 p.p. due to the increase in the number of PEP and PMT students. Decrease of 5.5 p.p. over 3Q17, reflecting the seasonality of the period, with a lower volume of PMT, in addition to dropouts in the period. Out-of-pocket PDA remained stable both in quarterly and yearly comparisons, suggesting a positive perspective for 2018.

## Distance Learning

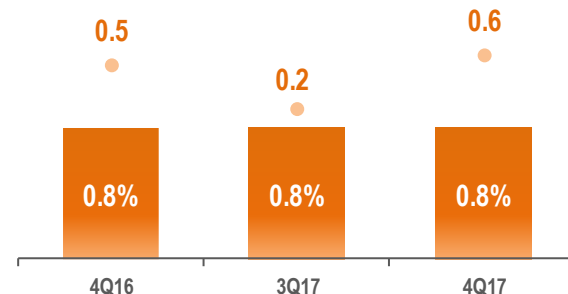
% Business NR and R\$ million



DL PDA was 1.0 p.p. higher in relation to 4Q16, reflecting the introduction of PMT and the higher number of 100% online students. Decrease of 0.1 p.p. over the previous quarter due an anticipation in the enrollment curve. Out-of-Pocket PDA posted a 0.9 p.p. increase year-over-year, with the impact of the higher dropout level due to the upturn in 100% online students.

## Primary & Secondary Education

% Business NR and R\$ million



Once again, stability in Primary and Secondary Education PDA in relation to 4Q16 and 3Q17, reinforcing the adequacy of our provisioning policy.

All numbers exclude Uniasselvi, FAIR and FAC/FAMAT

<sup>1</sup> Does not include Pronatec | <sup>2</sup> Financial performance of 4Q16 based on pro forma data, as a consequence of the delay in the opening of the SisFIES system which occurred in 3Q16.

# Average Receivables Term

## Days

On-Campus	4Q17	4Q16 <sup>2</sup>	Change	3Q17	Change
Total Average Term	129	120	9 days	128	1 day
Out-of-Pocket Average Term <sup>1</sup>	94	85	9 days	86	8 days
FIES Average Term	91	118	-27 days	107	-16 days
PEP and PMT Average Term	321	274	47 days	305	16 days

- Total average receivables term reached 129 days, practically stable in relation to the previous quarter.
- Out-of-Pocket term totaled 94 days, up by 9 days over 4Q16, due the greater level of renegotiations with part of the portfolio which was already written-off.
- FIES average term reached 91 days, decrease of 16 days when compared to 3Q17 due to the receipt of an additional FIES installment.
- PEP and PMT average term reached 321 days, 16 days above 3Q17, in line with the maturation expected for these products.

Distance Learning	4Q17	4Q16	Change	3Q17	Change
Out-of-Pocket Average Term	94	87	7 days	88	6 days
PMT Average Term	140	n.a.	n.a.	200	-60 days

- Upturn of 7 days in average Out-of-Pocket term year-over-year, reflecting the macroeconomic situation and the increase in the 100% online student base.
- PMT average term posted 140 days, down by 60 days over 3Q17 with the anticipation of the payment of installments due.

Primary & Secondary Ed.	4Q17	4Q16	Change	3Q17	Change
Total Average Term	153	123	30 days	50	103 days

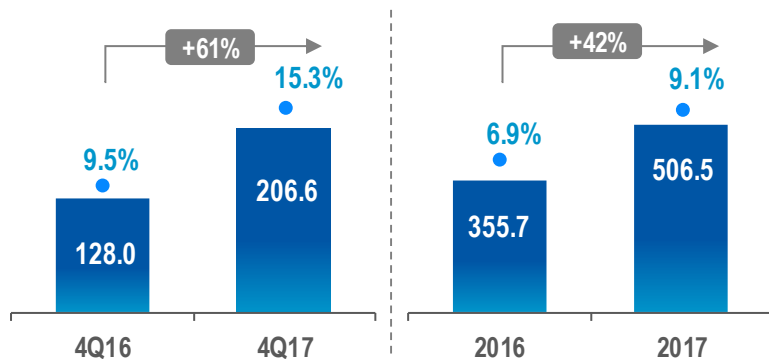
- Average term reached 153 days, an increase of 30 days in relation to 4Q16, reflecting the higher collection sales volume.



**04 CAPEX, CASH  
GENERATION, DEBT**

## Capex

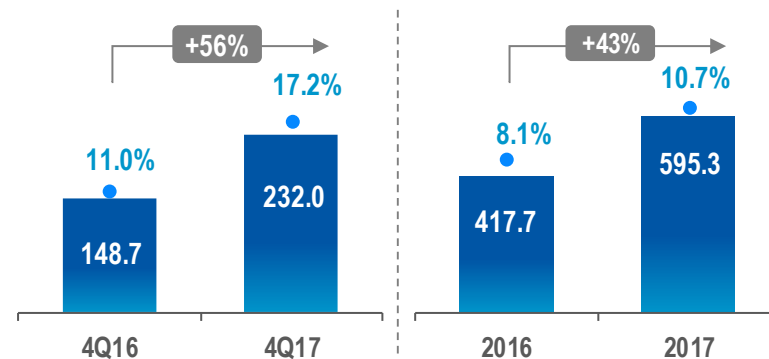
R\$ million and % NR<sup>1</sup>



In 4Q17, Capex totaled R\$206.6 million, equivalent to **15.3% of Net Revenue**, and representing an **increase of 61%** in relation to 4Q16, with a **higher volume of investments** related to the **development of content** and **expansion and improvement** of current units. With this, in 2017, Recurring Capex reached R\$506.5 million, or **9.1% of annual Net Revenue**.

## Capex + Special Projects

R\$ million and % NR<sup>1</sup>



Adding investments with special projects and greenfields, in 4Q17, Capex amounted to R\$232.0 million, **17.2% of Net Revenue** and a **growth of 56%** year-over-year, reflecting a **higher amount in greenfields**. In 2017, total Capex came to R\$595.3 million, representing **10.7% of Net Revenue**, 1.8 p.p. above guidance of 8.9%.

All numbers exclude Uniasselvi, FAIR and FAC/FAMAT

<sup>1</sup> Financial performance of 4Q16 based on pro forma data, as a consequence of the delay in the opening of the SisFIES system which occurred in 3Q16.

# Operating Cash Generation (OCG)

Amounts in R\$ thousands

Consolidated	4Q17 <sup>1</sup>	4Q16 <sup>2</sup>	Change	2017 <sup>3</sup>	2016 <sup>4</sup>	Change
GCO before Capex	567,262	596,860	-5.0%	1,755,051	1,883,111	-6.8%
GCO / EBITDA	119.9%	133.0%	-13.1 p.p.	78.7%	90.2%	-11.5 p.p.
GCO after Capex	392,208	466,744	-16.0%	1,319,658	1,505,882	-12.4%
GCO / EBITDA	82.9%	104.0%	-21.1 p.p.	59.2%	72.1%	-12.9 p.p.
GCO after Capex and Special Projects	376,073	445,923	-15.7%	1,245,279	1,446,408	-13.9%
GCO / EBITDA	79.5%	99.4%	-19.9 p.p.	55.8%	69.3%	-13.4 p.p.
Free Cash Flow	87,970	168,934	-47.9%	382,305	945,750	-59.6%
Free Cash Flow ex. Uniasselvi Sale	87,970	168,934	-47.9%	382,305	395,930	-3.4%

- In 2017, the FIES installment relating to the month of November was once again received in December instead of January, however it is worth noting that 2016 included 13 installments (including the one related to November/15), while 2017 had 12 installments.
- Kroton presented a strong cash generation, both in 4Q17 and in 2017 as a whole. Annual Operating Cash Generation after Capex and Special Projects reached R\$ 1.2 billion, representing an EBITDA-to-Cash of 55.8%. Additionally, Free Cash Flow amounted to R\$382.3 million, reinforcing the robustness of the Company's operations.

<sup>1</sup> Excludes capital gains related to the NOVATEC divestment from the accounting EBITDA calculation, to allow for a better comparability between numbers.

<sup>2</sup> Financial performance of 4Q16 based on pro forma data, as a consequence of the delay in the opening of the SisFIES system which occurred in 3Q16.

<sup>3</sup> Excludes capital gains related to the FAIR, FAC/FAMAT and NOVATEC divestments from the accounting EBITDA calculation, to allow for a better comparability between numbers.

<sup>4</sup> Excludes capital gains related to the Uniasselvi divestment from the accounting EBITDA calculation, to allow for a better comparability between numbers.

## Amounts in R\$ thousands

Consolidated	4Q17	4Q16	Change	3Q17	Change
Cash and Cash Equivalents	1,733,269	1,349,700	28.4%	1,645,020	5.4%
Loans and Financing	303,881	544,002	-44.1%	414,011	-26.6%
<b>Net Cash (Debt)<sup>1</sup></b>	<b>1,429,388</b>	<b>805,698</b>	<b>77.4%</b>	<b>1,231,009</b>	<b>16.1%</b>
Other Short and Long Term Debt <sup>2</sup>	171,191	199,560	-14.2%	154,928	10.5%
<b>(1) Net Cash (Debt)<sup>2</sup></b>	<b>1,258,197</b>	<b>606,138</b>	<b>107.6%</b>	<b>1,076,081</b>	<b>16.9%</b>
(a) Short Term Accounts Receivables	495,298	193,390	156.1%	365,379	35.6%
(b) Long Term Accounts Receivables	446,891	852,492	-47.6%	561,807	-20.5%
<b>(2 = a + b) Other Accounts Receivables<sup>3</sup></b>	<b>942,189</b>	<b>1,045,882</b>	<b>-9.9%</b>	<b>927,186</b>	<b>1.6%</b>
<b>(1)+(2) Pro Forma Net Cash (Debt)</b>	<b>2,200,386</b>	<b>1,652,020</b>	<b>33.2%</b>	<b>2,003,267</b>	<b>9.8%</b>

- At the end of 2017, Kroton's total cash and cash came to R\$1.7 billion, an increase of 5.4% over the previous quarter, benefiting from the strong cash generation in 4Q17, in addition to an additional FIES installment.
- After adding all other short and long term obligations and receivables, including taxes and contributions paid in installments, obligations and rights relating to acquisitions and alienations and 50% of FIES installments not paid in 2015, net cash reached R\$ 2.2 billion, growth of 33.2% in relation to 2016.

<sup>1</sup> Considers only bank obligations.

<sup>2</sup> Considering all short- 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.

<sup>3</sup> Considers the short and long term receivables related to 50% of the FIES installments not paid in 2015, due in 2018, and receivables related to the Uniasselvi, FAIR and FAC/FAMAT divestments, with installments to be earned from 2018 to 2022 adjusted to present value (excluding the earn-out amounts).

A blue-tinted photograph of graduates in silhouette, celebrating with their caps and diplomas raised against a bright sky. The scene is filled with joy and accomplishment.

# 05 CLOSING REMARKS



# CLOSING REMARKS

## Growth

- + 9 greenfields already enrolling students in 2018.1
- + 17 greenfields to be opened throughout 2018.2
- + 35 greenfields to be opened in 2019
- + 3 acquisitions of small sized institutions
- + 300 new DL centers opened since 17.2
- + 100 new DL centers to be opened still in 2Q18
- + offers of Premium DL
- + 2 K-12 schools in the final stages of Negotiation and a robust pipeline
- + Continued Education and Internationalization



2018.1  
Enrollment and  
Re-Enrollment  
status



Update on our  
Digital  
Transformation  
Journey



Approval of the  
distribution of R\$ 148.4  
million in dividends (R\$  
0.09/share), maintaining  
payout at 40%



New Kroton  
Investor  
Relations  
Website



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