



2Q19

EARNINGS RELEASE

Belo Horizonte, August 14, 2019 – Kroton Educacional S.A. (B3: KROT3; OTCQX: KROTY), “Kroton” or the “Company,” announces today its results for the second quarter of 2019 (2Q19). The Company’s financial information is presented on a consolidated basis and in Brazilian real, in accordance with Brazilian Corporate Law and Generally Accepted Accounting Principles in Brazil (BRGAAP), and already conforms to International Financial Reporting Standards (IFRS), except where stated otherwise.

DISCLAIMER

This document contains forward-looking statements and information. These forward-looking statements and information are merely forecasts and not guarantees of future performance. All stakeholders are cautioned that such forward-looking statements and information involve risks, uncertainties and factors relating to the operations and business environments of Kroton and its subsidiaries and affiliates, and that the actual results of the companies could differ materially from the future results anticipated explicitly or implicitly by such forward-looking statements and information.

KROTON EDUCACIONAL S.A.
(B3: KROT3; OTCQX: KROTY)

Market Cap at
6/30/2019: 18.0 billion

Average daily trading
volume 2Q19: 117.5MM

Ratings: triple A (brAAA)
pela Standard & Poor’s e
AA+(bra) pela Fitch

Earnings Conference
Call: August 14, 2019 at
11 a.m.

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HIGHLIGHTS – MANAGEMENT ANALYSIS

Values in R\$ ('000)	2Q19	2Q18	Chg.%	1Q19	Chg.%	1H19	1H18	Chg.%
Net Revenue	1.742.357	1.526.273	14,2%	1.837.100	-5,2%	3.579.457	2.889.598	23,9%
EBITDA ¹	624.767	653.065	-4,3%	750.819	-16,8%	1.375.585	1.320.168	4,2%
EBITDA Margin	35,9%	42,8%	-6,9 p.p.	40,9%	-5,0 p.p.	38,4%	45,7%	-7,3 p.p.
Adjusted Net Income ²	266.696	477.766	-44,2%	318.692	-16,3%	585.388	961.893	-39,1%
Adjusted Net Margin	15,3%	31,3%	-16,0 p.p.	17,3%	-2,0 p.p.	16,4%	33,3%	-16,9 p.p.
Operating Cash Generation (OCG) after Capex ³	140.907	318.066	-55,7%	(229.799)	n.a.	(88.892)	192.795	n.a.
OCG after Capex ¹ / EBITDA (unadjusted)	22,6%	48,7%	-26,2 p.p.	-30,6%	53,2 p.p.	-6,5%	14,6%	-21,1 p.p.

¹ EBITDA considers interest and late-payment fees and excludes impacts from inventory surplus value; ² Net income adjusted by the amortization of intangible assets and inventory surplus value.

³ Excludes investments with M&A and Expansion.

FINANCIAL HIGHLIGHTS 2Q19

- In the year to date (1H19), the Company delivered 49% and 45% of the net revenue and EBITDA expected for 2019, which is fully consistent with the Guidance announced in May.
- Average ticket in Postsecondary Education posted strong recovery in the quarter, with annual increases of 6.7% in On-Campus and 5.0% in Distance Learning, leading the semester result to be aligned with inflation.
- Net revenue grew 14.2% in the quarter and 23.9% in the year to date, reflecting the acquisition of Somos.
- EBITDA was R\$625 million, with EBITDA Margin of 35.9% in 2Q19. In 1H19, EBITDA grew 4.2% on the prior-year period.
- Adjusted net income was R\$266.7 million in 2Q19 and R\$585.4 million in 1H19, down 44.2% and 39.1%, respectively, affected primarily by financial expenses related to the Somos acquisition and higher depreciation levels arising from the investments made in recent years.
- Cash generation reversed the negative results of the previous quarter to reach R\$140.9 million in 2Q19, for a cash conversion after capex ratio of 22.6%, even though the bulk of the PNLD and FIES receivables expected for the year are concentrated in the second half.
- The new contracts signed for 2020 under the K12 Integrated Platform are above target and substantially above the amount verified in 1H18, reflecting the Company's new commercial strategy.

MESSAGE FROM MANAGEMENT

Looking back at the last decade, Kroton's history has been marked by strategic decisions that have changed its course. In 2011, we invested in the digitalization of Education and acquired the country's best and largest distance learning platform, Unopar. Time has confirmed the value of that decision. In 2013, based on our vision that the time was precise to consolidate the Postsecondary Education industry, given that scale is important for creating value, we merged with Anhanguera in another strategic move that proved highly value accretive. These were transformational consolidation events that captured important efficiency gains. We improved our operational and financial indicators while delivering robust returns for our shareholders and attaining important advances in our regulatory scores for academic quality in Postsecondary Education. These achievements are all a great source of pride, are imprinted in Kroton's corporate DNA and will continue to be pursued.

In late 2017, we embarked on a profound reflection on Kroton's future, especially the impacts that technology could bring for our current businesses and the opportunities that a digital mindset creates for new business models in Education. From this reflection arose a new momentum in the organization based on two strategic and complementary vectors: the decision



to expand our presence in Primary and Secondary Education and our mobilization on a profound journey in digital transformation.

The decision to expand our footprint in Primary and Secondary Education led to our acquisition of Somos, in 2018, which leverages our two strategies in this segment: providing services directly to students in our operation of Schools (B2C) and creating the most complete Services Platform for K12 Schools in the country (B2B).

In relation to our digital transformation journey, we are undergoing a cultural change without precedent, rethinking the manner in which technology impacts the current businesses and creating new education businesses. When we say that one of the main legacies of the digital transformation was the change in our organizational culture, that was not mere rhetoric, but rather affirmation that implementing agility on a large scale, developing digital competencies and closely engaging with an innovation ecosystem would be (and has been) crucial for oxygenating Kroton as a whole and helping to change the status quo, by imagining and developing services that will ensure our future growth.

These strategies are now driving the onset of a new era for Kroton, and the transformation has been so intense that a new management structure is being implemented, with redesigned vertical structures that will unleash operational autonomy and unlock value through distinct strategic moves and approaches.

In parallel to the delivery of services directly to end consumers (B2C models), a great opportunity is emerging (and being captured) to expand B2B solutions marked by subscription-based, recurring-revenue, scalable and technology-based models. Soon we will be hosting our "Kroton Day" to share with the market our vision for the future and how Kroton is organizing itself to capture all of these opportunities.

With regard to our perspectives for 2019, we reaffirm our guidance for the full year. We are building the future, but without losing sight of our near-term commitments, and we believe that this is the optimal value proposition: delivering on our commitments undertaken for the foreseeable horizon while building the foundations to support a true revolution.

We are certain that we are ushering in a new era for Kroton that will strengthen our existing businesses while creating new avenues of growth, but without ever losing sight of our proposition to transform lives through Education.



OPERATING PERFORMANCE

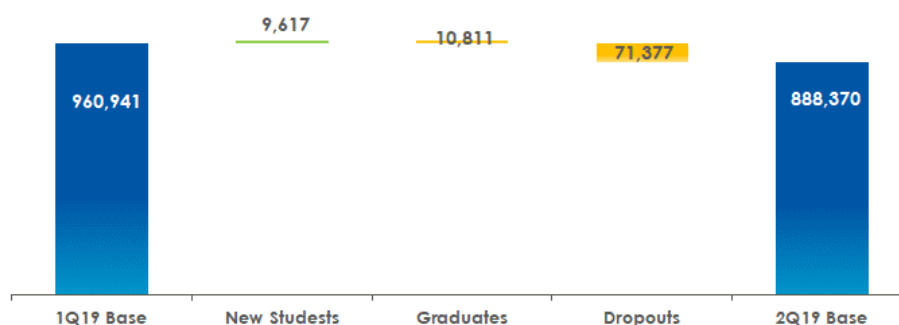
POSTSECONDARY EDUCATION

The following table presents the operating indicators of the various products offered by Kroton in Postsecondary Education. As mentioned last quarter, this is a summarized table of the various indicators the Company already presented previously.

Description of Operating Indicators				2Q19	2Q18	Chg %
Units	Own			155	128	21.1%
	Third Party			1,410	1,210	16.5%
Description of Operating Indicators				2Q19	2Q18	Chg %
Undergraduate	On-Campus Students	On-Campus Students	Base	353,434	385,684	-8.4%
			Dropouts	6.8%	5.0%	1.8 p.p.
		FIES	% On-Campus Base	18.3%	29.4%	-11.1 p.p.
		PEP	% On-Campus Base	15.6%	15.3%	0.3 p.p.
	DL Students	DL Students	Base	492,528	515,981	-4.5%
			Dropouts	8.3%	6.5%	1.8 p.p.
Continuing Education	Graduate	Graduate Students	New Enrollments (On-Campus + DL)	9,617	6,824	40.9%
			Base (On-Campus + DL)	42,408	35,223	20.4%
	Unregulated Programs and Courses for Exams	LFG, Unregulated and Preparatory Students	Unregulated Programs & LFG	64,836	50,996	27.1%
		SETS	Books Sold	468,439	513,786	-8.8%

Details of the operating indicators for Postsecondary Education follow, starting with the evolution in the student base between 1Q19 and 2Q19:

Evolution in Number of Postsecondary Students



The following table presents the evolution in the number of students by product (Undergraduate and Graduate) and teaching format (On-Campus and Distance Learning).



Students	On-Campus			Distance Learning		
	Undergraduate	Graduate	Total	Undergraduate	Graduate	Total
2Q18 Base	385,684	7,817	393,501	515,981	27,406	543,387
1Q19 Base	379,188	9,537	388,725	536,890	35,326	572,216
New Enrollments	-	725	725	-	8,892	8,892
Graduates	-	(1,984)	(1,984)	-	(8,827)	(8,827)
Dropouts	(25,754)	(288)	(26,042)	(44,362)	(973)	(45,335)
2Q19 Base	353,434	7,990	361,424	492,528	34,418	526,946
% 2Q19 Base / 2Q18 Base	-8.4%	2.2%	-8.2%	-4.5%	25.6%	-3.0%
% 2Q19 Base / 1Q19 Base	-6.8%	-16.2%	-7.0%	-8.3%	-2.6%	-7.9%

Students	Total Undergraduate	Total Graduate	Total
2Q18 Base	901,665	35,223	936,888
1Q19 Base	916,078	44,863	960,941
New Enrollments	-	9,617	9,617
Graduates	-	(10,811)	(10,811)
Dropouts	(70,116)	(1,261)	(71,377)
2Q19 Base	845,962	42,408	888,370
% 2Q19 Base / 2Q18 Base	-6.2%	20.4%	-5.2%
% 2Q19 Base / 1Q19 Base	-7.7%	-5.5%	-7.6%

At the end of 2Q19, Kroton had 888,370 students enrolled in the Postsecondary Education segment (Undergraduate and Graduate), considering the On-Campus and Distance Learning formats, representing contraction of 5.2% from the same period last year. This negative variation in the student base reflects the higher number of graduations in the period due to the robust new enrollments in 2013 and 2014, as well as the shift in the profile of the student base, with fewer FIES students (who traditionally have lower dropout rates) and more students enrolled in 100%-online DL programs (who have a higher propensity to drop out). Furthermore, the persistence of a high unemployment rate and the slow economic recovery also pressured dropout rates. On the other hand, Kroton has been investing significantly in updating the portfolio of programs offered and in its employability channel as a way to mitigate these effects and ensure solid student recruiting results. The operation's resilience also is supported by the strength of the group's brands and by the quality of the education offered, both of which are important competitive advantages. Compared to the prior quarter, the 7.6% reduction is explained by the natural seasonality of the business. A breakdown by teaching format shows that the On-campus Postsecondary Education segment accounted for 41% of the student base, while the Distance Learning segment accounted for the other 59%.

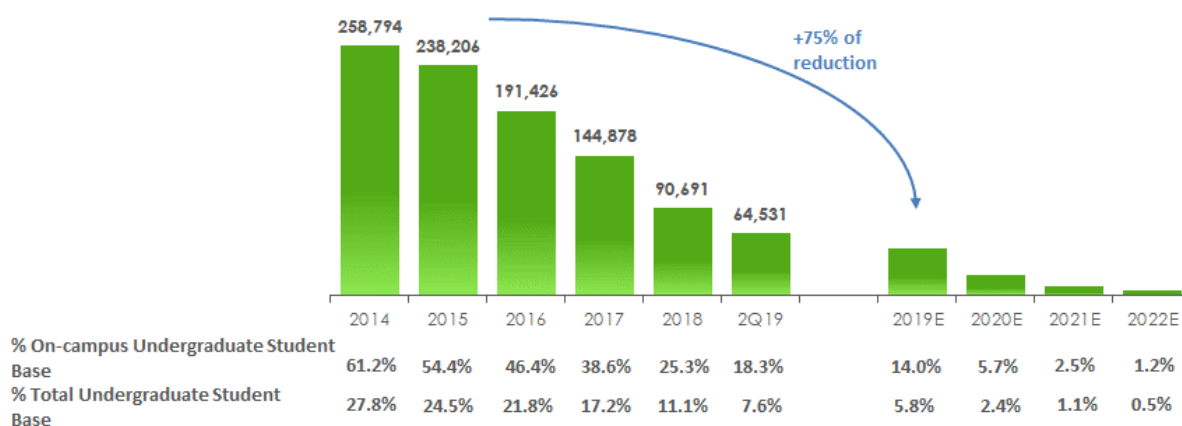
It is worth noting that the admissions and re-enrollment processes for the second semester of 2019 are still ongoing, which include the opening of 3 new campuses compared to the first semester. The processes are scheduled to end in September.



1. Undergraduate

1.1 On-Campus Undergraduate

FIES



At the end of 1H19, the Company had 64,531 students enrolled with FIES contracts, down 43.1% from the same period of 2018, following the trend of recent quarters, with increasingly fewer new students under the financing program and higher graduations of these students. As a result, FIES students accounted for 18.3% of the On-Campus Undergraduate base, or 7.6% of the total Undergraduate student base, down 11.1 p.p. and 5.0 p.p., respectively, from a year earlier.

From 2014 to end-2019, the FIES student base will contract by over 75%, which shows that the Company's student base continues to be replaced by students without this type of financing. As of 2020, it is estimated that less than 14% of the on-campus base or 5.8% of the total Kroton student base will use FIES.

Private Special Installment Plan (PEP) and Late Enrollment Installment Plan (PMT)

Considering its installment payment products, Kroton closed the semester with about 55,200 students enrolled in PEP programs, with around 25,200 enrolled in PEP30 and 30,000 in PEP50. For the student-recruiting process for the second semester of 2019, Kroton will continue to draw on the strength of this product to attract new students, projecting exposure in line with that of the product's historical figures, although more balanced between PEP30 and PEP50. Note that Kroton continues to adopt the same conservative policies as in previous quarters for revenue recognition, including for calculating the Adjustment to Present Value (APV) of revenue and for provisioning losses from bad debt, which is accrued at 50% of the financed portion for all PEP students.

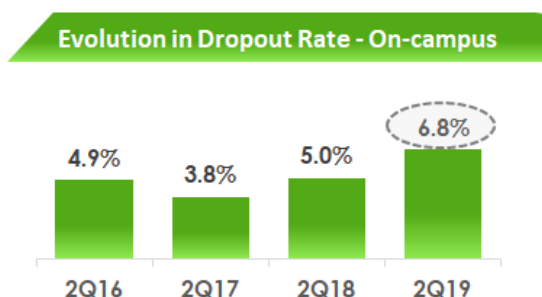
Note also that the dropout curve is naturally higher during the first semesters of academic programs and that the actual dropout rate of PEP students is comparable to that of students without the installment plans within the same semesters. This behavior is true for both PEP30 and PEP50.

Meanwhile, PMT (or temporary PEP) is an alternative to the payment in installments of monthly tuitions related exclusively to periods during which new students were not yet enrolled because they were admitted after the start of classes, but still with sufficient time to complete the minimum classroom hours in the semester. Instead of exempting students from these monthly tuitions, Kroton started to offer this option to new On-campus students as of the second semester of 2016, and to new DL students as of the first semester of 2017. In this way, the Company continues to attract freshmen, enabling their late enrollment without foregoing revenues by granting scholarships or discounts. Note that Kroton adopts the same accounting



practice as PEP for PMT, whereby revenues are adjusted to present value and provisions for bad debt are accrued for 50% of the installment amounts. In addition, as with the policy adopted for PEP, the outstanding balance of these tuitions becomes due automatically if the student drops out before graduation.

On-Campus Dropout Rate



Dropout rates in the period worsened 1.8 p.p. from the prior year in the On-Campus segment, reversing the trend of recent quarters. The result reflects the greater experience of retention teams acquired within the Student Retention Program that have been able to identify more quickly, that is, before the turn of the semester, students who have already dropped out and who have stopped attending classrooms. In addition, the higher dropout also considers pressures from the macroeconomic scenario marked by still-high unemployment rates and from the shift in the student base profile, with the graduation of FIES students, who, due to the program's original characteristics, are less likely to drop out.

Average Net Ticket of On-Campus Undergraduate – Student by Product Perspective

The following analysis presents the performance of average tickets from the "student by product perspective" for the On-Campus Undergraduate business. This perspective considers the different sources of revenue for each product separately, i.e., the ex-FIES and ex-PEP average ticket is formed by the amounts of students paying 100% of tuition out of pocket and those contracting PMT plans. Meanwhile, the PEP and FIES average tickets are divided into Out-of-pocket, Installment/Financing and PMT. The analysis of the combination of the Ex-FIES and PEP average tickets is called "On-Campus Undergraduate Out-Of-Pocket (Ex-FIES and Ex-ProUni)." This analysis enables a better understanding of the dynamics of the average ticket across the various types of students and of products offered by the Company.

ON-CAMPUS UNDERGRADUATE		2Q19					2Q18					Chg. %	
Student	Product	Net Revenue	APV	NR Ex-APV ¹	Invoices ²	Net Ticket	Net Revenue	APV	NR Ex-APV ¹	Invoices ²	Net Ticket	Δ Net Ticket	Δ NR
Ex-FIES e Ex-PEP	Ex-FIES Ex-PEP	443,448	(12,142)	431,306	611	705.9	405,521	206	405,727	591	686.5	2.8%	6.3%
	Out-of-Pocket	411,055	-	411,055	-	-	346,986	-	346,986	-	-	-	-
	PMT	32,393	(12,142)	20,251	-	-	58,535	206	58,741	-	-	-	-
PEP	PEP	236,065	8,998	245,063	177	1,384.5	242,652	22,516	265,168	205	1,293.5	7.0%	-7.6%
	Out-of-Pocket	85,054	-	85,054	-	-	87,288	-	87,288	-	-	-	-
	Installment	145,161	(656)	144,505	-	-	150,893	21,732	172,625	-	-	-	-
	PMT	5,850	9,654	15,504	-	-	4,471	784	5,255	-	-	-	-
Pagante Graduação Presencial Ex-FIES Ex-ProUni		679,513	(3,144)	676,369	788	858.3	648,173	22,722	670,895	795	843.9	1.7%	0.8%
FIES	FIES	396,090	(1,152)	394,938	241	1,638.7	528,293	(2,549)	525,744	427	1,231.3	33.1%	-24.9%
	Out-of-Pocket	114,125	-	114,125	-	-	107,355	-	107,355	-	-	-	-
	Installment	278,166	-	278,166	-	-	419,768	(1,941)	417,827	-	-	-	-
	PEP+PMT	3,799	(1,152)	2,647	-	-	1,170	(608)	562	-	-	-	-
TOTAL On-Campus Undergraduate ³ Ex-ProUni		1,075,603	(4,296)	1,071,307	1,029	1,041.1	1,176,466	20,173	1,196,639	1,222	979.2	6.3%	-10.5%
TOTAL On-Campus Undergraduate ³		1,075,603	(4,296)	1,071,307	1,150	931.6	1,176,466	20,173	1,196,639	1,370	873.5	6.7%	-10.5%

¹ Revenue used to calculate net average ticket; ² Amounts / '000; ³ On-Campus ex-Graduate/Extension/ Languages/Pronatec.

For a better understanding, the calculation of Kroton's average ticket considers the number of invoices effectively recognized in the period (including ProUni students), since, due to retroactive contract amendments, a student could be billed more than once in a certain month. As noted in previous periods, an analysis of the above table shows that the offering of student financing/installment plans plays a vital role in enabling students to pursue careers with more expensive monthly tuitions,



which is a policy that is adopted by the Brazilian government itself in the offer of FIES financing. Since there is no difference in the amounts of the base tuition among students in the same class, the differences in the average ticket observed among financing/payment products reinforces this point, given the higher share of students enrolled in more expensive programs. Accordingly, FIES is the channel with the highest average ticket in the segment in 2Q19, of R\$1,638.7 per student, reflecting the concentration of students nearing graduation in longer-duration and higher-price programs (Healthcare and Engineering). Next comes PEP, with an average ticket of R\$1,384.5, followed by out-of-pocket students, with an average ticket of R\$705.9. The net average ticket of On-Campus programs in 2Q19 was R\$931.6, an increase of 6.7% from the year-ago period, reflecting the higher starting tickets in the enrollment process of the start of the year, as well as the annual adjustment of monthly tuitions and the increased share of programs with higher tickets in the base. Note that this growth was achieved despite the lower share of PMT plans, whose offering was concentrated in March of this year, as mentioned last quarter. In the six-month analysis, which neutralizes any impacts from the different commercial offers launched during the cycle, the average ticket in the On-campus segment was R\$915.3, up 2.7% from the same period last year and in line with inflation, which corroborates the Company's commercial strategy, despite the pressures observed in the period. Moreover, the average ticket in the six-month period demonstrates the temporary effect of the reduction in classroom hours/student and the discounts offered in renegotiations that impacted the previous quarter.

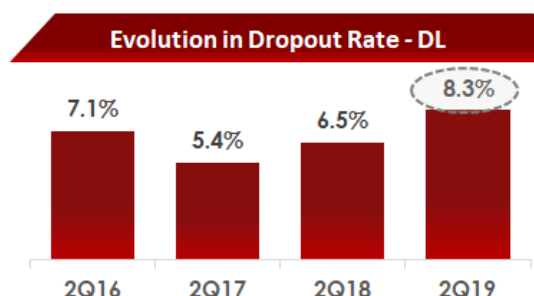
As mentioned previously and to exclude seasonality from the quarterly comparison, such as the effects from PMT, the Tuition Adjustment Process (PAM) and the different contracting curves of ProUni and FIES students, the following table presents an analysis of On-campus average ticket by product in the semester:

ON-CAMPUS UNDERGRADUATE		1H19					1H18					Chg. %	
Student	Product	Net Revenue	APV	NR Ex-APV ¹	Invoices ²	Net Ticket	Net Revenue	APV	NR Ex-APV ¹	Invoices ²	Net Ticket	Δ Net Ticket	Δ NR
Ex-FIES e Ex-PEP	Ex-FIES Ex-PEP	885,621	932	886,553	1,202	737.6	796,556	(9,420)	787,136	1,064	739.8	-0.3%	12.6%
	Out-of-Pocket	713,598	-	713,598	-	-	684,935	-	684,935	-	-	-	-
	PMT	172,023	932.00	172,955.00	-	-	111,621	(9,420)	102,201	-	-	-	-
PEP	PEP	453,495	5,343	458,838	338	1,357.5	439,941	32,437	472,378	368	1,283.6	5.8%	-2.9%
	Out-of-Pocket	167,751	-	167,751	-	-	142,386	-	142,386	-	-	-	-
	Installment	277,108	(1,973)	275,135	-	-	276,611	29,606	306,217	-	-	-	-
	PMT	8,636	7,316	15,952	-	-	20,944	2,831	23,775	-	-	-	-
Pagante Graduação Presencial Ex-FIES Ex-ProUni		1,339,116	6,275	1,345,391	1,540	873.6	1,236,497	23,017	1,259,514	1,431	880.2	-0.7%	6.8%
FIES	FIES	698,653	(1,193)	697,460	448	1,556.8	971,599	(5,186)	966,413	783	1,234.2	26.1%	-27.8%
	Out-of-Pocket	151,056	-	151,056	-	-	160,459	-	160,459	-	-	-	-
	Installment	546,103	-	546,103	-	-	809,543	(3,882)	805,661	-	-	-	-
	PEP+PMT	1,494	(1,193)	301.00	-	-	1,597	(1,304)	293.00	-	-	-	-
TOTAL On-Campus Undergraduate ³ Ex-ProUni		2,037,769	5,082	2,042,851	1,988	1,027.6	2,208,096	17,831	2,225,927	2,215	1,004.9	2.3%	-8.2%
TOTAL On-Campus Undergraduate ³		2,037,769	5,082	2,042,851	2,232	915.3	2,208,096	17,831	2,225,927	2,497	891.4	2.7%	-8.2%

¹ Revenue used to calculate net average ticket; ² Amounts / '000; ³ On-Campus ex-Graduate/Extension/ Languages/Pronatec.

1.2 Distance Learning Undergraduate

DL Dropout Rate



In the DL segment, the dropout rate reached 8.3% in 2Q19, increasing 1.8 p.p. from the year-ago period, but in line with the trend observed in recent quarters. The performance reflects the growth in the base of 100%-online students, who are more prone to drop out given their lower engagement, as well as the still challenging competitive environment and the effects



from the still high unemployment rate. These effects were partially offset by the roll-out to this segment of initiatives under the Retention Program.

Average Net Ticket – Student by Product Perspective

For comparison purposes, Kroton reports only the effective ticket paid by the student, without discounting the transfers to the partners of the centers. To enable a better understanding, when calculating the average ticket, Kroton uses the number of invoices effectively recognized as revenue in the period, including ProUni sales. Therefore, considering 100% of the revenue from DL Undergraduate, the average ticket in 2Q19 was R\$283.7, up 5.0% from the same period last year, reflecting the annual adjustment of monthly tuitions and the larger base of Premium DL students, a segment that has strategic relevance not only for its competitive advantage, but also for having much higher monthly tuitions compared to the once a week model. These factors offset the higher number of students enrolled in 100%-online programs (which have lower average tickets), and the increased competition in the segment, which reinforces the Company's capacity to transfer costs to prices, despite a very adverse competitive scenario.

DISTANCE LEARNING UNDERGRADUATE		2Q19					2Q18					Chg.%	
Student	Product	Net Revenue	APV	NR Ex-APV ¹	Invoices ²	Net Ticket	Net Revenue	APV	NR Ex-APV ¹	Invoices ²	Net Ticket	Δ Net Ticket	Δ NR
TOTAL DL UNDERGRAD. OUT-OF-POCKET ⁴ Ex-ProUni		392,327	(18)	392,309	1,275	307.7	428,946	(229)	428,717	1,457	294.2	4.6%	-8.5%
TOTAL DISTANCE LEARNING UNDERGRAD ⁴		392,327	(18)	392,309	1,383	283.7	428,946	(229)	428,717	1,587	270.2	5.0%	-8.5%

¹ Revenue ex-Transfers; ² Revenue used to calculate average ticket; ³ Amounts/'000; ⁴ Undergraduate only (ex-graduate and other programs).

In the six-month period, the average ticket in DL Undergraduate programs was R\$275.2, up 2.4% from the same period in 2018, in line with inflation, which corroborates the adequate commercial approach in the segment, especially after the expansion of offerings in the last two years.

DISTANCE LEARNING UNDERGRADUATE		1H19					1H18					Chg.%	
Student	Product	Net Revenue	APV	NR Ex-APV ¹	Invoices ²	Net Ticket	Net Revenue	APV	NR Ex-APV ¹	Invoices ²	Net Ticket	Δ Net Ticket	Δ NR
TOTAL DL UNDERGRAD. OUT-OF-POCKET ⁴ Ex-ProUni		782,922	(795)	782,127	2,634	296.9	808,882	(1,163)	807,719	2,767	291.9	1.7%	-3.2%
TOTAL DISTANCE LEARNING UNDERGRAD ⁴		782,922	(795)	782,127	2,842	275.2	808,882	(1,163)	807,719	3,005	268.8	2.4%	-3.2%

¹ Revenue ex-Transfers; ² Revenue used to calculate average ticket; ³ Amounts/'000; ⁴ Undergraduate only (ex-graduate and other programs).

2. Continuing Education

2.1 Graduate

Considering only Graduate programs, the student base expanded significantly by 20.4% on the year-ago period, supported by the recent student recruiting processes, mainly in the Distance Learning segment. The annual growth of above 20% is already happening, in a sustainable manner, for the second year in a row, and reflects the restructuring of the segment in recent years, through a new platform, a more robust offering and focused on our own and partner units. This performance more than offset the significant number of graduations, of approximately 11,000 students. Bear in mind that the LFG brand also offers Graduate programs, whose students are included in the total student number in the segment. Therefore, Kroton ended the quarter with around 42,400 students enrolled in Graduate programs, of whom 34,400 students were in Distance Learning programs and 8,000 were in On-Campus programs.



2.2 Preparatory Courses (LFG), Unregulated Programs, Language Courses and SETS

Through the LFG brand, the Company offers preparatory courses for the examination of the Brazilian Bar Association (OAB) and for examinations for civil servant positions. Positioned as a reference in preparatory courses, LFG registered an average student base of 27,569 in 2Q19 (note that these students were not included in the number of Postsecondary Education students reported above), representing a decrease of 3.4% from the same period of 2018.

Kroton also offers short-duration open enrollment programs that allow students to increase their knowledge in various fields, such as Management, Education, Mathematics and Languages. In 2Q19, there were 37,267 students enrolled in these programs (who also are not considered in the total number of Postsecondary Education students), for a strong increase of 65.9% from the previous year.

The business segment of Educational Solutions for Vocational and Postsecondary Education (SETS) was consolidated after the acquisition of Somos under the Continuing Education Vice-Presidency. SETS is responsible for the sale of books with the Saraiva brand to Postsecondary Education, learning systems for vocational programs under the brand Érica, and preparatory courses for civil servant exams. The main products offered include the sale of Scientific, Technical and Professional (CTP) books, especially in the fields of Law, Business Administration, Economics and Accounting, Technical and Non-Fiction. In 2Q19, a total of 468,439 books were sold, representing a decrease of 8.8% from the same period last year, due to the concentration of sales in the previous quarter and to the adverse scenario for book retailers in the period.

PRIMARY & SECONDARY EDUCATION (K12)

Structuring of K12 Education segment

Following the consolidation of Somos, Kroton now has the most complete technology platform with solutions for products and services for Primary & Secondary Education in Brazil, including own schools, physical and digital teaching content, assessments, teacher training, extracurricular educational content (after school), educational technology and other services.

Kroton's Primary and Secondary Education segment is now structured into two main Business Units:

1. K12 Integrated Services Platform & PNLD/Official Contracts: includes all products and services offered to partner schools, such as physical and digital content, teaching support, assessment, teacher training, extracurricular educational content (after school), educational technology and other services. The segment also includes services related to the National Textbook Program (PNLD) and other contracts with official government agencies. The PNLD/Official Contracts business uses the same Publishing, support and marketing areas, etc. as the K12 integrated platform. Therefore, to better reflect the business as a whole (without the need for allocations), both segments were combined, but their revenues are presented separately to enable a segregated analysis of their individual growth.
2. School Management: includes the performance of own K12 schools, as well management contracts for third-party schools (in which large companies/organizations hire us to manage their school units), in addition to all Red Balloon operations (own schools, franchises and in-school units). The Red Balloon operation is consolidated under the School Management Unit, since most of its students study at autonomous units.



The services that were offered at Somos by SETS (related to Vocational and Postsecondary Education, and Preparatory courses for civil servant exams) now comprise the results of the Postsecondary Education segment, in the Continuing Education Business Unit.

The table below presents a summary of the key operating indicators of the K12 Education segment:

Description of Operating Indicators			2Q19	2Q18	Chg %
K-12 Platform	Core Content	Private Schools w/ Contracts	3,538	3,180	11.3%
		Students enrolled in Private Schools w/ Contracts ('000)	1,258.2	1,099.7	14.4%
	Other solutions in Extracurricular Education (After School)	Number of Schools w/ Contracts in Extracurricular Education (After School)	423	384	10.2%
		Students enrolled in Extracurricular Education (After School) ('000)	124.9	119.8	4.2%
School Management	Management Own Schools/ K-12 Contracts	Own Schools/K-12 Contracts	54	41	31.7%
		Students enrolled in Own Schools/ K-12 Contracts ('000)	35.8	29.1	22.8%
	Red Balloon	Red Balloon Own Schools/Franchises	125	132	-5.3%
		Students enrolled in Red Balloon Own Schools/Franchises	25.6	27.4	-6.6%

Note: the decline in the number of students enrolled at Red Balloon is mainly due to the end of a specific agreement with Grupo Marista Centro-Sul.

Additionally, note that the Company is currently fully engaged in commercial activities for 2020, with a renewed and expanded sales team focused on delivering even stronger results for the next school year. Recently, Kroton launched a new commercial strategy with a highly effective and unique approach. The sales team, which previously interfaced with the school offering isolated products and services, has been repositioned to give it an integrated perspective that connects all products and services of the Company.

Given the integration and comprehensiveness of its portfolio, the Company adopts a neutral position with regard to the educational choices of schools, offering them their methodology of choice: Learning Systems, Textbooks or a mix of both, depending on the educational segment. The approach gives a unique market positioning, with the ability to serve all Brazilian schools, as opposed to its competitors that operate exclusive through Learning Systems or Textbooks. Thus, the addressable market includes 6.2 million students, up 63% from the 3.8 million students enrolled in schools using the Learning System.

The initial results of this strategy have been very positive and much higher than the same period last year, even exceeding the partial targets. However, there is still much to be done, since contracts for next year are generally closed in the second half of the year. Note also that Somos's commercial team, composed of Commercial Advisors, Educational Advisors, Product Specialists and Marketing and Events teams, is by far the largest commercial team in Brazil. Somos also has the largest Market Intelligence team in the industry, conducting, among other activities, the annual census in over 20,000 private schools to map the products and services schools intend to use. The current campaign also inaugurated the Somos' Inside Sales area, responsible for planning and executing digital marketing strategies, with very promising partial results.

For the 2020 PNLD, Somos approved 20 of the 22 book collections submitted, for an approval rate much higher than its historical figures and the industry average, remembering that the technical appeals filed for the two collections that were not approved could still be accepted. The disclosure and negotiation of PNLD usually takes place in the third quarter.

Lastly, regarding own schools, in 2Q19 the Company made progress on integrating all units to capture efficiency gains and worked intensely on the commercial strategy for next year, whose implementation process starts in 3Q19. The Company expects very positive results in enrollments and re-enrollments for 2020 arising from the combination of this new strategy and the improvements in the sales force and their incentives made during the 1H19.



FINANCIAL PERFORMANCE

2Q19 RESULTS

Values in R\$ ('000)	Postsecondary		Primary and Secondary Education		Kroton Consolidated	
	2Q19	% Net Rev.	2Q19	% Net Rev.	2Q19	% Net Rev.
Gross Revenue	1,752,623	127.1%	456,857	125.7%	2,209,480	126.8%
Gross Revenue Deductions	(373,701)	-27.1%	(93,422)	-25.7%	(467,123)	-26.8%
Tax	(43,215)	-3.1%	(18,619)	-5.1%	(61,833)	-3.5%
ProUni	(255,165)	-18.5%	-	0.0%	(255,165)	-14.6%
Returns	(3,323)	-0.2%	(42,429)	-11.7%	(45,752)	-2.6%
Total Discounts	(71,998)	-5.2%	(32,375)	-8.9%	(104,373)	-6.0%
Net Revenue	1,378,923	100.0%	363,434	100.0%	1,742,357	100.0%
Costs (COGS)	(288,041)	-20.9%	(177,401)	-48.8%	(465,442)	-26.7%
Cost of Goods	(10,982)	-0.8%	(75,244)	-20.7%	(86,226)	-4.9%
Cost of Services	(277,060)	-20.1%	(102,156)	-28.1%	(379,216)	-21.8%
Faculty, Other Personnel and Third-Party Services	(245,068)	-17.8%	(89,733)	-24.7%	(334,801)	-19.2%
Rent	(4,157)	-0.3%	(0)	0.0%	(4,157)	-0.2%
Materials	(5,598)	-0.4%	(331)	-0.1%	(5,928)	-0.3%
Maintenance	(3,595)	-0.3%	(8,822)	-2.4%	(12,417)	-0.7%
Other	(18,642)	-1.4%	(3,271)	-0.9%	(21,913)	-1.3%
Gross Income	1,090,882	79.1%	186,034	51.2%	1,276,915	73.3%
Operating Expenses	(177,364)	-12.9%	(40,913)	-11.3%	(218,278)	-12.5%
Personnel, General and Administrative Expenses	(177,364)	-12.9%	(40,913)	-11.3%	(218,278)	-12.5%
Personnel Expenses	(92,747)	-6.7%	(31,877)	-8.8%	(124,623)	-7.2%
General and Administrative Expenses	(84,618)	-6.1%	(9,037)	-2.5%	(93,655)	-5.4%
Provision for Doubtful Accounts - PDA	(181,292)	-13.1%	(5,590)	-1.5%	(186,882)	-10.7%
(+) Interest and Penalties on Tuition	27,793	2.0%	472	0.1%	28,265	1.6%
(+) Equity	(1,054)	-0.1%	-	0.0%	(1,054)	-0.1%
Sales and Marketing Expenses	(103,844)	-7.5%	(36,164)	-10.0%	(140,008)	-8.0%
Operating Result	655,121	47.5%	103,838	28.6%	758,958	43.6%
Corporate Expenses					(65,107)	-3.7%
Recurring EBITDA					693,852	39.8%
(-) Nonrecurring Items					(69,085)	-4.0%
EBITDA					624,767	35.9%
Depreciation and Amortization					(345,835)	-19.8%
Financial Result					(219,500)	-12.6%
Income and Social Contribution Tax					80,897	4.6%
Minority Interest					(748)	0.0%
Net Profit					139,581	8.0%
(-) Nonrecurring Items					125,790	7.2%
(+) Intangible Amortization (Acquisitions)					1,324	0.1%
Adjusted Net Profit					266,696	15.3%



1H19 RESULTS

Values in R\$ ('000)	Postsecondary		Primary and Secondary Education		Kroton Consolidated	
	1H19	% Net Rev.	1H19	% Net Rev.	1H19	% Net Rev.
Gross Revenue	3,437,217	128.2%	1,070,471	119.3%	4,507,687	125.9%
Gross Revenue Deductions	(755,046)	-28.2%	(173,185)	-19.3%	(928,230)	-25.9%
Tax	(80,735)	-3.0%	(35,505)	-4.0%	(116,240)	-3.2%
ProUni	(508,702)	-19.0%	-	0.0%	(508,702)	-14.2%
Returns	(5,279)	-0.2%	(58,883)	-6.6%	(64,162)	-1.8%
Total Discounts	(160,330)	-6.0%	(78,796)	-8.8%	(239,126)	-6.7%
Net Revenue	2,682,171	100.0%	897,286	100.0%	3,579,457	100.0%
Costs (COGS)	(515,941)	-19.2%	(379,704)	-42.3%	(895,645)	-25.0%
Cost of Goods	(29,005)	-1.1%	(177,260)	-19.8%	(206,265)	-5.8%
Cost of Services	(486,936)	-18.2%	(202,444)	-22.6%	(689,380)	-19.3%
Faculty, Other Personnel and Third-Party Services	(440,403)	-16.4%	(175,251)	-19.5%	(615,654)	-17.2%
Rent	(4,997)	-0.2%	(2,007)	-0.2%	(7,004)	-0.2%
Materials	(10,385)	-0.4%	(2,847)	-0.3%	(13,232)	-0.4%
Maintenance	(6,370)	-0.2%	(17,942)	-2.0%	(24,311)	-0.7%
Other	(24,782)	-0.9%	(4,397)	-0.5%	(29,179)	-0.8%
Gross Income	2,166,230	80.8%	517,582	57.7%	2,683,812	75.0%
Operating Expenses	(342,599)	-12.8%	(91,081)	-10.2%	(433,681)	-12.1%
Personnel, General and Administrative Expenses	(342,599)	-12.8%	(91,081)	-10.2%	(433,681)	-12.1%
Personnel Expenses	(180,151)	-6.7%	(73,578)	-8.2%	(253,729)	-7.1%
General and Administrative Expenses	(162,448)	-6.1%	(17,504)	-2.0%	(179,952)	-5.0%
Provision for Doubtful Accounts - PDA	(389,048)	-14.5%	(8,707)	-1.0%	(397,755)	-11.1%
(+) Interest and Penalties on Tuition	93,415	3.5%	1,000	0.1%	94,416	2.6%
(+) Equity	(477)	0.0%	-	0.0%	(477)	0.0%
Sales and Marketing Expenses	(231,777)	-8.6%	(77,215)	-8.6%	(308,992)	-8.6%
Operating Result	1,295,745	48.3%	341,578	38.1%	1,637,323	45.7%
Corporate Expenses					(136,952)	-3.8%
Recurring EBITDA					1,500,371	41.9%
(-) Nonrecurring Items					(124,786)	-3.5%
EBITDA					1,375,585	38.4%
Depreciation and Amortization					(637,153)	-17.8%
Financial Result					(422,493)	-11.8%
Income and Social Contribution Tax					74,561	2.1%
Minority Interest					(519)	0.0%
Net Profit					389,981	10.9%
(-) Nonrecurring Items					190,610	5.3%
(+) Intangible Amortization (Acquisitions)					4,797	0.1%
Adjusted Net Profit					585,388	16.4%



FINANCIAL PERFORMANCE – POSTSECONDARY EDUCATION

Postsecondary Education - Values in R\$ ('000)	2Q19	2Q18	Chg.%	1Q19	Chg.%	1H19	1H18	Chg.%
Gross Revenue	1,752,623	1,897,689	-7.6%	1,684,593	4.0%	3,437,217	3,589,412	-4.2%
Gross Revenue Deductions	(373,701)	(421,207)	-11.3%	(381,345)	-2.0%	(755,046)	(785,614)	-3.9%
Tax	(43,215)	(47,236)	-8.5%	(37,520)	15.2%	(80,735)	(94,721)	-14.8%
ProUni	(255,165)	(277,692)	-8.1%	(253,537)	0.6%	(508,702)	(517,795)	-1.8%
Returns	(3,323)	-	n.a.	(1,956)	69.9%	(5,279)	-	n.a.
Total Discounts	(71,998)	(96,279)	-25.2%	(88,332)	-18.5%	(160,330)	(173,098)	-7.4%
FGEDUC	(18,299)	(29,873)	-38.7%	(14,313)	27.8%	(32,612)	(53,921)	-39.5%
FIES - Administrative Fee	(6,448)	(11,399)	-43.4%	(5,279)	22.1%	(11,728)	(20,351)	-42.4%
Other	(47,251)	(55,007)	-14.1%	(68,739)	-31.3%	(115,990)	(98,827)	17.4%
Net Revenue	1,378,923	1,476,482	-6.6%	1,303,248	5.8%	2,682,171	2,803,798	-4.3%
Total of Costs	(288,041)	(286,450)	0.6%	(227,900)	26.4%	(515,941)	(495,318)	4.2%
Cost of Goods	(10,982)	-	n.a.	(18,023)	-39.1%	(29,005)	-	n.a.
Cost of Services	(277,060)	(286,450)	-3.3%	(209,876)	32.0%	(486,936)	(495,318)	-1.7%
Faculty, Other Personnel and Third-Party Services	(245,068)	(262,102)	-6.5%	(195,335)	25.5%	(440,403)	(464,160)	-5.1%
Rent	(4,157)	(5,078)	-18.1%	(840)	395.1%	(4,997)	(5,078)	-1.6%
Materials	(5,598)	(5,619)	-0.4%	(4,787)	16.9%	(10,385)	(10,080)	3.0%
Maintenance	(3,595)	(2,423)	48.4%	(2,774)	29.6%	(6,370)	(5,720)	11.4%
Other	(18,642)	(11,227)	66.0%	(6,140)	203.6%	(24,782)	(10,280)	141.1%
Gross Income	1,090,882	1,190,032	-8.3%	1,075,349	1.4%	2,166,230	2,308,480	-6.2%
Gross Margin	79.1%	80.6%	-1.5 p.p.	82.5%	-3.4 p.p.	80.8%	82.3%	-1.6 p.p.
Total Operating Expenses	(177,364)	(169,427)	4.7%	(165,235)	7.3%	(342,599)	(311,167)	10.1%
Personnel Expenses	(92,747)	(92,192)	0.6%	(87,405)	6.1%	(180,151)	(168,424)	7.0%
General and Administrative Expenses	(84,618)	(77,236)	9.6%	(77,830)	8.7%	(162,448)	(142,743)	13.8%
Provision for Doubtful Account - PDA	(181,292)	(182,408)	-0.6%	(207,756)	-12.7%	(389,048)	(342,950)	13.4%
(+) Interest and Penalties on Tuition	27,793	42,766	-35.0%	65,622	-57.6%	93,415	83,808	11.5%
(+) Equity	(1,054)	-	n.a.	577	-282.6%	(477)	-	n.a.
Selling and Marketing Expenses	(103,844)	(104,892)	-1.0%	(127,933)	-18.8%	(231,777)	(215,356)	7.6%
Operating Result	655,121	776,070	-15.6%	640,624	2.3%	1,295,745	1,522,814	-14.9%
Operating Margin	47.5%	52.6%	-5.1 p.p.	49.2%	-1.6 p.p.	48.3%	54.3%	-6.0 p.p.

Net Revenue

In 2Q19, the 6.6% decline in the net revenue of Kroton's Postsecondary Education segment compared to 2Q18 is due to the contraction in the student base, which is explained by the higher number of graduations of students enrolled in the strong recruiting processes of 2013 and 2014 and by the higher dropout rate in the period. Net revenue growth also was adversely affected by the shift in the student base profile, the lower use of PEP plans in the last recruiting cycle and the lower share of students with PMT plans this quarter. These factors offset the robust ticket increase in the period and the performance of Continuing Education, which was supported by the consolidation of SETS in the results. Compared to the previous quarter, the net revenue growth of 5.8% is essentially explained by seasonality, which generates positive impacts in even-numbered quarters with the recognition of late enrollments in a single quarter, by the lower discounts granted during the enrollment process and by the one-off effects related to classroom hours and negotiations with students in the previous quarter, which were offset this quarter. In the six-month period, net revenue from Postsecondary Education decreased 4.3% compared to the same period of 2018, reflecting the pressures on the Company's student base and the persistence of high unemployment rates.

Gross Income

Gross income from Postsecondary Education was R\$1,090.9 million in 2Q19, decreasing 8.3% from the same period last year. The combination of the lower revenue observed in the period due to the behavior of the student base and the expenses with sales of books to the Postsecondary Education of SETS led to gross margin contraction of 1.5 p.p. in the segment. However, total cost of services decreased, confirming the efficiency of the business, especially the economies of scale generated by the consolidated operation and by the lower expenses with payroll, which allowed for diluting expenses despite the robust expansion of units. Compared to the prior quarter, the 3.4 p.p. gross margin contraction is due to seasonal increases in costs with faculty and third-party services, which more than offset the higher revenue in the period. In the six-



month period, gross margin contracted by 1.6 p.p. to 80.8%, reflecting the addition of an operation that has a larger structure of distribution costs, such as SETS, and the pressures on revenue in the period.

Provision for Doubtful Accounts (PDA)

On-Campus Education - Values in R\$ ('000)	2Q19	2Q18	Chg.%	1Q19	Chg.%
Provision for Doubtful Account - PDA	(181,292)	(182,408)	-0.6%	(207,756)	-12.7%
PDA / Postsecondary Net Revenues ¹	-13.1%	-12.4%	-0.8 p.p.	-15.9%	2.8 p.p.
PDA Out-of-pocket	(83,204)	(69,710)	19.4%	(68,971)	20.6%
PDA Out-of-pocket / Postsecondary Net Revenues Out-of-pocket ¹	-9.1%	-8.3%	-0.8 p.p.	-9.0%	-0.1 p.p.
PDA FIES - Financed Part	(2,503)	(3,778)	-33.7%	(2,411)	3.8%
PDA FIES / Postsecondary Net Revenues FIES ¹	-0.9%	-0.9%	0.0 p.p.	-0.9%	0.0 p.p.
PDA PEP - Installment Part	(72,580)	(75,446)	-3.8%	(65,974)	10.0%
PDA PEP / Postsecondary Net Revenues PEP ¹	-50.0%	-50.0%	-0.0 p.p.	-50.0%	-0.0 p.p.
PDA PMT - Installment Part	(23,004)	(33,474)	-31.3%	(70,400)	-67.3%
PDA PMT / Postsecondary Net Revenues PMT ¹	-50.0%	-50.0%	-0.0 p.p.	-50.0%	-0.0 p.p.

¹ Net Revenue for the On-Campus excludes revenues from Pronatec

Total PDA as a ratio of net revenue in Postsecondary Education increased 0.8 p.p. from the same period last year, to 13.1%. The lower volume of PMT in the period was offset by an increase in out-of-pocket PDA to better reflect the shift in the student mix, with the graduation of FIES students (who require lower levels of provisioning) and the growing share of 100%-online students in the DL base (who have higher dropout rates). Furthermore, out-of-pocket PDA also has been adversely affected by the continued adverse economic environment, with growing dropout rates and a higher number of delinquent students, which led the Company to increase provisioning to protect against any future losses. Compared to the previous quarter, PDA decreased 2.8 p.p. due to the concentration of enrollments with PMT plans in the previous quarter.

Accounts Receivable

Postsecondary Education Values in R\$ ('000) net of APV and PDA	2Q19	2Q18	Chg.%	1Q19	Chg.%
Net Accounts Receivable	2,794,312	2,466,107	13.3%	2,518,884	10.9%
Out-of-Pocket	1,130,795	768,191	47.2%	955,782	18.3%
Tuition + FIES + PEP	1,126,278	763,155	47.6%	951,060	18.4%
Agreements to Receive	4,517	4,294	5.2%	4,722	-4.4%
Pronatec	-	742	n.a	-	n.a
Installments	1,344,830	872,765	54.1%	1,147,280	17.2%
PEP	987,853	670,128	47.4%	873,520	13.1%
PMT	356,976	202,637	76.2%	273,759	30.4%
FIES	318,687	825,150	-61.4%	415,822	-23.4%
PN23	-	390,981	n.a	-	n.a
Other FIES - Short Term	318,687	434,169	-26.6%	415,822	-23.4%

Total Accounts Receivables net of PDA from Postsecondary Education increased 10.9% in 2Q19 vs. 1Q19, in line with the performance of previous quarters. This performance reflects the following factors: (i) higher exposure of the Company's installment products, such as PEP and PMT, which are mostly repaid only after graduation; (ii) higher revenue from out-of-pocket students due to the change in the student mix with the graduation of FIES students; and (iii) the still-high volume of overdue tuitions due to the current economic scenario, which creates a higher share of defaulting students and a larger volume of negotiations with students. The combination of these effects more than offset the decline in FIES accounts receivables.



Average Accounts Receivable Term

Postsecondary - Average Accounts Receivable Term (days)	2Q19	2Q18	Chg.%	1Q19	Chg.%
<u>Net Accounts Receivable</u>					
Total Net Revenue Higher Education	192	165	27 Days	169	23 Days
<u>Net Accounts Receivable (Paying)</u>					
Net Revenue (Paying)	129	97	32 Days	110	19 Days
<u>Net Accounts Receivable (PEP/PMT)</u>					
Net Revenue (PEP/PMT)	591	425	166 Days	489	102 Days
<u>Net Accounts Receivable (FIES)</u>					
Net Revenue (FIES)	91	166	-75 Days	107	-16 Days

Calculation base: net balance of short-term and long-term Accounts Receivable in the Postsecondary business related to monthly tuitions, agreements and other academic services, divided by net operating revenue in the Postsecondary business in the last 12 months, multiplied by 360 days.

The average term in 2Q19 increased 23 days from the prior quarter, the same level registered in 1Q19 compared to 4Q18, which demonstrated the higher share of PEP and PMT accounts receivable, the higher volume of overdue tuitions and negotiations, and the seasonal effect from the late enrollment of FIES students. Compared to the year-ago period, the increase of 27 days in the average term reflects the maturation of the installment plan in the base, the higher volume of negotiations at the turn of the last few semesters and a higher volume of debt renegotiations and of agreements with inactive students. These factors offset the contraction in the base of FIES students over the period. For 2H19, the Company expects a reversal in the trend of the out-of-pocket average term, given the surpassing of the mark of 360 days by the classes enrolled and re-enrolled in 1H18, which had a poorer payment profile.

Operating Result

In 2Q19, the operating result in Postsecondary Education (after marketing expenses) was R\$655.1 million, with operating margin of 47.5%. As mentioned last quarter, the current level of operating margin reflects not only the impact from the new accounting standard (IFRS16), but also the incorporation of marketing expenses in the analysis of segments, since this line previously was presented only in the corporate analysis. Analysis of behavior this quarter shows that operating margin in 2Q19 contracted 5.1 p.p. from 2Q18, reflecting all the short-term challenges faced by the industry, such as the contraction in the student base due to higher graduations and the shift in the student base profile in both the On-campus and DL segments, with higher provisioning required for newly enrolled students, as well as higher dropout rates. Operating margin also was pressured by an increase in the cost and expense structure of new units and by the incorporation of new services, such a SETS, whose profitability is lower than the other Graduate and unregulated programs comprising the Continuing Education Business Unit. Compared to the previous quarter, operating margin fell 1.6 p.p., due to the seasonal increase in costs and expenses and to the higher provisioning for out-of-pocket students in the quarter. In the six-month period, operating result was R\$1,295.7 million, with operating margin of 48.3%, down 6.0 p.p. from the same period of 2018. In general, the operating margin of close to 50% in Postsecondary Education, considering own units, third-party units and Continuing Education, and taking into consideration all the current difficulties related to the economy, the shift in the profile of students and the competitive landscape, as well as costs related to expansion projects, attests to the solidity of the business and to the Company's high levels of efficiency and profitability.



Own Units (Undergraduate) – Financial Indicators:

<i>Undergraduate: Own Units - Values in R\$ ('000)</i>	2Q19	2Q18	Chg.%	1Q19	Chg.%	1H19	1H18	Chg.%
Net Revenue - Undergraduate - Own units	1,121,348	1,227,702	-8.7%	1,009,769	11.1%	2,131,117	2,304,109	-7.5%
Net Revenue - On-Campus Out-of-pocket	610,234	541,629	12.7%	422,171	44.5%	1,032,405	987,780	4.5%
Net Revenue - FIES (financed part net of APV)	278,166	419,768	-33.7%	267,937	3.8%	546,103	809,543	-32.5%
Net Revenue - PEP (installment part net of APV)	145,161	150,893	-3.8%	131,947	10.0%	277,108	276,611	0.2%
Net Revenue - On-Campus PMT (installment part net of APV)	42,042	64,176	-34.5%	140,111	-70.0%	182,153	134,162	35.8%
Net Revenue - DL Out-of-pocket	45,616	49,287	-7.4%	47,443	-3.9%	93,059	93,064	0.0%
Net Revenue - DL PMT (installment part net of APV)	129	1,949	-93.4%	160	-19.3%	288	2,949	-90.2%
Gross Income - Undergraduate - Own units	862,224	963,187	-10.5%	813,414	6.0%	1,675,638	1,844,168	-9.1%
Gross Margin - Undergraduate: Own units	76.9%	78.5%	-1.6 p.p.	80.6%	-3.7 p.p.	78.6%	80.0%	-1.4 p.p.
Operating Result - Undergraduate - Own units	515,184	638,273	-19.3%	479,842	7.4%	995,026	1,230,735	-19.2%
Operating Margin - Undergraduate: Own units	45.9%	52.0%	-6.0 p.p.	47.5%	-1.6 p.p.	46.7%	53.4%	-6.7 p.p.

From the Own Units perspective, which represents the main portion of the results from Postsecondary Education, the pressures mentioned previously become clear with respect to the shift in the student base profile, since FIES graduations and installment payment products affect only this Business Unit, which is composed primarily of On-campus students. Furthermore, all costs and expenses related to the expansion of units also affect this analysis, representing another (albeit smaller) temporary factor weighing on margins. As a result, the operating margin of Undergraduate programs in Own Units stood at 45.9% in 2Q19 and at 46.7% in 1H19, representing compression of 6.0 p.p. and 6.7 p.p. from 2Q18 and 1H18, respectively. Lastly, note that the result in the six-month period also considers a larger volume of marketing expenses to promote the brands in new regions and to set them apart in the more competitive environment.

Third-Party Units (Undergraduate) – Financial Indicators:

<i>Undergraduate: Third-party Units - Values in R\$ ('000)</i>	2Q19	2Q18	Chg.%	1Q19	Chg.%	1H19	1H18	Chg.%
Net Revenue - Undergraduate - Third-party units	205,437	220,686	-6.9%	227,796	-9.8%	433,233	423,848	2.2%
Net Revenue - Out-of-pocket	201,601	219,850	-8.3%	227,265	-11.3%	428,865	420,537	2.0%
Net Revenue - PMT (installment part net of APV)	3,836	836	359.2%	531	621.8%	4,368	3,311	31.9%
Gross Income - Undergraduate - Third-party units	193,389	205,482	-5.9%	218,780	-11.6%	412,170	397,829	3.6%
Gross Margin - Undergraduate - Third-party units	94.1%	93.1%	1.0 p.p.	96.0%	-1.9 p.p.	95.1%	93.9%	1.3 p.p.
Operating Result - Undergraduate - Third-party units	120,667	127,639	-5.5%	138,558	-12.9%	259,225	248,470	4.3%
Operating Margin - Undergraduate - Third-party units	58.7%	57.8%	0.9 p.p.	60.8%	-2.1 p.p.	59.8%	58.6%	1.2 p.p.

On the other hand, the analysis of Third-Party Units shows the Company's constant efficiency gains, with the achievement of consistent results despite the significant competitive pressure in the DL segment in the last 2 years. The operating margin expansions of 0.9 p.p. and 1.2 p.p. compared to 2Q18 and 1H18, respectively, attest to the Company's resilience and high-quality management of its partner centers.

Continuing Education – Financial Indicators:

<i>Continuing Education - Values in R\$ ('000)</i>	2Q19	2Q18	Chg.%	1Q19	Chg.%	1H19	1H18	Chg.%
Net Revenue - Continuing Education	52,138	28,095	85.6%	65,683	-20.6%	117,821	75,841	55.4%
Gross Income - Continuing Education	35,269	21,363	65.1%	43,154	-18.3%	78,422	66,483	18.0%
Gross Margin - Continuing Education	67.6%	76.0%	-8.4 p.p.	65.7%	1.9 p.p.	66.6%	87.7%	-21.1 p.p.
Operating Result - Continuing Education	19,270	10,158	89.7%	22,224	-13.3%	41,494	43,609	-4.9%
Operating Result - Continuing Education	37.0%	36.2%	0.8 p.p.	33.8%	3.1 p.p.	35.2%	57.5%	-22.3 p.p.

Lastly, the analysis of Continuing Education reflects primarily the incorporation of the SETS segment and its larger cost structure with the distribution of materials concentrated at the start of the year. Furthermore, it is already possible to see the positive effects of the greater autonomy adopted in the management of this operation, such as revenue growth in both the quarter and six-month period. Meanwhile, the lower margins are due to the expansion in the scope of the business with the incorporation of SETS.



FINANCIAL PERFORMANCE – PRIMARY & SECONDARY EDUCATION (K12)

As mentioned in the previous quarter, the only adjustment made to the financial figures of Primary & Secondary Education (K12) was to reconcile the 2018 figures to the IFRS16 accounting standard, i.e. no pro forma analysis was made to include the results of Somos, only adjustments for the segment's new business units (and the exclusion of performance of SETS). Therefore, the 2Q18 and 1H18 figures represent only Kroton's historical Primary and Secondary Education activities and the inclusion of Leonardo da Vinci, acquired in April 2018, while the results for 2019 include Somos and the acquisitions made by Saber (Leonardo da Vinci and Lato Sensu).

Primary and Secondary Education - Values in R\$ ('000)	2Q19	2Q18	Chg.%	1Q19	Chg.%	1H19	1H18	Chg.%
Gross Revenue	456,857	56,215	712.7%	613,614	-25.5%	1,070,471	104,218	927.1%
Gross Revenue Deductions	(93,422)	(6,424)	1354.4%	(79,762)	17.1%	(173,185)	(18,418)	840.3%
Tax	(18,619)	(1,900)	879.9%	(16,887)	10.3%	(35,505)	(3,185)	1014.8%
Returns	(42,429)	(4,238)	901.2%	(16,454)	157.9%	(58,883)	(14,375)	309.6%
Total Discounts	(32,375)	(286)	11225.2%	(46,421)	-30.3%	(78,796)	(858)	9084.4%
Net Revenue	363,434	49,791	629.9%	533,852	-31.9%	897,286	85,800	945.8%
Total of Costs	(177,401)	(26,436)	571.1%	(202,304)	-12.3%	(379,704)	(38,987)	873.9%
Cost of Goods	(75,244)	(6,654)	1030.9%	(102,016)	-26.2%	(177,260)	(12,577)	1309.4%
Cost of Services	(102,156)	(19,782)	416.4%	(100,288)	1.9%	(202,444)	(26,409)	666.6%
Faculty, Other Personnel and Third-Party Services	(89,733)	(15,006)	498.0%	(85,518)	4.9%	(175,251)	(21,601)	711.3%
Rent	(0)	(1,475)	-100.0%	(2,007)	-100.0%	(2,007)	(1,475)	36.1%
Materials	(331)	(2,147)	-84.6%	(2,516)	-86.9%	(2,847)	(2,173)	31.0%
Maintenance	(8,822)	(196)	4412.1%	(9,120)	-3.3%	(17,942)	(257)	6889.9%
Other	(3,271)	(959)	241.1%	(1,126)	190.4%	(4,397)	(904)	386.6%
Gross Income	186,034	23,355	696.6%	331,548	-43.9%	517,582	46,813	1005.6%
Gross Margin	51.2%	46.9%	4.3 p.p.	62.1%	-10.9 p.p.	57.7%	54.6%	3.1 p.p.
Total Operating Expenses	(40,913)	(4,875)	739.3%	(50,168)	-18.4%	(91,081)	(8,454)	977.4%
Personnel Expenses	(31,877)	(3,359)	849.0%	(41,701)	-23.6%	(73,578)	(6,476)	1036.2%
General and Administrative Expenses	(9,037)	(1,516)	496.2%	(8,467)	6.7%	(17,504)	(1,978)	785.0%
Provision for Doubtful Account - PDA	(5,590)	(380)	1372.3%	(3,117)	79.4%	(8,707)	(669)	1202.5%
(+) Interest and Penalties on Tuition	472	166	185.1%	528	-10.6%	1,000	532	87.9%
(+) Equity	-	-	n.a.	-	n.a.	-	-	n.a.
Selling and Marketing Expenses	(36,164)	(5,393)	570.5%	(41,051)	-11.9%	(77,215)	(8,853)	772.2%
Operating Result	103,838	12,873	706.7%	237,740	-56.3%	341,578	29,370	1063.0%
Operating Margin	28.6%	25.9%	2.7 p.p.	44.5%	-16.0 p.p.	38.1%	34.2%	3.8 p.p.

Net Revenue

In 2Q19, net revenue in the K12 segment was R\$363.4 million, up significantly from the same period of 2018, reflecting the consolidation of Somos and of the other schools acquired by Saber throughout 2018 (especially Lato Sensu, since Leonardo da Vinci was consolidated in April 2018). These consolidations distorted the comparison base, but also show the new and important scale attained after all these transactions by the segment, which now accounts for 25% of the Company's total revenue. Note also that, as previously discussed, the K12 segment is now composed of two business units: (i) the K12 Integrated Services Platform & PNLD/Official Contracts, which account for 56% of the segment's revenue in the semester and include the group's learning systems, after-school activities and technology services, as well as the National Textbook Program (PNLD) and official contracts with government bodies; and (ii) School Management, which accounts for the other 44% of revenue and includes all the schools owned and managed by the group (54) and the Red Balloon operations (own schools, franchise and in-school). When analyzing the segment, it is important to note the seasonality of the operation, with the distribution of materials concentrated in odd-numbered quarters. Therefore, despite the significant growth in the annual comparison, the result decreased significantly compared to the prior quarter, which also is explained by the different schedule of repurchases of PNLD, which impacted the second quarter of last year, while this year the revenue will impact the second half. Also regarding PNLD, the invoicing of the Literary PNLD was expected for 1H19, but will only take place in 2H19. Nevertheless, note that, in the six-month period, learning systems increased year-over-year both in the number of students served and in average ticket. Lastly, the School Management business unit presents lower seasonality, with its robust revenue growth reflecting the consolidation of all the schools acquired in 2018 by both Somos and Kroton. In the



six-month period, net revenue from the K12 segment reached nearly R\$900 million, which clearly demonstrates the segment's relevance after the consolidation of Somos.

Gross Income

In 2Q19, gross income in the K12 segment was R\$186.0 million, with gross margin of 51.2%, increasing 4.3 p.p. from the same period last year, due to the capture of synergies with the integration of Somos and the increased share of more scalable businesses, such as learning systems. Note that, despite the inclusion of all fixed costs involving the School Management business, the segment's margin remained very high and has the potential to further expand with the capture of the remaining synergy gains with Somos. Compared to 1Q19, gross margin fell 10.9 p.p. as a result of the seasonality of the operation and the lower volume of materials distributed in the period. In the six-month period, gross margin stood at 57.7%, an increase of 3.1 p.p. compared to the same period of 2018, reflecting the strategic nature of the Somos acquisition and the greater diversity of scalable businesses offered in K12 Education.

Provision for Doubtful Accounts (PDA)

Primary and Secondary Education - Values in R\$ ('000)	2Q19	2Q18	Chg.%	1Q19	Chg.%
Provision for Doubtful Account - PDA	(5,590)	(380)	1372.3%	(3,117)	79.4%
PDA / Net Revenues Primary and Secondary Education	-1.5%	-0.8%	-0.7 p.p.	-0.6%	-0.9 p.p.
PDA - K12 Integrated Platform & PNLD	(3,536)	(255)	1287.6%	(1,768)	99.9%
PDA Integrated Platform/ Net Revenues. Integrated Platform	-2.1%	-1.0%	-1.1 p.p.	-0.5%	-1.6 p.p.
PDA - School Management	(2,055)	(125)	1544.9%	(1,349)	52.4%
PDA School Management/ Net Revenues School Management	-1.1%	-0.5%	-0.6 p.p.	-0.7%	-0.4 p.p.

Provisioning for the K12 segment corresponded to 1.5% of net revenue in 2Q19, which was 0.7 p.p. higher than in the same period last year, as a result of the incorporation of Somos and the various businesses offered in the segment. Compared to the prior quarter, the 0.9 p.p. increase in PDA mostly reflects the seasonality of the operation. Note also the differences in the profile of provisioning for K12 Education compared to Postsecondary Education, given the significantly different business model, with lower dropout rates and higher payment capacity.

Accounts Receivables from K12

Primary and Secondary Education	2Q19	2Q18	Chg.%	1Q19	Chg.%
Net Accounts Receivable	271,232	42,844	533.1%	503,408	-46.1%
K12 Integrated Platform	233,102	42,844	444.1%	458,570	-49.2%
School Management	38,130	-	n.a	44,838	-15.0%

Accounts receivable from K12 Education amounted to R\$271.2 million in 2Q19, representing significant growth from the same period of 2018, reflecting the consolidation of Somos into the results, especially with regards to the volume of learning systems and textbooks. Compared to the previous quarter, the 46.1% decrease in Accounts Receivable reflects the seasonality of the operation, since the start of the year concentrates most of the commercial activity with the distribution of school books.

Average Accounts Receivable Term

Primary and Secondary Education - Days	2Q19	2Q18	Chg.%	1Q19	Chg.%
Net Accounts Receivable of Basic Education	51	85	-34 Days	93	-42 Days
Net Revenue of Basic Education					
Net Accounts Receivable - K12 Integrated Platform	63	85	-22 Days	121	-58 Days
Net Revenue - K12 Integrated Platform					
Net Accounts Receivable - School Management	24	-	n.a	28	-04 Days
Net Revenue - School Management					

Calculation base: net balance of short-term and long-term Accounts Receivable in the K12 business related to monthly tuitions, agreements and other academic services, divided by net operating revenue in the K12 business in the last 12 months, multiplied by 360 days.



In 2Q19, the average term decreased 34 days from the same period last year, mostly due to the shorter term of receivables from the businesses incorporated after the acquisition of Somos, especially in the own school management business. Furthermore, note that the learning systems of Somos had a lower receivables term compared to Pitágoras, as shown in the line for the Integrated Platform. This is true even if you consider that this line also includes the textbook and PNLD/Official Contracts segment, i.e. it could indicate good prospects for the future through the sharing of best practices for this business. Compared to the previous quarter, the average term of K12 Education was 42 days lower due to the seasonality of the operation, especially in the Integrated Platform business with the distribution of books and collections concentrated in the beginning of the year.

Operating Result

The operating result (after marketing expenses) of the K12 segment in 2Q19 was R\$103.8 million, with operating margin of 28.6%, up 2.7 p.p. from the same period of 2018. As commented for gross margin performance, this improved profitability reflects the incorporation of businesses with more scalable cost structures, such as learning systems, in addition to the fact that the result in 2Q18 was adversely affected by the materiality of Leonardo da Vinci and its lower margins in the result of Kroton's K12 segment in that period. Note also that this level of operating margin already considers the relevant amount of marketing expenses, which is crucial to ensure a growing result of the schools served, whether for selling learning systems or distributing textbooks. In this sense, it is worth noting that the Company is currently fully engaged in commercial activities, with a renewed and driven sales team focused on delivering even stronger results for the 2020 school year. Despite the higher marketing expenses, the operating margin expansion in the quarter demonstrates the segment's high returns and the efforts made since the start of the year to accelerate the capture of synergies and efficiency gains in this operation. Compared to the prior quarter, the 16.0 p.p. decrease in operating margin reflects seasonality, with the different schedule for revenue recognition. In the six-month period, operating margin increased 3.8 p.p. from the same period last year, to over 38%, demonstrating the benefits of the acquisition, with a more balanced product offering and the efforts to capture synergies.

K12 Platform & PNLD/Official Contracts– Financial Indicators:

<i>K12 Integrated Platform & PNLD/ Official Contracts - Values in R\$ ('000)</i>	2Q19	2Q18	Chg.%	1Q19	Chg.%	1H19	1H18	Chg.%
Net Revenue - K12 Integrated Platform & PNLD/ Official Contracts	170,181	25,208	575.1%	333,447	-49.0%	503,629	46,564	981.6%
Net Revenue - K12 Integrated Platform	139,521	25,208	453.5%	307,028	-54.6%	446,549	46,564	859.0%
Net Revenue - PNLD / Official Contracts	30,661	-	n.a.	26,419	16.1%	57,080	-	n.a.
Gross Income - K12 Integrated Platform & PNLD/ Official Contracts	92,190	17,971	413.0%	226,348	-59.3%	318,538	33,143	861.1%
Gross Margin - K12 Integrated Platform & PNLD/ Official Contracts	54.2%	71.3%	-17.1 p.p.	67.9%	-13.7 p.p.	63.2%	71.2%	-7.9 p.p.
Operating Result - K12 Integrated Platform & PNLD/ Official Contracts	54,048	11,940	352.7%	173,344	-68.8%	227,392	23,321	875.0%
Operating Result - K12 Integrated Plat. & PNLD/ Official Contracts	31.8%	47.4%	-15.6 p.p.	52.0%	-20.2 p.p.	45.2%	50.1%	-4.9 p.p.

From the perspective of the K12 Platform & PNLD/Official Contracts, you can see the relevance of the main business offered by the Company in K12 Education with all the products and services mentioned above to the Associated Schools. This business is marked by recurring revenue, a high level of client retention and high returns on invested capital, as well as a large potential market. However, the business is also highly seasonal, with the distribution of school materials concentrated in the first and fourth quarters of each year, which explains the variation in results between the two quarters of the first half. However, in the six-month period, the operating margin of over 45% reinforces the highly scalable nature of the business, which has the potential to improve as the Company proceeds with the capture of synergy gains with the consolidation of Somos and with its growth rhythm.



School Management – Financial Indicators:

<i>School Management - Values in R\$ ('000)</i>	2Q19	2Q18	Chg.%	1Q19	Chg.%	1H19	1H18	Chg.%
Net Revenue - School Management	193,253	24,583	686.1%	200,405	-3.6%	393,657	39,236	903.3%
Net Revenue - Own Schools	181,862	24,583	639.8%	170,752	6.5%	352,614	39,236	798.7%
Net Revenue - Counter Shift	11,390	-	n.a.	29,653	-61.6%	41,043	-	n.a.
Gross Income - School Management	93,845	5,384	1643.0%	105,199	-10.8%	199,044	13,671	1356.0%
Gross Margin - School Management	48.6%	21.9%	26.7 p.p.	52.5%	-3.9 p.p.	50.6%	34.8%	15.7 p.p.
Operating Result - School Management	49,790	932	5240.2%	64,396	-22.7%	114,186	6,049	1787.8%
Operating Result - School Management	25.8%	3.8%	22.0 p.p.	32.1%	-6.4 p.p.	29.0%	15.4%	13.6 p.p.

The School Management business unit reflects the growth in the number of schools acquired over the course of 2018, as well as the positive impact from the consolidation of Red Balloon and other services as after-school options. It is worth noting that margins in this channel benefitted from the adoption of IFRS16, by excluding the impact of rent from the operating result, which significantly increased profitability in the business. This business also experiences some seasonality, with the sale of school books and uniforms concentrated at the start of the school year, which explains the lower margins in the quarter compared to 1Q19. Even so, this points to the high potential for efficiency gains in this channel, since a sizeable portion of the integration of back office management is taking place this year and has strong potential to benefit future results.



FINANCIAL PERFORMANCE – KROTON

Consolidated - Values in R\$ ('000)	2Q19	2Q18	Chg.%	1Q19	Chg.%	1S19	1S18	Chg.%
Gross Revenue	2,209,480	1,953,904	13.1%	2,298,207	-3.9%	4,507,687	3,693,629	22.0%
Gross Revenue Deductions	(467,123)	(427,631)	9.2%	(461,107)	1.3%	(928,230)	(804,032)	15.4%
Tax	(61,833)	(49,136)	25.8%	(54,407)	13.6%	(116,240)	(97,906)	18.7%
ProUni	(255,165)	(277,692)	-8.1%	(253,537)	0.6%	(508,702)	(517,795)	-1.8%
Returns	(45,752)	(4,238)	979.6%	(18,410)	148.5%	(64,162)	(14,375)	346.3%
Total Discounts	(104,373)	(96,565)	8.1%	(134,753)	-22.5%	(239,126)	(173,956)	37.5%
Net Revenue	1,742,357	1,526,273	14.2%	1,837,100	-5.2%	3,579,457	2,889,598	23.9%
Total of Costs	(465,442)	(312,886)	48.8%	(430,203)	8.2%	(895,645)	(534,305)	67.6%
Cost of Goods	(86,226)	(6,654)	1195.9%	(120,039)	-28.2%	(206,265)	(12,577)	1540.0%
Cost of Services	(379,216)	(306,232)	23.8%	(310,164)	22.3%	(689,380)	(521,727)	32.1%
Faculty, Other Personnel and Third-Party Services	(334,801)	(277,108)	20.8%	(280,853)	19.2%	(615,654)	(485,761)	26.7%
Rent	(4,157)	(6,553)	-36.6%	(2,847)	46.0%	(7,004)	(6,552)	6.9%
Materials	(5,928)	(7,766)	-23.7%	(7,303)	-18.8%	(13,232)	(12,254)	8.0%
Maintenance	(12,417)	(2,618)	374.2%	(11,894)	4.4%	(24,311)	(5,976)	306.8%
Other	(21,913)	(12,186)	79.8%	(7,266)	201.6%	(29,179)	(11,184)	160.9%
Gross Income	1,276,915	1,213,387	5.2%	1,406,897	-9.2%	2,683,812	2,355,293	13.9%
Gross Margin	73.3%	79.5%	-6.2 p.p.	76.6%	-3.3 p.p.	75.0%	81.5%	-6.5 p.p.
Total Operating Expenses	(218,278)	(174,302)	25.2%	(215,403)	1.3%	(433,681)	(319,621)	35.7%
Personnel, General and Administrative Expenses	(218,278)	(174,302)	25.2%	(215,403)	1.3%	(433,681)	(319,621)	35.7%
Personnel Expenses	(124,623)	(95,551)	30.4%	(129,106)	-3.5%	(253,729)	(174,900)	45.1%
General and Administrative Expenses	(93,655)	(78,752)	18.9%	(86,297)	8.5%	(179,952)	(144,721)	24.3%
Provision for Doubtful Account - PDA	(186,882)	(182,788)	2.2%	(210,873)	-11.4%	(397,755)	(343,619)	15.8%
(+) Interest and Penalties on Tuition	28,265	42,931	-34.2%	66,150	-57.3%	94,416	84,340	11.9%
Equity	(1,054)	-	n.a.	577	-282.6%	(477)	-	n.a.
Selling and Marketing Expenses	(140,008)	(110,285)	27.0%	(168,984)	-17.1%	(308,992)	(224,210)	37.8%
Operating Result	758,958	788,943	-3.8%	878,365	-13.6%	1,637,323	1,552,184	5.5%
Operating Margin	43.6%	51.7%	-8.1 p.p.	47.8%	-4.3 p.p.	45.7%	53.7%	-8.0 p.p.
Corporate Expenses	(65,107)	(59,408)	9.6%	(71,845)	-9.4%	(136,952)	(111,920)	22.4%
Recurring EBITDA	693,852	729,535	-4.9%	806,519	-14.0%	1,500,371	1,440,264	4.2%
Recurring EBITDA Margin	39.8%	47.8%	-8.0 p.p.	43.9%	-4.1 p.p.	41.9%	49.8%	-7.9 p.p.
(-) Non-Recurring Items	(69,085)	(76,471)	-9.7%	(55,700)	24.0%	(124,786)	(120,096)	3.9%
EBITDA	624,767	653,065	-4.3%	750,819	-16.8%	1,375,585	1,320,168	4.2%
EBITDA Margin	35.9%	42.8%	-6.9 p.p.	40.9%	-5.0 p.p.	38.4%	45.7%	-7.3 p.p.
Depreciation and Amortization	(345,835)	(144,757)	138.9%	(291,318)	18.7%	(637,153)	(291,217)	118.8%
Financial Result	(219,500)	(50,657)	333.3%	(202,993)	8.1%	(422,493)	(95,863)	340.7%
Income Tax / Social Contribution	4,850	(21,706)	n.a.	(53,240)	n.a.	(48,390)	(42,086)	15.0%
Deferred Income Tax / Social Contribution	76,047	23,681	221.1%	46,903	62.1%	122,950	34,646	254.9%
Income Tax / Social Cont.	-	-	n.a.	-	n.a.	-	-	n.a.
Minority Interest	(748)	-	n.a.	229	-426.3%	(519)	-	n.a.
Net Income	139,581	459,625	-69.6%	250,400	-44.3%	389,981	925,648	-57.9%
Net Margin	8.0%	30.1%	-22.1 p.p.	13.6%	-5.6 p.p.	10.9%	32.0%	-21.1 p.p.
(+) Intangible Amortization (Acquisitions)	125,790	18,141	593.4%	64,820	94.1%	190,610	36,246	425.9%
(+) inventory surplus value	1,324	-	n.a.	3,472	-61.9%	4,797	-	n.a.
Adjusted Net Income	266,696	477,766	-44.2%	318,692	-16.3%	585,388	961,893	-39.1%
Adjusted Net Margin	15.3%	31.3%	-16.0 p.p.	17.3%	-2.0 p.p.	16.4%	33.3%	-16.9 p.p.



Corporate Expenses

Consolidated - Values in R\$ ('000)	2Q19	2Q18	Chg.%	1Q19	Chg.%
Corporate Expenses	(65,107)	(59,408)	9.6%	(71,845)	-9.4%
Personnel Expenses	(55,783)	(53,090)	5.1%	(37,949)	47.0%
General and Administrative Expenses	(9,324)	(6,318)	47.6%	(33,896)	-72.5%
% of Net Revenue	2Q19	2Q18	Chg.%	1Q19	Chg.%
Corporate Expenses	-3.7%	-3.9%	0.2 p.p.	-3.9%	0.2 p.p.
Personnel Expenses	-3.2%	-3.5%	0.3 p.p.	-2.1%	-1.1 p.p.
General and Administrative Expenses	-0.5%	-0.4%	-0.1 p.p.	-1.8%	1.3 p.p.

The ratio of personnel expenses to net revenue within corporate expenses fell 0.3 p.p. from the year-ago period, due to the positive results of the initiatives to control corporate personnel expenses and in line with the strategy to capture synergy gains. Meanwhile, the 1.1 p.p. increase compared to the previous quarter reflects the positive impacts on 1Q19 from the lower volume of share grants and the variable compensation program. A separate analysis of general and administrative expenses as a ratio of net revenue shows that the line increased slightly by 0.1 p.p. from 2Q18, reflecting one-off expenses with consulting services. The 1.3 p.p. decrease compared to the previous quarter is due to a higher volume of reversal of contingencies in 2Q19.

Nonrecurring Events

Values in R\$ ('000)	2Q19	2Q18	Chg.%	1Q19	Chg.%
Severance	(26,920)	(13,104)	105.4%	(25,808)	4.3%
Restructuring of units	-	(8,578)	n.a.	-	n.a.
M&A and expansion	(42,165)	(38,767)	8.8%	(29,892)	41.1%
Other projects	-	(16,022)	n.a.	-	n.a.
Total Nonrecurring	(69,085)	(76,471)	-9.7%	(55,700)	24.0%

As mentioned last quarter, the Company opted to incorporate the lines restructuring of units and other projects under recurring results for the year, i.e. to recognize each project in its original business unit. Therefore, non-recurring items in 2Q19 came to R\$69.1 million, related to: (i) severance payments arising from the Somos acquisition and the reduction in classroom hours resulting from the efficiency initiatives; and (ii) expenses with the implementation of new units and related to the Somos acquisition, such as the consulting and other firms engaged in the integration process.

Financial Result

Consolidated - Values in R\$ ('000)	2Q19	2Q18	Chg.%	1Q19	Chg.%
(+) Financial Revenues	42,369	22,526	88.1%	42,009	0.9%
Interest on Financial Investment	18,997	17,226	10.3%	30,911	-38.5%
Others	23,372	5,300	341.0%	11,098	110.6%
(-) Financial Expenses	(261,869)	(19,023)	n.a.	(245,002)	6.9%
Banks Expenses	(5,033)	(8,415)	-40.2%	(6,660)	-24.4%
□ Interest on leasing	(75,388)	-	n.a.	(75,824)	-0.6%
Interest on Loans	(153,634)	(2,484)	n.a.	(136,633)	12.4%
Interest and Tax on Late Payment	(9,762)	(1,224)	697.5%	(10,876)	-10.2%
Interest on Loans for Acquisitions	(4,629)	(2,742)	68.8%	(5,815)	-20.4%
Restatement of Contingencies	-	(2,457)	n.a.	-	n.a.
Others	(13,423)	(1,701)	689.1%	(9,194)	46.0%
Financial Result ¹	(219,500)	3,503	n.a.	(202,993)	8.1%

¹ Excludes interest and fines on late monthly tuition payments.



In 2Q19, the Company's financial result reversed course compared to 2Q18, reflecting the financial charges on the debt secured to acquire Somos and the impact from the adoption of IFRS16. As a result of the higher debt balance and the liabilities arising from the new accounting standard, the line interest on loans and leases was directly impacted, significantly increasing the Company's financial expenses. However, the current level is consistent with the new capital structure and will have a direct impact on the Company's Net Income in the coming years. In short, the financial result in 2Q19 was an expense of R\$219.5 million, which is substantially lower than in the same period last year. Compared to the previous quarter, the increase of 8.1% reflects the negative impact on interest expenses from the higher debt balance in the period to support payments related to the public tender offer carried out for the delisting of Somos.

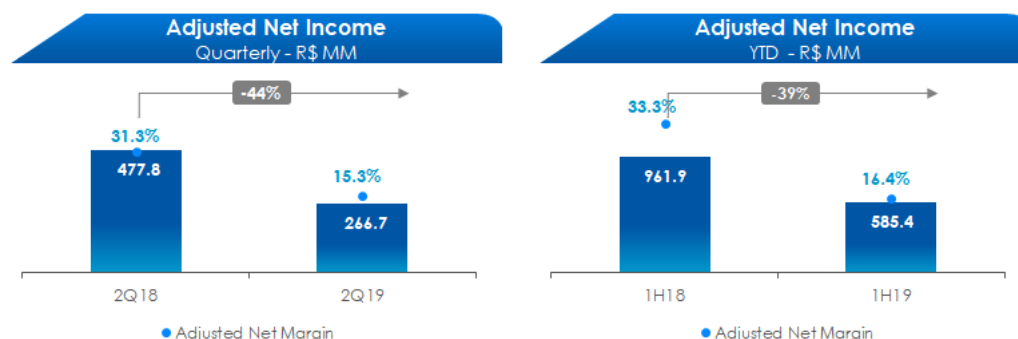
Net Income

Consolidated - Values in R\$ ('000)	2Q19	2Q18	Chg.%	1Q19	Chg.%
Operating Result	758,958	788,943	-3.8%	878,365	-13.6%
(+) Corporate Expenses	(65,107)	(59,408)	9.6%	(71,845)	-9.4%
(+) Nonrecurring Items	(69,085)	(76,471)	-9.7%	(55,700)	24.0%
(+) Depreciation and Amortization ex-Intangible	(345,835)	(144,757)	138.9%	(291,318)	18.7%
(+) Financial Result ¹	(219,500)	(50,657)	333.3%	(202,993)	8.1%
(+) Income Tax / Social Contribution	4,850	(21,706)	n.a.	(53,240)	n.a.
(+) Deferred Income Tax / Social Contribution	76,047	23,681	221.1%	46,903	62.1%
(+) Participation of Minority	(748)	-	n.a.	229	n.a.
(+) Intangible Amortization (Acquisitions)	125,790	18,141	593.4%	64,820	94.1%
(+) Inventory surplus value	1,324	-	n.a.	3,472	-61.9%
Adjusted Net Income	266,696	477,766	-44.2%	318,692	-16.3%
Adjusted Net Margin	15.3%	31.3%	-16.0 p.p.	17.3%	-2.0 p.p.
(-) Intangible Amortization (Acquisitions)	(125,790)	(18,141)	593.4%	(64,820)	94.1%
(-) Inventory surplus value	(1,324)	-	n.a.	(3,472)	-61.9%
Net Income	139,581	459,625	-69.6%	250,400	-44.3%
Net Margin	8.0%	30.1%	-22.1 p.p.	13.6%	-5.6 p.p.

¹ Excludes interest and fines on late monthly tuition payments.

Adjusted net income (by the amortization of intangible assets and inventory surplus value) amounted to R\$266.7 million in 2Q19, with adjusted net margin of 15.3%, down 16.0 p.p. from the same period of 2018. The factors affecting this performance include: (i) the higher depreciation related to the investments in the production of content and technology, which have shorter useful lives; and (ii) the higher volume of financial expenses due to the debt secured for the acquisition of Somos. Note that, since the start of the year, an important change was made to the composition of adjusted net income, which no longer excludes non-recurring items. Therefore, adjustments are now made only for the amortization of intangible assets from acquisitions and for inventory surplus value, absorbing all other items that in some way are inherent to the operation (even if non-recurring). Compared to the previous quarter, the 2.0 p.p. contraction in adjusted gross margin is mainly due to the seasonality of the K12 operation. In the six-month period, adjusted net income amounted to R\$585.4 million, with adjusted net margin of 16.4%, virtually half of the figures in the same period of 2018, due to the adverse effects from the higher depreciation and financial results mentioned above, the pressures on the Postsecondary Education segment and the consolidation of Somos. Considering Kroton's standalone performance, i.e., excluding the impact from the consolidation of Somos, adjusted net income was R\$350.4 million in 2Q19 and R\$666.8 million in 1H19, with adjusted net margin of 24.8% and 24.4%, respectively.





Excluding the adjustments for amortization of intangible assets and inventory surplus value, net income was R\$139.6 million in 2Q19 and R\$390.0 million in 1H19. However, given the significant impact from these adjustments, especially given the relevance of the latest acquisition, the Company recommends the adjusted result as the best metric for accompanying its financial performance.

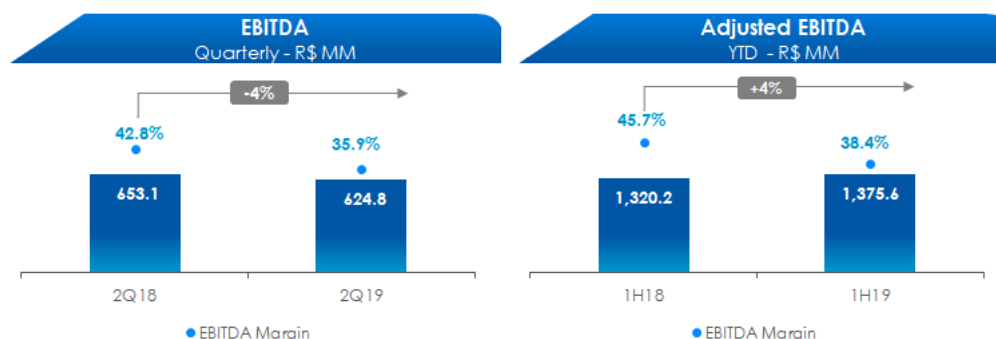
EBITDA¹

Consolidated - Values in R\$ ('000)	2Q19	2Q18	Chg.%	1Q19	Chg.%
Net Income (Loss)	139,581	459,625	-69.6%	250,400	-44.3%
(+) Depreciation and Amortization	345,835	144,757	138.9%	291,318	18.7%
(+) Financial Result	219,500	50,657	333.3%	202,993	8.1%
(+) Income Tax / Social Contribution	(4,850)	21,706	n.a.	53,240	n.a.
(+) Deferred Income Tax / Social Contribution	(76,047)	(23,681)	221.1%	(46,903)	62.1%
(+) Minority Participation	748	-	n.a.	(229)	n.a.
EBITDA	624,767	653,065	-4.3%	750,819	-16.8%
EBITDA Margin	35.9%	42.8%	-6.9 p.p.	40.9%	-5.0 p.p.
(+) Nonrecurring Items	69,085	76,471	-9.7%	55,700	24.0%
Recurring EBITDA	693,852	729,535	-4.9%	806,519	-14.0%
Recurring EBITDA Margin	39.8%	47.8%	-8.0 p.p.	43.9%	-4.1 p.p.

¹ Includes interest and late-payment fees on monthly tuition payments and excludes inventory surplus value.

In 2Q19, EBITDA amounted to R\$624.8 million, down 4.3% from the year-ago period, accompanied by EBITDA margin contraction of 6.9 p.p. The lower EBITDA in the period is explained by the pressures on Postsecondary Education, given the change in the student base profile, which has led to higher dropout rates and higher provisioning to support the installment plans, by the persistence of the adverse economic environment and by the increase in costs and expenses associated with the new units. The latter factor, however, also is of a temporary nature, since as the units mature they will help to sustain the high levels of performance achieved by Kroton. The quarter also was affected by a different schedule of receivables from PNLD repurchases, which adversely affected the performance of the K12 Platform, since approximately R\$100 million in revenue (with most of the associated costs and expenses already incurred in the P&L) was shifted to the second half of the year. The combination of these factors offset the higher ticket in the period, the consolidation of Somos into the results and the efficiency gains in the K12 operation. Lastly, note that, since the start of the year, Kroton's EBITDA analysis has considered only certain adjustments relating to operating financial income (interest and late-payment fees) and inventory surplus value, but without adjusting for non-recurring items to clearly demonstrate the final performance of its operating activities, even though some of these expenses are of a non-recurring nature. Therefore, bear in mind that, despite all the result detractors and the increased relevance of a segment with a distinct level of profitability compared to Postsecondary Education, the Company has been able to maintain very healthy margins. The best example of this is the result for the six-month period, which posted EBITDA of R\$1.4 billion and EBITDA margin above 38%, which demonstrates the operation's high level of efficiency. These results represent 45% of the guidance for 2019, considering that 2H19 has positive impacts from the seasonality of the K12 operation, which should ensure full achievement of the targets.





Analysis ex-IFRS16

Complementing the previous analyses, the following table shows the pro forma result of the main lines of 2Q19 and 1H19 excluding the adoption of IFRS 16.

Consolidated - Values in R\$ ('000)	2Q19	2Q18	Chg.%	1H19	1H18	Chg.%
Net Revenue	1,742,357	1,526,273	14.2%	3,579,457	2,889,598	23.9%
EBITDA ¹	488,969	565,003	-13.5%	1,110,445	1,134,263	-2.1%
EBITDA Margin	28.1%	37.0%	-9.0 p.p.	31.0%	39.3%	-8.2 p.p.
Adjusted Net Income ²	282,790	485,530	-41.8%	622,922	979,067	-36.4%
Adjusted Net Margin	16.2%	31.8%	-15.6 p.p.	17.4%	33.9%	-16.5 p.p.

Excludes the impacts from adoption of IFRS16 on the results of 2019 and 2018.

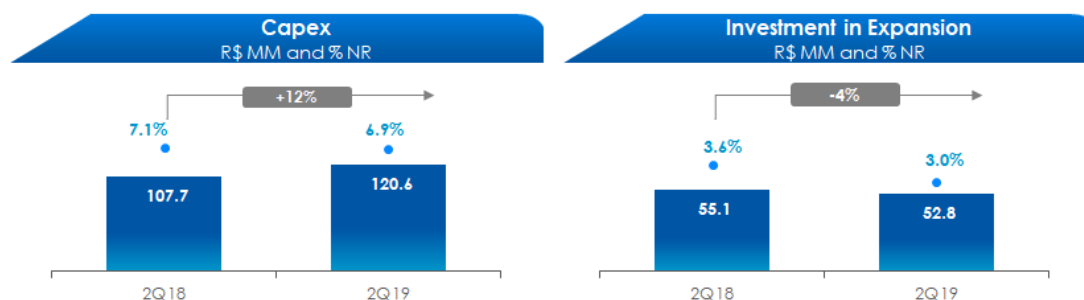
¹ EBITDA considers interest and late-payment fees and excludes impacts from inventory surplus.

² Net income adjusted by the amortization of intangible assets and inventory surplus value.

Capex and Investments in Expansion

In 2Q19, Kroton invested R\$120.6 million, allocated as follows:

- Information technology and library equipment: R\$6.5 million (5%);
- Content and systems development and software licenses: R\$92.8 million (77%);
- Laboratory and related equipment: R\$5.9 million (5%);
- Expansions – construction and improvements: R\$15.4 million (13%).



In 2Q19, capex corresponded to 6.9% as a ratio of net revenue, most of which was allocated to content development, systems and software licenses, which accounted for 77% of the total amount and accompanied the expansion of Kroton's portfolio in recent years, especially with the addition of new Premium DL programs, in addition to all K12 content. In this respect, note that, after the consolidation of Somos, Kroton now makes publishing investments for the production of textbooks, which are already included in the capex figure. Another large expenditure was related to the renovations and improvements at existing units to prepare them to meet students' expectations and to adapt them to the change in the program portfolio being implemented by the Company. In the six-month period, investments amounted to R\$227.3 million, which corresponds to 6.4% of net revenue in the period.



Note that, since the start of the year, investments in special projects are now recognized as recurring capex, in other words, all investments, except expansion, are included in the line "Capex." Accordingly, investments relating to the implementation of new units amounted to R\$52.8 million in the quarter and R\$97.9 million in 1H19, representing 3.0% and 2.7% of net revenue, respectively.

Net Debt

Consolidated - Values in R\$ ('000)	2Q19	2Q18	Chg. %	1Q19	Chg. %
Cash and Cash Equivalents	1,016,752	1,128,763	-9.9%	2,023,522	-49.8%
Cash	2,386	353	575.9%	6,537	-63.5%
Securities	1,014,366	1,128,410	-10.1%	2,016,985	-49.7%
Loans and Financing	8,423,155	229,510	n.a.	7,535,472	11.8%
Short-term Debt	509,819	175,865	189.9%	394,184	29.3%
Long-term Debt	7,913,336	53,645	n.a.	7,141,288	10.8%
Net Cash (Debt) ¹	(7,406,403)	899,253	n.a.	(5,511,950)	34.4%
Other Short and Long Term Debt ²	360,661	178,803	101.7%	369,318	-2.3%
(1) Net Cash (Debt)	(7,767,064)	720,450	n.a.	(5,881,268)	32.1%
Short Term Accounts Receivable ³	136,896	522,372	-73.8%	135,053	1.4%
FIES - NR 23 - cash balance and Uniassselvi Disposal	-	390,981	n.a.	-	n.a.
Uniassselvi Disposal	122,443	116,777	4.9%	120,688	1.5%
FAIR and FAC/FAMAT Disposal	14,453	14,614	-1.1%	14,365	0.6%
Long-Term Accounts Receivable ³	376,579	472,041	-20.2%	367,581	2.4%
Uniassselvi Disposal	342,192	429,266	-20.3%	333,945	2.5%
FAIR and FAC/FAMAT Disposal	34,387	42,775	-19.6%	33,636	2.2%
(2) Other Accounts Receivable ³	513,475	994,413	-48.4%	502,634	2.2%
(1)+(2) Pro Forma Net Cash (Debt)	(7,253,589)	1,714,863	n.a.	(5,378,634)	34.9%

¹ Net cash (debt) considering only bank obligations.

² 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 Uniassselvi acquisition, in addition to debentures issued by both Companies (Kroton and Somos).

³ Considers the short-term receivables related to the Uniassselvi, FAIR and FAC/FAMAT divestment and long-term receivables related to the other installments of Uniassselvi, FAIR and FAC/FAMAT to be earned from 2019 to 2022 adjusted to present value (excluding the earn-out amounts).

At the end of 2Q19, total cash and financial investments amounted to R\$1.0 billion, down 49.8% from the previous quarter, reflecting the expenditures made in the quarter related to the tender offer to delist Somos, as well as the cash burn of the operation, the payment of interest on debentures, the investments in expansion and the payment of dividends. After the consolidation of Somos and its liabilities into the balance sheet of Saber (a wholly owned subsidiary of Kroton), total net debt ended 2Q19 at R\$7.4 billion. The amount takes into consideration the debentures issue of R\$800 million in April to strengthen working capital and to lengthen the Company's average maturity term, and explains the 34% increase in total loans and financing compared to the previous quarter. Considering all short-term and long-term obligations, which include taxes and contributions paid in installments and the obligations and rights related to past acquisitions, Kroton ended the period with net debt of R\$7.8 billion. Total long-term obligations include amounts related to installment payments for acquisitions, especially those for Uniassselvi, which are being repaid in six annual installments since 2013, in addition to various debentures issued by Kroton and Somos over the last few years. In addition, it is important to remember that Kroton also has short-term and long-term receivables that will have a positive impact on its cash in the coming years. These receivables include both short-term accounts receivables, which correspond to one of the installments from the sales of Uniassselvi, FAIR and FAC/FAMAT, and long-term accounts receivables related to the remaining 3 installments of the payment for Uniassselvi, FAIR and FAC/FAMAT adjusted to present value (excluding the earn-out amounts), which will be received annually through 2022. Therefore, adding all short-term and long-term receivables, the net debt balance would be even slightly lower, at R\$7.3 billion. However, it is important to note that the current indebtedness level is consistent with the Company's projects and opportunities, and is below the financial covenants agreed upon with bondholders.



Cash Flow

Consolidated - Values in R\$ ('000)	2Q19	2Q18	Chg.%	1Q19	Chg.%	1H19	1H18	Chg.%
Net Income before Income Interest	58,941	465,371	-87.3%	256,485	-77.0%	315,426	950,198	-66.8%
(+) Net Income adjustments before Income Interest	707,227	273,027	159.0%	559,165	26.5%	1,266,392	495,246	155.7%
Depreciation and Amortization	382,068	103,092	270.6%	255,085	49.8%	637,153	205,315	210.3%
Provision for Doubtful Accounts (PDA)	187,481	182,770	2.6%	210,872	-11.1%	398,353	343,600	15.9%
Others	137,678	(12,835)	n.a.	93,208	47.7%	230,886	(53,669)	n.a.
(+) Income Tax and Social Contribution	(44,506)	(8,369)	n.a.	(2,774)	n.a.	(47,280)	(48,188)	-1.9%
(+) Changes in Working Capital	(460,123)	(304,304)	51.2%	(936,038)	-50.8%	(1,396,160)	(995,280)	40.3%
(Increase) Reduction in Accounts Receivable ex-FIES	(371,362)	(391,264)	-5.1%	(390,517)	-4.9%	(761,879)	(739,061)	3.1%
(Increase) Reduction in Accounts Receivable FIES	95,303	(17,378)	n.a.	(151,792)	n.a.	(56,488)	(232,195)	-75.7%
Others	(184,064)	104,338	n.a.	(393,729)	-53.3%	(577,793)	(24,024)	n.a.
Operating Cash Generation before Capex	261,539	425,725	-38.6%	(123,162)	n.a.	138,378	401,976	-65.6%
Capex	(120,632)	(107,659)	12.1%	(106,637)	13.1%	(227,269)	(209,181)	8.6%
Operating Cash Generation after Capex	140,907	318,066	-55.7%	(229,799)	n.a.	(88,892)	192,795	n.a.
(+) Investments in Expansion	(52,820)	(55,094)	-4.1%	(45,175)	16.9%	(97,994)	(68,409)	43.2%
(+) M&A Activities	(1,741,676)	(107,093)	n.a.	(61,370)	n.a.	(1,803,047)	(107,756)	n.a.
(+) Cash Flow from Financing Activities	657,821	(564,010)	n.a.	(252,221)	n.a.	405,599	(615,170)	n.a.
Free Cash Flow	(995,768)	(408,131)	144.0%	(588,565)	69.2%	(1,584,334)	(598,541)	164.7%

Consolidated - Values in R\$ ('000)	2Q19	2Q18	Chg.%	1H19	1H18	Chg.%
Operating Cash Generation (OCG) before Capex	261,539	425,725	-38.6%	138,378	401,976	-65.6%
OCG / EBITDA	41.9%	65.2%	-23.3 p.p.	10.1%	30.4%	-20.4 p.p.
Operating Cash Generation after Capex	140,907	318,066	-55.7%	(88,892)	192,795	n.a.
OCG / EBITDA	22.6%	48.7%	-26.2 p.p.	14.6%	n.a.	n.a.
Free Cash Flow	(995,768)	(408,131)	144.0%	(1,584,334)	(598,541)	164.7%

The Company's Free Cash Flow stems from cash flow from operating activities, which is derived from net income adjusted for all noncash effects in the profit and loss and comprises all variations in working capital, taxes paid (income tax and social contribution) and investments made (ex-acquisitions), and from cash flow from non-operating activities, which includes all financial flows not related to the operations. All figures in the above table exclude any adjustments or pro forma analyses and reflect only the actual cash flow in the periods.

On this basis, operating cash generation before capex was R\$261.5 million in 2Q19, 38.6% lower than in 2Q18, which is explained by the higher cash burn by the Company's installment payment products and by the increase in PDA due to the still-turbulent economic scenario and the higher financial charges in the period. Additionally, the lower cash generation in the period also reflects the consolidation of Somos, who has a cash consumption profile in the first half of the year, in addition to postponements of payments under the PNLD program. These factors combined offset the payment by the government of the last FIES installment under PN23. After adding capex disbursements, operating cash generation in 2Q19 reached R\$140.9 million, a reversal from the cash burn recorded in the last quarter, showing the efforts made to mitigate the pressures faced by the Company from the shift in the student profile and the cost from offering installment products using own capital. Free cash flow was negative R\$995.8 million, due to the disbursements in the quarter to carry out the public tender offer related to the delisting of Somos.

Operating cash flow after capex corresponded to 22.6% of EBITDA in 2Q19. Meanwhile, free cash flow after disbursements with capex in the six-month period was negative R\$88.9 million, which reflects not only the cash consumption in 1Q19, but also all the ongoing special projects, such as the expansion projects (organic and via acquisitions) and the payment of interest expenses. However, the Company remains confident in the cash outlook for the second half of the year and reaffirms its guidance of R\$800 million for fiscal year 2019, since: i) virtually all PNLD receivables will be received in the second half; ii) FIES receivables also are concentrated at the end of the year, with the payment for November installment made in December, as has been the case for the last 3 years; and iii) the Company's disbursements were higher in 1H19, given the gains in average payables term in 2018 and the acceleration of Marketing expenses in 1H19, which have short payment terms.



CAPITAL MARKETS AND SUBSEQUENT EVENTS

OWNERSHIP STRUCTURE

Kroton's capital is composed of 1,644,248,206 common shares, distributed as follows:

Kroton Ownership Structure*	Quantity	%
Treasury	9,597,757	0.58%
Free Float	1,634,650,449	99.42%
Total	1,644,248,206	100.00%

* Position as of 7/31/2019.

STOCK PERFORMANCE

Kroton stock (KROT3) is a component of several indices, such as the Bovespa Index (Ibovespa), Special Corporate Governance Stock Index (IGC), Special Tag-Along Stock Index (ITAG), Consumption Sector Index (ICON) and MSCI Brazil.

The stock was traded in 100% of trading sessions during 2Q19, registering financial trading volume of R\$7.3 billion and 1,400,442 trades in the period, which represents average daily trading volume of R\$117.5 million. Kroton stock is currently covered by research analysts at 13 different local and international institutions. On June 30, 2019, Kroton's market capitalization was R\$18.0 billion.

In the second quarter of 2019, Kroton's stock price increased 3.5%, while the Bovespa Index (Ibovespa) advanced 5.8%. In the same period, the IGC, ITAG and ICON gained 7.0%, 6.4% and 13.8%, respectively. In the six-month period, Kroton stock price increased 23.7%, while the Ibovespa, IGC, ITAG and ICON gained 14.9%, 15.9%, 15.0% and 21.4%, respectively.

Highlights- KROT3	2Q19	1H19
Average Daily Trade Volume (average)	R\$ 117.5 million	R\$ 127.6 million
Maximum (R\$ per share)	R\$ 10.97	R\$ 11.94
Minimum (R\$ per share)	R\$ 8.80	R\$ 8.80
Average (R\$ per share)	R\$ 10.08	R\$ 10.43
Closing Quote	R\$ 10.97	R\$ 10.97
Variation in the period (%)	3.5%	23.7%

CREDIT RATINGS

Kroton is currently rated triple A (brAAA) by Standard & Poor's and AA+(bra) by Fitch Rating.

DIVIDENDS

In the Meeting held on August 14, 2019, the Board of Directors approved the distribution of dividends related to the results for the second quarter of 2019 in the amount of R\$55.1 million, which will be calculated towards the minimum mandatory dividend for 2019 and corresponds to R\$0.0336923704 per common share and to 40% of corporate net income, after deduction of the legal reserve. Shareholders of record at the close of trading on August 20, 2019 are entitled to the dividends.



ABOUT KROTON EDUCACIONAL

Kroton Educacional S.A. is one of the largest private for-profit educational organizations in the world. Operating for over 50 years, the Company has a nationwide presence in all of Brazil's states. At the end of 2Q19, Kroton had 888,370 students enrolled in its On-Campus and Distance Learning Postsecondary Education programs at its 155 Postsecondary units and its 1,410 Distance Learning centers. It also offers Preparatory Courses under the brand LFG. On October 11, 2018, Kroton concluded the acquisition of Somos Educação, the leading primary and secondary education group in Brazil, making it a complete educational platform with an important presence in all K12 businesses. In Primary & Secondary Education, in 2Q19, the consolidated operation had 35,786 students in 54 own schools, 25,592 students in 125 units of Red Balloon, and 1.3 million students served through approximately 3,961 associated schools using the learning systems, PAR and O Líder em Mim solutions.



APPENDIX 1 – CORPORATE BALANCE SHEET

R\$ ('000)

Assets	2Q19	% AV	1Q19	% AV
Current Assets	4,521,946	13.4%	5,440,228	16.2%
Cash and cash equivalents	2,386	0.0%	6,537	0.0%
Financial Investments	232,980	0.7%	1,477,794	4.4%
Securities	764,182	2.3%	527,752	1.6%
Accounts Receivable	2,347,068	6.9%	2,306,023	6.9%
Inventories	427,519	1.3%	390,234	1.2%
Prepayments	90,074	0.3%	83,603	0.2%
Recoverable Taxes	383,832	1.1%	334,169	1.0%
Other Accounts Receivable	273,905	0.8%	314,116	0.9%
Non current Assets	29,315,086	86.6%	28,206,280	83.8%
Securities	17,204	0.1%	11,439	0.0%
Accounts Receivables	718,476	2.1%	716,268	2.1%
Deferred Taxes	705,405	2.1%	614,605	1.8%
Judicial Deposits	111,500	0.3%	111,173	0.3%
Prepayments	1,680	0.0%	1,680	0.0%
Taxes to Recover	6,447	0.0%	6,429	0.0%
Guarantee for social security, labor and civil provisions	1,106,418	3.3%	952,487	2.8%
Other	443,241	1.3%	433,389	1.3%
Fixed Assets	5,369,373	15.9%	5,454,185	16.2%
Intangible	20,835,342	61.6%	19,904,625	59.2%
Total Assets	33,837,032	100.0%	33,646,508	100.0%
Liabilities and Equity				
Current Liabilities	2,493,607	7.4%	2,539,802	7.5%
Suppliers	698,407	2.1%	820,887	2.4%
Loans and Financing	494	0.0%	2,915	0.0%
Debenture	509,325	1.5%	391,269	1.2%
Lease	224,319	0.7%	219,092	0.7%
Social security and labor liabilities	499,611	1.5%	468,748	1.4%
Income Tax and Social Contribution	28,048	0.1%	29,979	0.1%
Taxes and Contribution	82,294	0.2%	87,460	0.3%
Advances from Clients	262,795	0.8%	297,156	0.9%
Tax and Contribution Payment Installments	14,407	0.0%	14,515	0.0%
Accounts Payable - Acquisitions	130,124	0.4%	121,530	0.4%
Dividends Payable	58	0.0%	43,054	0.1%
Other	43,725	0.1%	43,197	0.1%
Non current Liabilities	15,292,778	45.2%	15,043,923	44.7%
Loans and Financing	442	0.0%	31,171	0.1%
Debenture	7,912,894	23.4%	7,110,117	21.1%
Lease	3,037,228	9.0%	3,052,197	9.1%
Provision for Tax, Labor and Civil Lawsuit Losses	384,031	1.1%	401,080	1.2%
Liabilities assumed in the business combination	3,121,860	9.2%	3,197,389	9.5%
Tax and Contribution Payment Installments	22,733	0.1%	25,049	0.1%
Accounts Payable - Acquisitions	193,397	0.6%	208,224	0.6%
Deferred Taxes	620,094	1.8%	1,002,095	3.0%
Others	99	0.0%	16,601	0.0%
Consolidated Equity	16,050,647	47.4%	16,062,783	47.7%
Total Liabilities and Equity	33,837,032	100.0%	33,646,508	100.0%



APPENDIX 2 – QUARTERLY INCOME STATEMENT RECONCILIATION

	2Q19 Results (Book)	Interest and Penalties on Tuition	Non-accounting adjustments				2Q19 Results (Release)
			Depreciation	Intangible Amortization (Acquisitions)	Non-recurring Items/ Capital Gain	Reclassification between Costs and expenses	
			(In thousand reais, except otherwise indicated)				
Gross Revenue	2,209,477	-	-	-	-	3	2,209,480
Postsecondary	1,752,624	-	-	-	-	(0)	1,752,624
Primary and Secondary	456,853	-	-	-	-	4	456,857
Deductions from Gross Revenue	(467,122)	-	-	-	-	-	(467,122)
Postsecondary	(373,701)	-	-	-	-	-	(373,701)
Primary and Secondary	(93,421)	-	-	-	-	-	(93,421)
Net Revenue	1,742,355	-	-	-	-	3	1,742,358
Postsecondary	1,378,923	-	-	-	-	(0)	1,378,923
Primary and Secondary	363,432	-	-	-	-	4	363,436
Costs of Goods/Services	(638,378)	-	220,045	-	(19,239)	(27,870)	(465,442)
Cost of Goods Sold	(86,226)	-	-	-	-	(0)	(86,226)
Cost of Services Rendered	(552,152)	-	220,045	-	(19,239)	(27,870)	(379,216)
Gross Income	1,103,977	-	220,045	-	(19,239)	(27,866)	1,276,916
Operating Expenses	(853,482)	-	-	71,008	88,624	82,519	(611,331)
Selling Expenses	(170,346)	-	-	-	1,376	28,961	(140,009)
Provision for Doubtful Accounts	(187,481)	-	-	-	-	598	(186,883)
Personnel Expenses	-	-	-	-	-	(124,623)	(124,623)
General and Administrative Expenses	(475,585)	-	-	71,008	67,581	243,340	(93,656)
Other Operating Income (Expenses)	(18,899)	-	-	-	19,667	(768)	-
Corporate Expenses	-	-	-	-	-	(65,107)	(65,107)
Equity	(1,171)	-	-	-	-	117	(1,054)
Income before Financial Result	250,495	-	220,045	71,008	69,385	54,653	665,585
Interest and Penalties on Tuition	-	28,265	-	-	-	-	28,265
Adjusted EBITDA	250,495	28,265	220,045	71,008	69,385	54,653	693,850
(-) Nonrecurring itens	-	-	-	-	(69,085)	-	(69,085)
Depreciation and Amortization	-	-	(220,045)	(71,008)	-	(54,783)	(345,835)
Financial Result	(191,555)	(28,265)	-	-	(300)	620	(219,500)
Financial Expenses	(262,414)	-	-	-	(300)	620	(262,094)
Financial Revenues	70,859	(28,265)	-	-	-	-	42,594
Income from Operations	58,940	-	-	-	(0)	490	59,430
Income and Social Contribution Tax	80,898	-	-	-	-	-	80,898
Current	4,851	-	-	-	-	-	4,851
Deferred	76,047	-	-	-	-	-	76,047
Participation of Minority Shareholders	(5,095)	-	-	-	-	4,347	(748)
Net Income	134,743	-	-	-	(0)	4,838	139,581



APPENDIX 3 – FULL YEAR INCOME STATEMENT RECONCILIATION

	Non-accounting adjustments						1H19 Results (Release)
	1H19 Results (Book)	Interest and Penalties on Tuition	Depreciation & Amortization	Intangible Amortization (Acquisitions)	Non-recurring Items/ Capital Gain	Reclassifi- cation between Costs and expenses	
	(In thousand reais, except otherwise indicated)						
Gross Revenue	4,509,692	-	-	-	-	(2,005)	4,507,687
Postsecondary	3,437,217	-	-	-	-	(0)	3,437,217
Primary and Secondary	1,072,475	-	-	-	-	(2,004)	1,070,471
Deductions from Gross Revenue	(928,230)	-	-	-	-	-	(928,230)
Postsecondary	(755,046)	-	-	-	-	-	(755,046)
Primary and Secondary	(173,184)	-	-	-	-	-	(173,184)
Net Revenue	3,581,462	-	-	-	-	(2,005)	3,579,457
Postsecondary	2,682,171	-	-	-	-	(0)	2,682,171
Primary and Secondary	899,291	-	-	-	-	(2,004)	897,287
Costs of Goods/Services	(1,320,617)	-	446,543	-	6,190	(27,762)	(895,645)
Cost of Goods Sold	(206,784)	-	-	-	-	519	(206,265)
Cost of Services Rendered	(1,113,833)	-	446,543	-	6,190	(28,281)	(689,380)
Gross Income	2,260,845	-	446,543	-	6,190	(29,766)	2,683,812
Operating Expenses	(1,616,721)	-	-	135,827	118,595	84,442	(1,277,857)
Selling Expenses	(310,511)	-	-	-	2,116	(597)	(308,992)
Provision for Doubtful Accounts	(398,353)	-	-	-	-	598	(397,755)
Personnel Expenses	-	-	-	-	-	(253,729)	(253,729)
General and Administrative Expenses	(890,826)	-	-	135,827	96,813	478,234	(179,952)
Other Operating Income (Expenses)	(16,437)	-	-	-	19,667	(3,230)	-
Corporate Expenses	-	-	-	-	-	(136,952)	(136,952)
Non recurring items	(594)	-	-	-	-	117	(477)
Income before Financial Result	644,124	-	446,543	135,827	124,786	54,675	1,405,955
Interest and Penalties on Tuition	-	94,416	-	-	-	-	94,416
Adjusted EBITDA	644,124	94,416	446,543	135,827	124,786	54,675	1,500,371
(-) Nonrecurring itens	-	-	-	-	-	-	-
Depreciation and Amortization	-	-	-	-	(124,786)	-	(124,786)
Other Operating Revenues (Expenses)	-	-	(446,543)	(135,827)	-	(54,783)	(637,153)
Financial Result	(328,698)	(94,416)	-	-	-	620	(422,493)
Financial Expenses	(507,769)	-	-	-	-	620	(507,149)
Financial Revenues	179,071	(94,416)	-	-	-	-	84,655
Income from Operations	315,426	-	-	-	-	513	315,939
Income and Social Contribution Tax	74,561	-	-	-	-	-	74,561
Current	(48,389)	-	-	-	-	-	(48,389)
Deferred	122,950	-	-	-	-	-	122,950
Participation of Minority Shareholders	6,813	-	-	-	-	(7,332)	(519)
Net Income	396,800	-	-	-	-	(6,819)	389,981



APPENDIX 4 – QUARTERLY INCOME STATEMENT

	2Q19	% Net Rev.	2Q18	% Net Rev.	2Q19 / 2Q18	1Q19	% Net Rev.	2Q19 / 1Q19
	(In thousand reais, except otherwise indicated)							
Gross Revenue	2,209,477	126.8%	2,036,155	133.4%	8.5%	2,300,215	125.1%	-3.9%
Postsecondary	1,752,624	100.6%	1,979,940	129.7%	-11.5%	1,684,593	91.6%	4.0%
Primary and Secondary	456,853	26.2%	56,215	3.7%	712.7%	615,622	33.5%	-25.8%
Deductions from Gross Revenue	(467,122)	-26.8%	(509,882)	-33.4%	-8.4%	(461,108)	-25.1%	1.3%
Postsecondary	(373,701)	-21.4%	(503,458)	-33.0%	-25.8%	(381,345)	-20.7%	-2.0%
Primary and Secondary	(93,421)	-5.4%	(6,424)	-0.4%	1,354.2%	(79,763)	-4.3%	17.1%
Net Revenue	1,742,355	100.0%	1,526,273	100.0%	14.2%	1,839,107	100.0%	-5.3%
Postsecondary	1,378,923	79.1%	1,476,482	96.7%	-6.6%	1,303,248	70.9%	5.8%
Primary and Secondary	363,432	20.9%	49,791	3.3%	629.9%	535,859	29.1%	-32.2%
Costs of Goods/Services	(638,378)	-36.6%	(592,377)	-38.8%	7.8%	(682,239)	-37.1%	-6.4%
Cost of Goods Sold	(86,226)	-4.9%	(10,386)	-0.7%	730.2%	(120,558)	-6.6%	-28.5%
Cost of Services Rendered	(552,152)	-31.7%	(581,991)	-38.1%	-5.1%	(561,681)	-30.5%	-1.7%
Gross Income	1,103,977	63.4%	933,896	61.2%	18.2%	1,156,868	62.9%	-4.6%
Operating Expenses	(853,482)	-49.0%	(514,904)	-33.7%	65.8%	(763,239)	-41.5%	11.8%
Selling Expenses	(357,827)	-20.5%	(303,029)	-19.9%	18.1%	(351,037)	-19.1%	1.9%
General and Administrative Expenses	(475,585)	-27.3%	(206,078)	-13.5%	130.8%	(415,241)	-22.6%	14.5%
Other Operating Income (Expenses)	(18,899)	-1.1%	(5,797)	-0.4%	226.0%	2,462	0.1%	n.a.
Equity in the results of investees	(1,171)	-0.1%	-	0.0%	n.a.	577	0.0%	n.a.
Income before Financial Result	250,495	14.4%	418,992	27.5%	-40.2%	393,629	21.4%	-36.4%
Financial Result	(191,555)	-11.0%	46,379	3.0%	n.a.	(137,143)	-7.5%	39.7%
Financial Expenses	(262,414)	-15.1%	(19,079)	-1.3%	n.a.	(245,355)	-13.3%	n.a.
Financial Revenues	70,859	4.1%	65,458	4.3%	8.3%	108,212	5.9%	n.a.
Income from Operations	58,940	3.4%	465,371	30.5%	-87.3%	256,486	13.9%	-77.0%
Income and Social Contribution Tax	80,898	4.6%	1,976	0.1%	n.a.	(6,337)	-0.3%	n.a.
Current	4,851	0.3%	(21,705)	-1.4%	n.a.	(53,240)	-2.9%	n.a.
Deferred	76,047	4.4%	23,681	1.6%	221.1%	46,903	2.6%	62.1%
Net Income	139,838	8.0%	467,347	30.6%	-70.1%	250,149	13.6%	-44.1%
Non-controlling interests	(5,095)	-0.3%	-	0.0%	n.a.	11,908	0.6%	n.a.



APPENDIX 5 – FULL YEAR CORPORATE INCOME STATEMENT

	1H19	% Net Rev.	1H18	% Net Rev.	1H19 / 1H18
	(In thousand reais, except otherwise indicated)				
Gross Revenue	4,509,692	125.9%	3,793,981	131.3%	18.9%
Postsecondary	3,437,217	96.0%	3,689,763	127.7%	-6.8%
Primary and Secondary	1,072,475	29.9%	104,218	3.6%	929.1%
Deductions from Gross Revenue	(928,230)	-25.9%	(904,383)	-31.3%	2.6%
Postsecondary	(755,046)	-21.1%	(885,965)	-30.7%	-14.8%
Primary and Secondary	(173,184)	-4.8%	(18,418)	-0.6%	840.3%
Net Revenue	3,581,462	100.0%	2,889,598	100.0%	23.9%
Postsecondary	2,682,171	74.9%	2,803,798	97.0%	-4.3%
Primary and Secondary	899,291	25.1%	85,800	3.0%	948.1%
Costs of Goods/Services	(1,320,617)	-36.9%	(1,082,928)	-37.5%	21.9%
Cost of Goods Sold	(206,784)	-5.8%	(15,480)	-0.5%	1,235.8%
Cost of Services Rendered	(1,113,833)	-31.1%	(1,067,448)	-36.9%	4.3%
Gross Income	2,260,845	63.1%	1,806,670	62.5%	25.1%
Operating Expenses	(1,616,721)	-45.1%	(962,061)	-33.3%	68.0%
Selling Expenses	(708,864)	-19.8%	(578,124)	-20.0%	22.6%
General and Administrative Expenses	(890,826)	-24.9%	(377,410)	-13.1%	136.0%
Other Operating Income (Expenses)	(16,437)	-0.5%	(6,527)	-0.2%	151.8%
Equity in the results of investees	(594)	-0.0%	-	0.0%	n.a.
Income before Financial Result	644,124	18.0%	844,609	29.2%	-23.7%
Financial Result	(328,698)	-9.2%	105,593	3.7%	n.a.
Financial Expenses	(507,769)	-14.2%	(29,769)	-1.0%	1,605.7%
Financial Revenues	179,071	5.0%	135,362	4.7%	32.3%
Income from Operations	315,426	8.8%	950,202	32.9%	-66.8%
Income and Social Contribution Tax	74,561	2.1%	(7,440)	-0.3%	n.a.
Current	(48,389)	-1.4%	(42,086)	-1.5%	15.0%
Deferred	122,950	3.4%	34,646	1.2%	254.9%
Net Income	389,987	10.9%	942,762	32.6%	-58.6%
Non-controlling interests	6,813	0.2%	-	0.0%	n.a.



APPENDIX 6 – CASH FLOW STATEMENT

R\$ 000	2Q19	2Q18	1Q19
Net Income before Income Taxes	58,941	465,371	256,485
Net Income (Loss) Adjustments before Income Taxes			
Depreciation and Amortization	361,516	103,092	233,118
Depreciation Capex Editorial	20,552	-	21,967
Provision for Doubtful Accounts	187,481	182,770	210,872
Provision for Tax, Labor and Civil Losses	(30,795)	(14,829)	(29,506)
Provision (Reversal) for Inventories Losses	11,436	(72)	2,145
Financial Charges	153,349	7,824	145,185
Income from Securities	(9,837)	(12,244)	(33,887)
Grant of Stock Options	(5,023)	802	1,671
Income from disposal of subsidiaries	-	-	-
Income from sale or disposal of assets and other investments	17,377	5,684	8,177
Result of Equity Restatement	1,171	-	(577)
Changes in Working Capital	(460,123)	(304,304)	(936,038)
(Increase) Reduction in Accounts Receivable (ex-FIES)	(371,362)	(391,264)	(390,517)
(Increase) Reduction in Accounts Receivable FIES	95,303	(17,378)	(151,792)
(Increase) Reduction in Inventories	(79,187)	3,812	(21,722)
(Increase) Reduction in Advances	(6,488)	(27,044)	(14,348)
(Increase) Reduction in Recoverable Taxes	(5,175)	-	(16,490)
(Increase) Decrease in Escrow Deposits	(6,268)	(2,571)	6,075
Increase (Decrease) in Other Assets	42,570	(67,961)	(35,841)
Increase (Reduction) in Suppliers	(132,995)	196,729	(35,874)
Increase (Decrease) in Payroll and Related Taxes	31,847	58,185	(40,487)
Increase (Decrease) in Fiscal Obligations	84,000	4,995	(131,276)
Increase (Decrease) in Advances to Clients	(34,361)	18,362	(6,701)
(Decrease) in Taxes Installments	(2,057)	(4,087)	(2,878)
(Decrease) in Provision for Tax, Labor and Civil Losses	(49,457)	(28,188)	(37,212)
Increase (Decrease) in Other Liabilities	(26,494)	(47,894)	(56,975)
Income Tax and Social Contribution	(44,506)	(8,369)	(2,774)
Capex	(120,632)	(107,659)	(106,637)
Additions to Fixed Assets	(64,730)	(44,348)	(25,219)
Additions to Intangible Assets	(55,902)	(63,311)	(81,418)
Cash Flow from Operating Activities after Capex - Recurring	140,907	318,066	(229,799)
Capex - Special Projects	(52,820)	(55,094)	(45,175)
Brownfields	(52,820)	(55,094)	(45,175)
Cash Flow from Operating Activities after total Capex	88,087	262,972	(274,973)
(+) M&A Activities	(1,741,676)	(107,093)	(61,370)
Acquisition of subsidiaries	(1,741,676)	(105,652)	(61,370)
Accounts Receivable from former owners	-	(898)	-
M&A Costs and Expenses	-	(543)	-
(+) Cash Flow from Financing Activities	657,821	(564,010)	(252,221)
Sale (Acquisition) of Treasury Shares	10,358	(203,770)	-
Capital Increase, Net of Issuance Costs	-	1,619	-
Debentures Issuance	797,786	-	-
Borrowings and financing	-	-	-
Payments of Borrowings and Financing	(20,891)	(22,701)	(593)
Interest Paid on Borrowings and Debentures	(1,693)	(9,635)	(267,393)
Redemption (Investment) of Securities	11,552	12,410	26,657
Refis Payment	(366)	(348)	(378)
Bank and Charges Fees	(5,389)	(12,479)	(10,515)
Payment of Dividends	(133,535)	(329,106)	-
(=) Cash Flow from Non-Operating Activities	(1,083,855)	(671,103)	(313,592)
Total Cash Generation	(995,768)	(408,131)	(588,565)
Net Increase (Decrease) in Cash and Cash Equivalents			
Cash and Cash Equivalents at the Start of the Period	1,995,316	1,535,877	2,583,881
Cash and Cash Equivalents at the End of the Period	999,548	1,127,746	1,995,316
Net Increase (Decrease) in Cash and Cash Equivalents	(995,768)	(408,131)	(588,565)

