2Q19
Results

August 2019

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GUIDANCE COMPARISON

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Kroton Reaffirms its Guidance for 2019

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R$ million and %	Kroton Consolidated			Comments
	1H19	*Guidance 2019*	% YTD	
Net Revenue	3,579	7,353	48.7%	2H is seasonally stronger for Primary & Secondary Education
Results				**2H will benefit from:** - More robust Net Revenue, influenced by the seasonality in the Primary and Secondary Education segment (PNLD 2020 and postponement of the Literary PNLD), in addition to the 2H19 enrollment process in the Postsecondary Education segment - Complete capture of synergy and efficiency levers which were implemented throughout 1H and will benefit the entire 2H - Lower marketing expenses in Primary & Secondary Education
Adjusted EBITDA	1,500	3,240	46.3%	
Adjusted EBITDA Margin	*41.9%*	*44.1%*	-	
EBITDA[1]	1,376	3,040	45.2%	
EBITDA Margin	*38.4%*	*41.3%*	-	
Adjusted Net Income[2]	585	1,348	43.4%	
Adjusted Net Margin	*16.4%*	*18.3%*	-	
Cash Generation After Capex				Revenue from governmental programs is more relevant in 2H: - PNLD: ~90% of the total for the year - FIES: ~60% of the total for the year Lower disbursements with Capex and Non-Recurring Expenses due to: - Improvement in average payment term in 2018 - Lower payment term of marketing expenses, anticpated in 1H19
OCG after Capex	-89	800	-	
Conversion (with IFRS 16)	-	***26.3%***	-	
Conversion (without IFRS 16)	-	*31.6%*	-	

[1] EBITDA considers interest and penalties on tuition and excludes the impact from Surplus Value of Inventories
[2] Net income excludes the impacts from Surplus Value of Inventories and Amortization of Intangible Assets

OVERVIEW OF QUARTERLY RESULTS

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3.1 POSTSECONDARY EDUCATION

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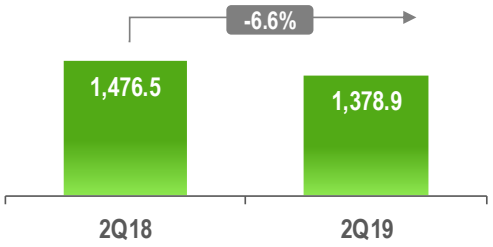
Postsecondary Education Quarterly Results

Net Revenue

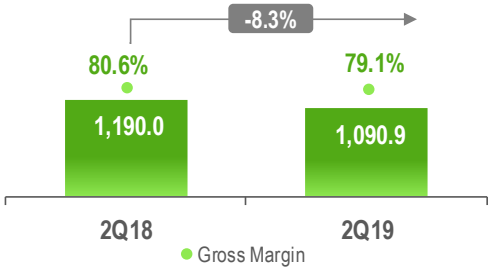
Quarterly – R$ million



6.6% reduction in Net Revenue due to decline in the student base, given the graduation of FIES students, partially mitigated by the increase in average ticket in both segments (+6.7% On-Campus and +5.0% Distance Learning).

Gross Income

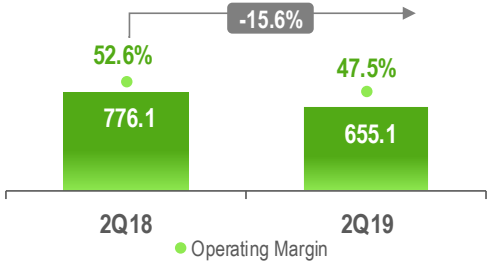
Quarterly – R$ million



Gross Margin dropped 1.5 p.p. because of the consolidation of SETS, in addition to the timely impact of the launch of new undergraduate units.

Operating Result

Quarterly – R$ million



Operating Margin fell 5.1 p.p., also reflecting the consolidation of SETS and the addition of new units, which result in a lower dilution of costs and expenses. As anticipated, PDA and marketing expenses presented a decrease in a quarterly comparison.

3.2 PRIMARY & SECONDARY EDUCATION

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Primary & Secondary Education Quarterly Results

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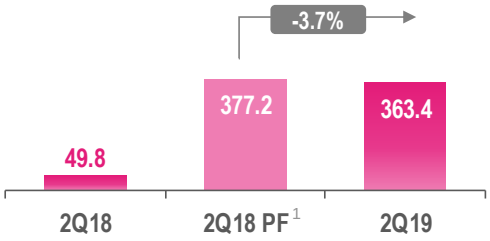
Net Revenue

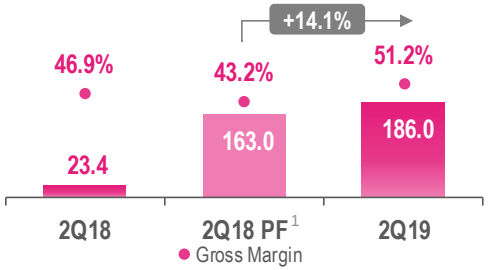
Quarterly – R$ million



Net Revenue fell 3.7% with the different seasonality of the revenue for repurchases under the PNLD program, partially compensated by the good performance of the School Management segment.

Gross Income

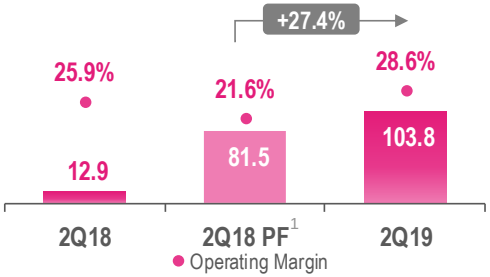
Quarterly – R$ million



Gross Income moved up by 14.1%, with gross margin gain of 8.0 p.p., due to the continued capture of synergies and efficiency gains, which compensated the reduction in Net Revenue.

Operating Result

Quarterly – R$ million



Operating Result grew 27.4%, with Operating Margin increasing 7.0 p.p., following the trend presented in Gross Income.

[1] Pro Forma result, considering Somos' numbers in 2Q18 (after the convergence of accounting practices)

3.3 CONSOLIDATED RESULTS

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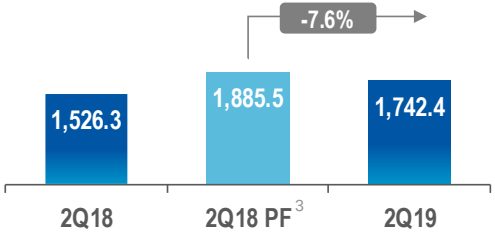
Consolidated Quarterly Results

Net Revenue

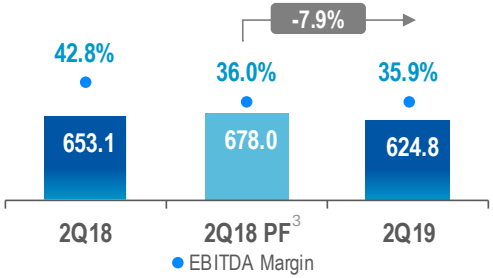
Quarterly – R$ million



In 1H19, the Company reached 49% of the guidance for the year, of R$ 7.4 billion, while 2H19 will benefit from the seasonality of the Primary & Secondary Education segment and the 2H19 enrollment process in the Postsecondary Education segment.

EBITDA[1]

Quarterly – R$ million

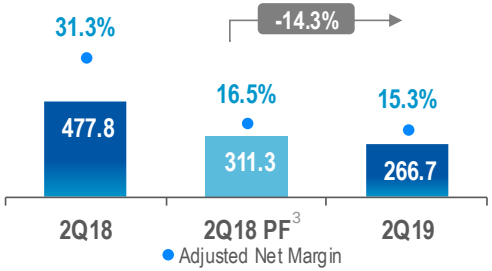


Reduction, given the opening of new units, partially compensated by capture of synergies and efficiency gains, with margin remaining practically stable.

Year-to-date, 45% of the guidance was met. The K12 revenue in 2H19 should have an even greater impact in EBITDA given it has high margins.

Adjusted Net Income[2]

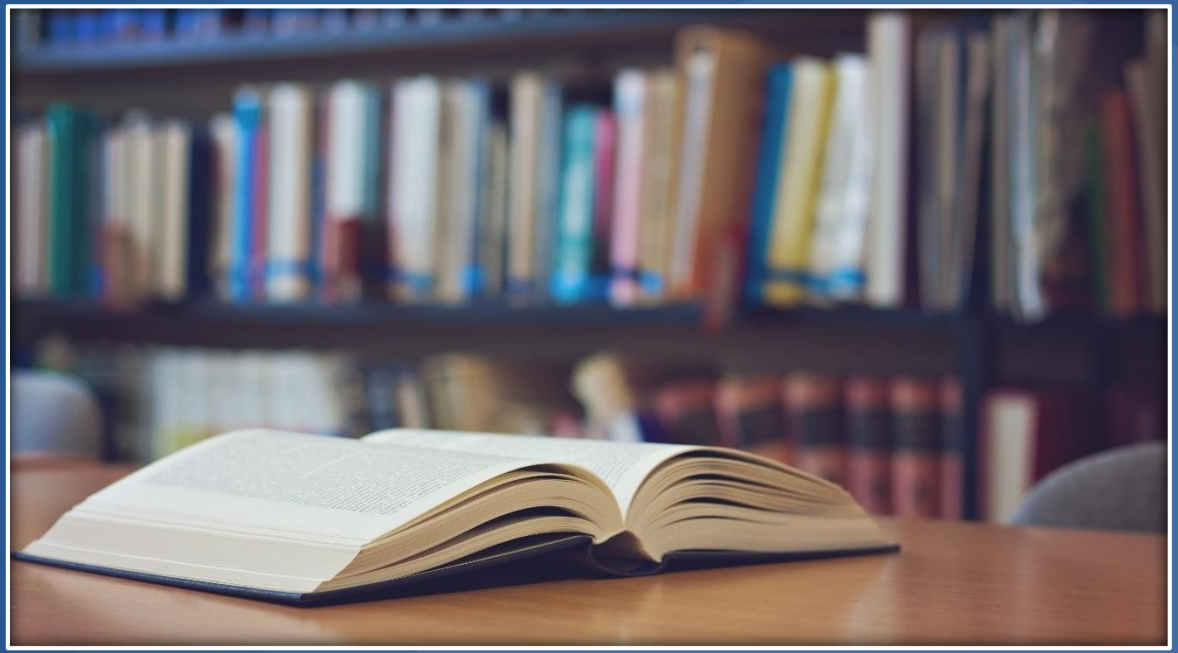
Quarterly – R$ million



Adjusted Net Income decreased, reflecting higher financial expenses due to increased indebtedness following the acquisition of Somos, in addition to increased levels of depreciation.

In 1H19, Kroton delivered 43% of the guidance, with the expectation of a higher K12 EBITDA supporting a stronger 2H19.

[1] EBITDA considers interest and penalties on tuition and does not consider impact of inventory surplus (non-cash)
[2] Adjusted Net Income does not consider impact of inventory surplus (non-cash) and amortization of intangible assets (non-cash)
[3] Pro Forma result, considering Somos' numbers in 2Q18 (after the convergence of accounting practices)



PDA AND AVERAGE RECEIVABLES TERM

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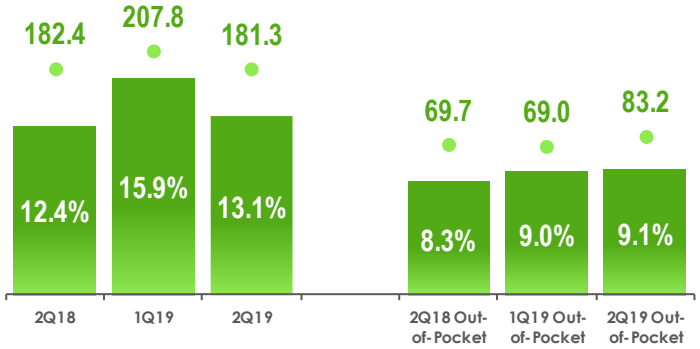
Provision for Doubtful Accounts (PDA)

Postsecondary Education

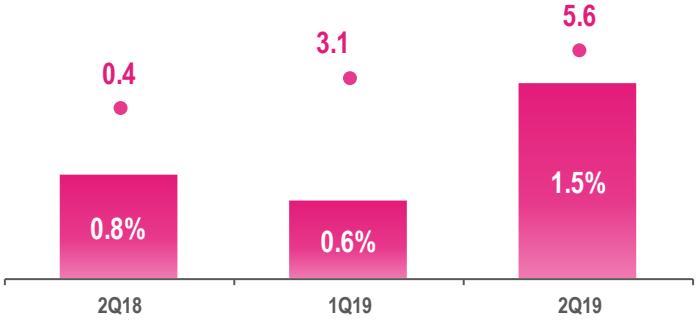
% Segment NR and R$ million



Total PDA posted a 0.7 p.p. upturn year-over-year, due to the increase in Out-of-Pocket PDA, which reached 9.1%. This elevation reflects the still challenging macroeconomic scenario, with an increase in the number of defaulting students, and the Company's decision to protect itself against future losses, in addition to the increase in 100% online students, who have a greater tendency to drop out, and therefore, higher default rates.

Primary & Secondary Education

% Segment NR and R$ million



Primary & Secondary Education PDA moved up by 0.7 p.p. in relation to 2Q18, reflecting the incorporation of Somos. In a quarterly comparison, the 0.9 p.p. increase relates to the seasonality of operations following the incorporation of Somos.

Average Receivables Term

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Days

Postsecondary Ed.	2Q19	2Q18	Change	Comments	1Q19	Change
Total	192	165	27 days	- PEP/PMT Maturation - Impact of the upturn in Out-of-Pocket term	169	23 days
Out-of-Pocket	129	97	32 days	Still challenging macroeconomic scenario, with higher volume of defaulting students	110	19 days
FIES	91	166	-75 days	Normalization of payment flows after PN23, despite the impact of late re-enrollments	107	-16 days
PEP and PMT	591	425	166 days	Natural evolution of the products	489	102 days

Primary & Secondary Ed.	2Q19	2Q18	Change	Comments	1Q19	Change
Total	51	85	-34 days	Incorporation of Somos and improvement in on-time payments	93	-42 days
Integrated Platform	63	85	-22 days	Improvement in on-time payments	121	-58 days
Schools	24	-	-		28	-4 days

CAPEX, EXPANSION INVESTMENTS, CASH GENERATION, NET DEBT

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Capex, Investments in Expansion and Operating Cash Generation

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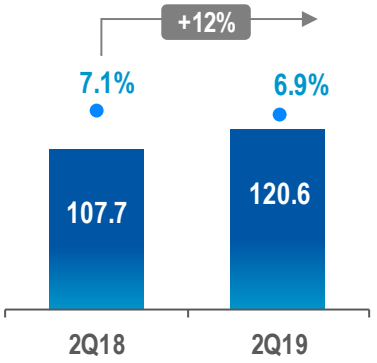
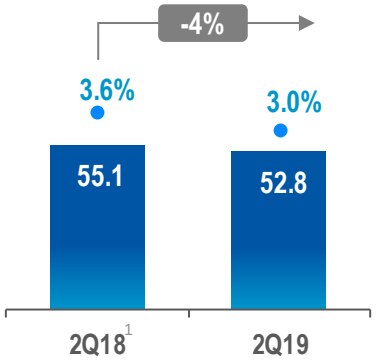
Capex

R$ million and % NR



Investments in Expansion

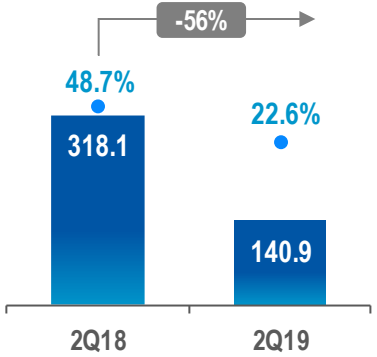
R$ million and % NR



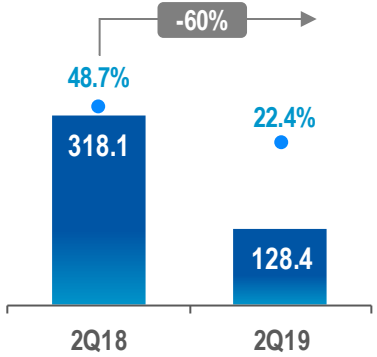
Operating Cash Generation After Capex

R$ million and % EBITDA-to-Cash

Kroton Consolidated



Kroton Ex-Somos[2]



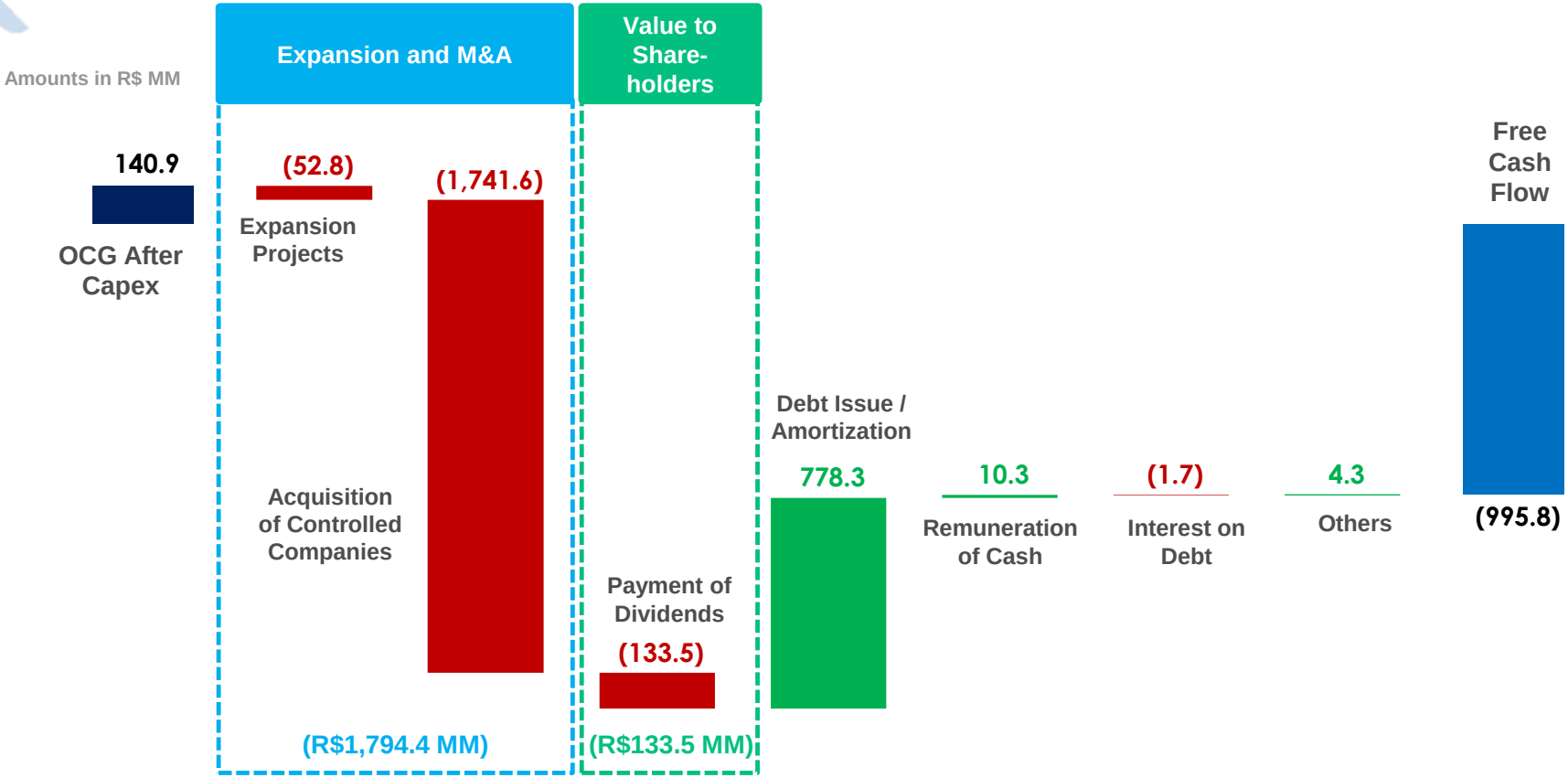
Capex totaled 6.9% of Net Revenue in 2Q19. In 1H19, Kroton invested R$ 227.3 million, of which 88% in the development of content, systems, improvements in the Company's units and editorial capex. Investments in expansion reached R$ 52.8 million in the quarter, resulting in R$97.9 million in 1H19.

OCG after capex dropped 56%, due to working capital consumption because of the change in the profile of the student base, with the graduation of FIES students and increased exposure to PEP.

For 2019, the Company expects a generation of R$ 800 million, with 2H19 benefiting from the revenue of governmental programs (PNLD and FIES), as well as reductions in disbursements with capex and costs and expenses.

[1] Includes Special Projects
[2] Excludes expenses related to the acquisition of Somos

Evolution of Free Cash Flow in 2Q19



Net Debt

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Amounts in R$ million

Consolidated	2Q19	2Q18	Change	1Q19	Change
Cash and Cash Equivalents	1,017	1,129	-9.9%	2,024	-49.8%
Loans and Financing	8,423	230	n.a.	7,535	11.8%
Net Cash (Debt)[1]	**-7,406**	**899**	**n.a.**	**-5,512**	**34.4%**
Other Short and Long Term Debt[2]	361	179	101.7%	369	-2.3%
(1) Net Cash (Debt)[2]	**-7,767**	**720**	**n.a.**	**-5,881**	**32.1%**
(a) Short Term Accounts Receivables	137	522	-73.8%	135	1.4%
(b) Long Term Accounts Receivables	377	472	-20.2%	368	2.4%
(2 = a + b) Other Accounts Receivables[3]	**513**	**994**	**-48.4%**	**503**	**2.2%**
(1)+(2) Pro Forma Net Cash (Debt)	**-7,254**	**1,715**	**n.a.**	**-5,379**	**34.9%**

The Company ended 2Q19 with a total cash position of R$ 1.0 billion, 49.8% below in a quarterly comparison, due to the payments relating to the tender offer to delist Somos, as well as the cash consumption in the period, investments in expansion and payment of dividends.

Adding all other obligations and short-term and long-term accounts receivable, including taxes and contributions paid in installments and obligations and rights related to acquisitions and divestments carried out, Kroton presented an increase of 34.9% in its net debt, because of the reduction in the Company's cash position and emission of the 1st debenture issue by Kroton, in the amount of R$ 800 million in April. Notwithstanding, the Company remains with an adequate level of indebtedness.

[1] Considers only bank obligations.
[2] Considering all short- and long-term obligations related to the taxes paid in installments, acquisitions and FIES, including the amount to be paid within 5 years related to the Uniasselvi acquisition.
[3] Considers the receivables related to the divestments of Uniasselvi, FAIR and FAC/FAMAT and other controlled companies, with installments to be earned from 2019 to 2022 adjusted to present value (excluding the earn-out amounts).

CLOSING REMARKS

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Primary & Secondary Education

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Public

PNLD / Official Contracts

Record approval (**91%**) of works for PNLD 2020

Private

School Management

Conclusion of the initiatives of the 2020 Go-to-Market, to be implemented in **2H19**

K12 Platform

Very **promising** partial results of the 2020 Go-to-Market

R$ 115 MM in synergies until YE2019 | **R$ 375 MM** in synergies in total

Closing Remarks

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Status 2H19 Undergraduate Enrollments

Digital Transformation

Kroton Day

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