



# 1Q20 Results

May 2020



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# Opening Remarks

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# Reaction Plan to COVID-19

Initiative structured on **seven pillars**:





# 1H20 Enrollment: 8% growth, driven by DL

## Enrollments by Format

	1Q20	1Q19	% Chg.
On-Campus	87,300	112,967	-22.7%
Distance Learning	254,578	202,626	25.6%
<b>Total</b>	<b>341,878</b>	<b>315,593</b>	<b>8.3%</b>

- Total enrollment grew **8%**, even with **COVID-19 impacts**
- **Change** in the student base **mix**
- Company on the trajectory of **regaining DL market share**, reflecting the **digital transformation** efforts of the past years
- Closure of units impacted the **end of the cycle**, with **loss in volume**, but impact on revenue considerably lower, with little impact on cash generation
- **Healthier** on-campus class of 2020.1, with a tendency for **higher cash generation and lower dropouts**

## Enrollments by Channel

	1Q20	1Q19	% Chg.
Own Units (Campuses)	162,924	143,547	13.5%
Third Party Units (DL Centers)	178,954	172,046	4.0%
<b>Total</b>	<b>341,878</b>	<b>315,593</b>	<b>8.3%</b>

- **Own units** with **high growth** (+13.5%), with **DL** growth more than **compensating** the decline in **on-campus**
- **Third-party units** with **moderate** growth (+4%), due to the **commercial dynamic** of centers
- Accelerated DL growth in own units reinforces the **relevance** of this **distribution channel** and continues to bring **great opportunities**
- Numbers indicate a **strengthening of hybrid products**, a tendency that should **accelerate** in the new **post pandemic** context

Student base stable in 1Q20, with DL growth resumption compensated by the decrease in on-campus

DL Base surpasses 600k students

# Guarantee the continuity of educational services with no impacts to students

Monitoring of the digital platform **coverage** and student **engagement** and **satisfaction** indicators

## POSTSECONDARY EDUCATION

## PRIMARY & SECONDARY EDUCATION

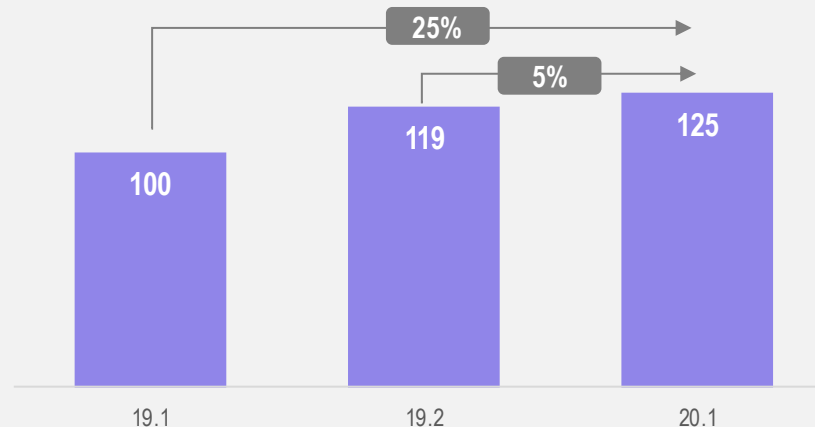
### Coverage

100% of on-campus students with access to AVA

- 100% of Saber and Vasta students on-board
- 1 in every 5 brazilians in private K-12 uses it and 1 in every 4 excluding kindergarden

### Engagement

Average points in activities carried out until week 13



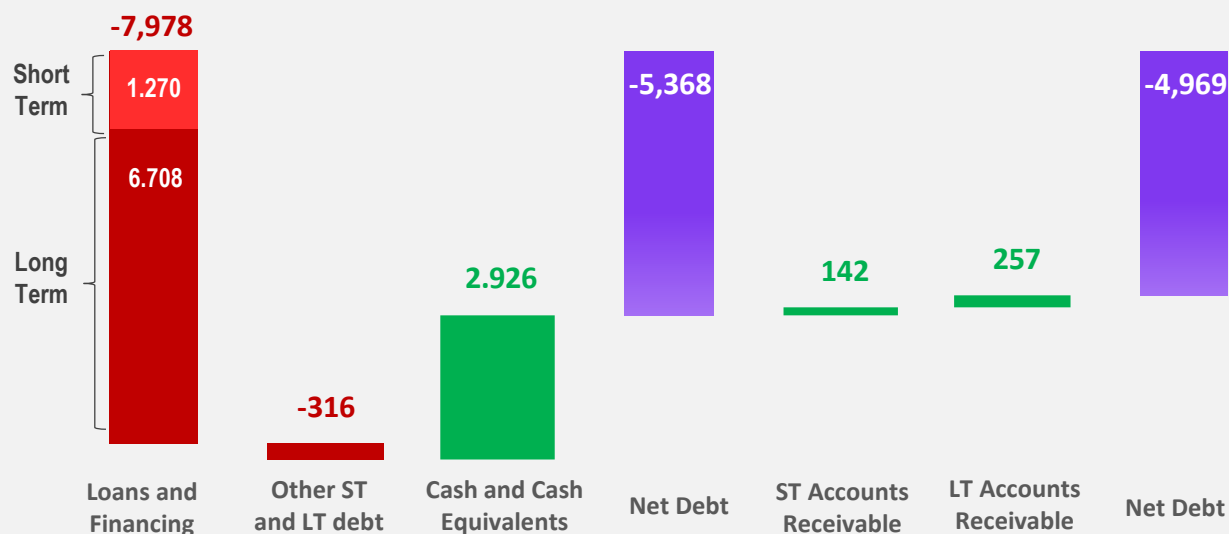
- We are close to the mark of 1 million live classes since the closing of the schools, with a daily average of 23,000 classes, increasing every day.
- 1.4 billion activities carried out by students, with an average above 1100 activities per student

### Satisfaction

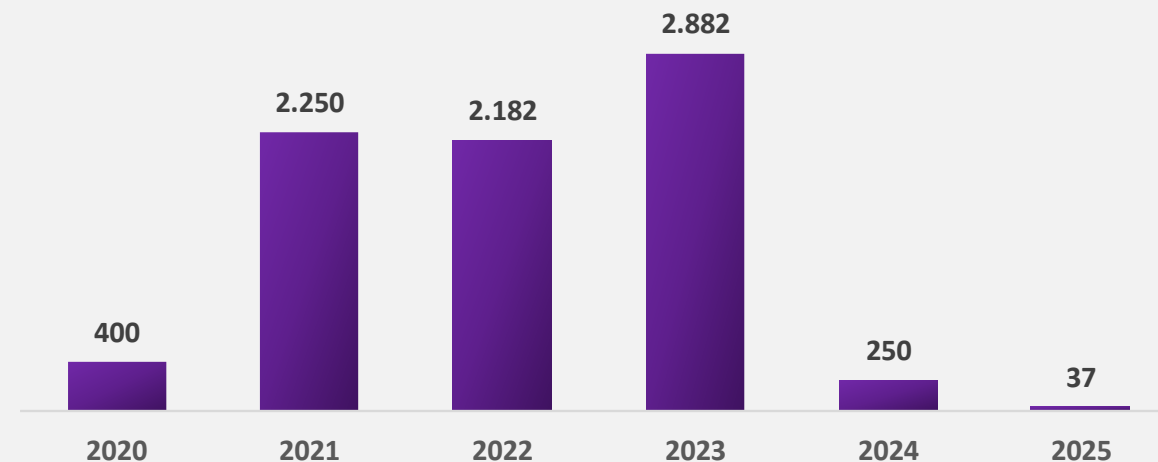
- **Evaluation of content quality:**
  - Average grade: 9.39 (scale up to 10)
- **Evaluation of quality of taught class:**
  - Average grade: 4.78 (scale up to 5)

- **Top 1 closed education app** (Apple store and Google Play)
- **NPS** of 75%

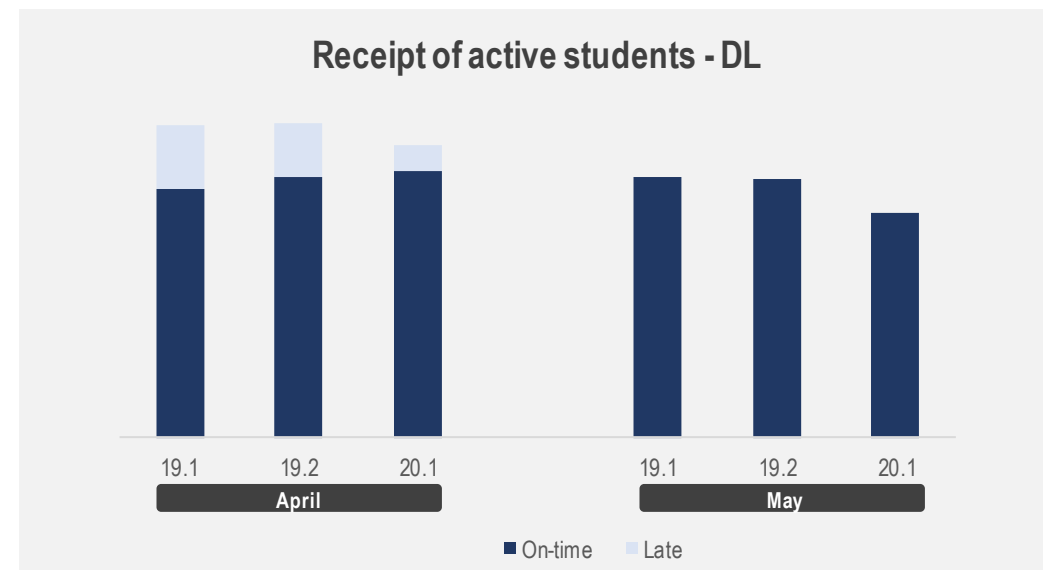
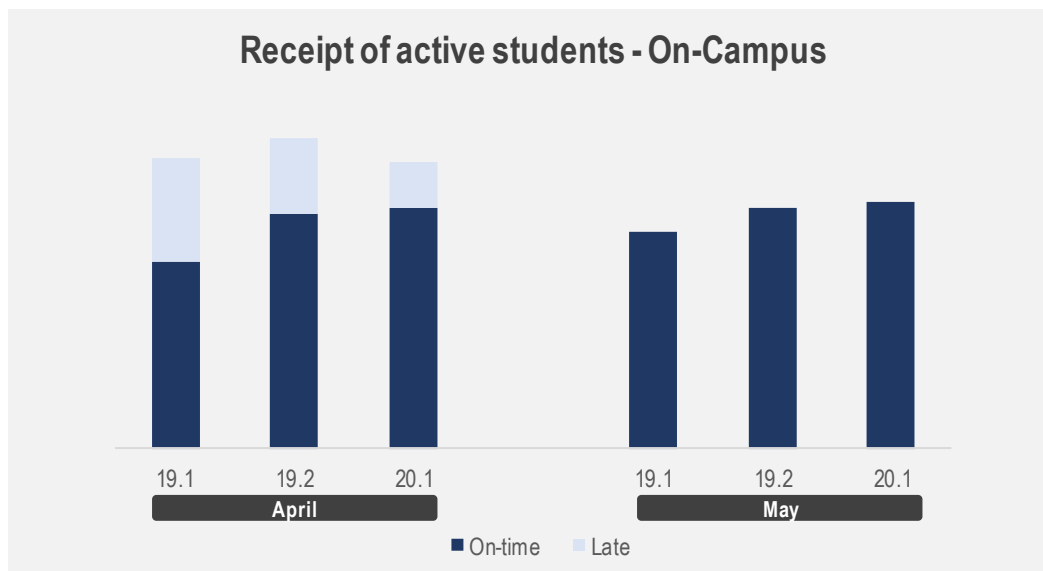
## Solid cash position and leverage



## Elongated debt amortization schedule



- We ended the quarter with **R\$ 3 billion in cash**
- We contracted another **R\$ 500 million** in debt, with **maturity in 3 years**, at a cost of CDI + 2.95%, with the **possibility of anticipated pre-payment**
- Next relevant debt amortization only in **August/2021**



- On-time payments were **practically not impacted**
- Late payments with **low impact**

- On-time and Late payments with **low impact**

Even without great impacts in April and May, we opted to increase our PDA by 7 p.p to anticipate ourselves for a possible increase in delinquency rates over the coming months



# Implement emergency restructuring measures seeking to preserve as many jobs as possible

Impact of measures being partially felt as of 2Q20

## Costs and Expenses with Payroll

- **Anticipation** of holidays, **freezing** of open positions and salary increases
- Application of **temporary flexibilization** measures regarding labor laws (**MP 936**)
  - **Reduction of 25%** in work hours and salary, for up to 3 months, to **90% of administrative employees**, with **recomposition** for those earning up to **R\$3 thousand**
  - **Suspension** of employment contracts for 60 days for **5%** of administrative employees
  - **Management** positions with **reduction in annual remuneration** (salary + bonus). Executive Directors with reductions between **27% and 38%** of annual remuneration

## Other Packages of Costs and Expenses

- **Revision of other costs and expenses:** Rent, Third Party Services and Utilities, Technology, Marketing, Travel and Others, **without harming the quality of operations**

## CAPEX and Investments in Expansion

- **Reduction** of **organic and expansion investments**
- Investments in the **Digital Transformation** project were **preserved**, as this is a great **differential of the Company**, even more relevant in the **new normal post pandemic**

## Dividends

- Management decided for the **non-payment of interim dividends** in 2020 and will evaluate this subject again at the start of 2021 to present as the AESM proposal

**Emergency restructuring measures to ensure that, even in the stress scenario drawn by the Company:**





- **There will not be operating cash consumption**
- **Debt covenants will be met**

# Operating Results

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# A New Release

- The new release allows for the **analysis of the performance of the 4 companies that comprise Cogna**
- The aim is to allow a better understanding of the challenges and opportunities in each business vertical

Company	Segment	Activity
	Postsecondary Education	Undergraduate postsecondary education (own units and partner centers)
	Postsecondary Education	Postsecondary education services platform
	K-12 Education	Own K-12 schools and schools managed through contracts
	K-12 Education	Integrated platform of educational solutions for K-12 schools
<b>Other Businesses</b>	<b>All Education Degrees</b>	PNLD, SETS, LFG (unregulated and preparatory courses) and other services

**Greater disclosure** in the presentation of results

- Individual **operational results** of each company, **net** of opening balance **contingency reversals**
- **Detailed opening of accounts receivable**, especially the undergraduate operation (Kroton)
- **Diagnostic** of the accounts receivable and provisioning for **PEP**

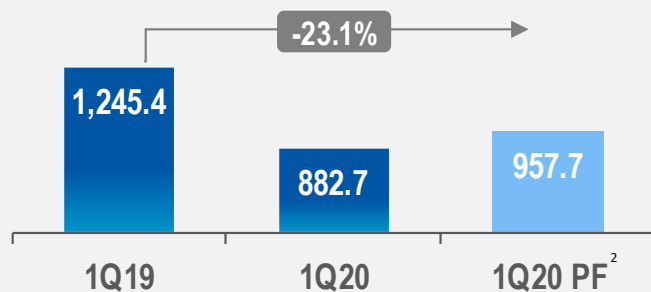


# Kroton and Platos Results

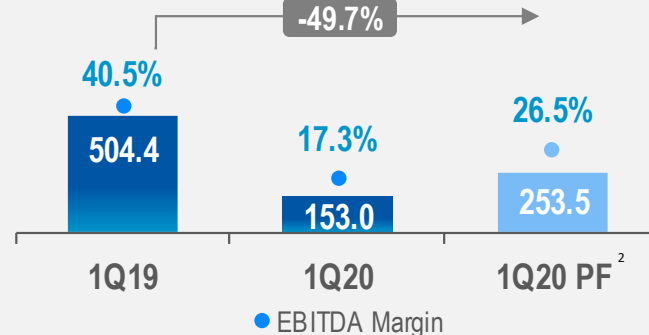
R\$ million

## Kroton

### Net Revenue



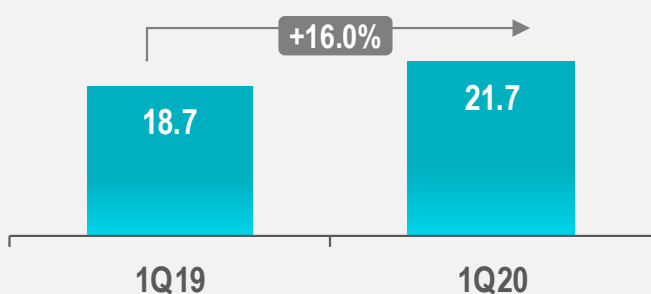
### EBITDA<sup>1</sup>



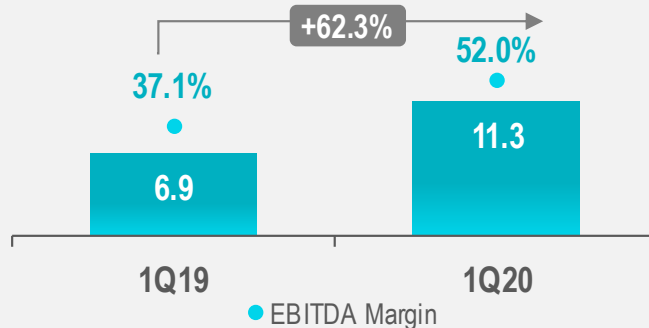
- Decrease in revenue due to the **reduction in the FIES base** and **COVID-19 impacts**
- EBITDA impacted by the decrease in revenue. **Costs of the semester were already contracted** before the impacts of the pandemic

## Platos

### Net Revenue



### EBITDA<sup>1</sup>



- Growth of 16% in revenue due to the increase in **average ticket**, with and **expressive margin increase**
- Upturn of 62% in EBITDA following **efficiency gains**

<sup>1</sup> EBITDA considers Interest and Penalties on Tuition

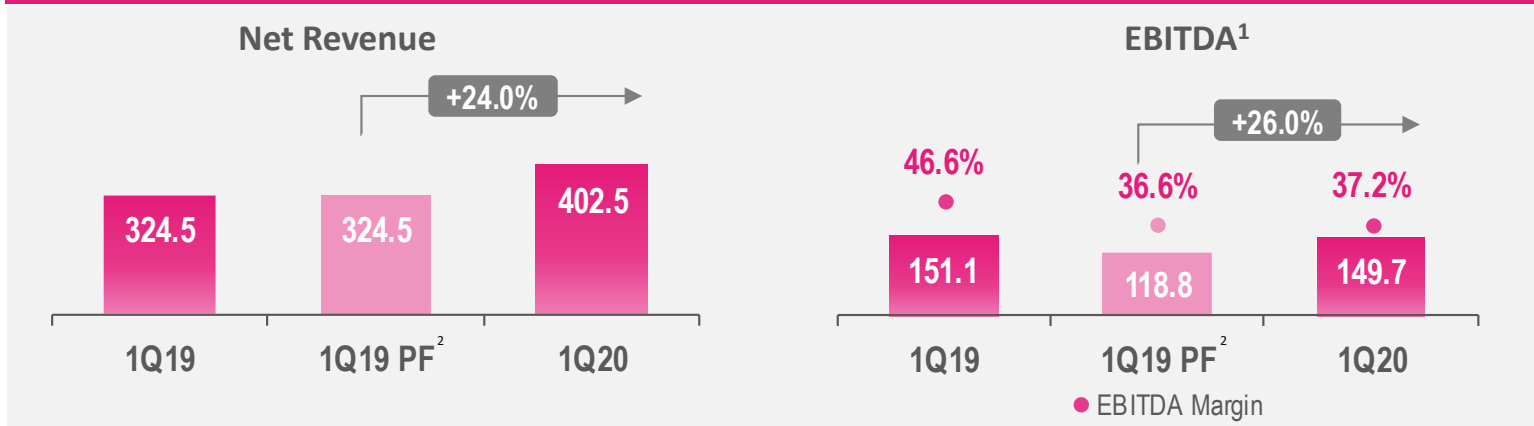
<sup>2</sup> Proforma result, including the deferred revenue of R\$75 million, related to the delays in the renewal of FIES students and the delay in the reenrollment curve of students paying out of pocket, and excluding the increase in out-of-pocket PDA relating to the impacts of COVID-19



# Vasta and Saber Results

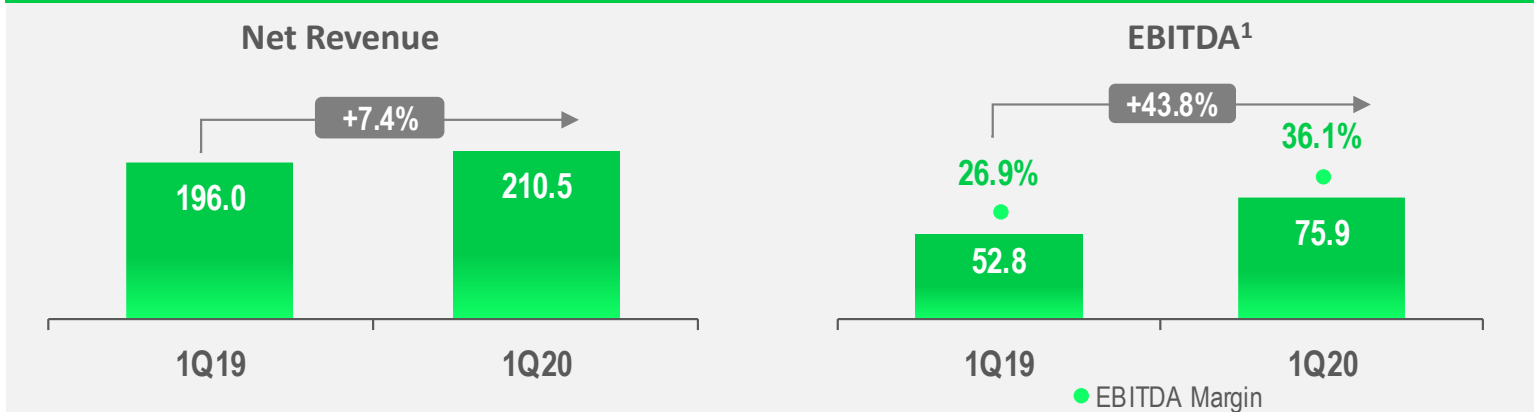
R\$ million

## Vasta



- 24% growth in revenue supported by the **25% increase in ACV**
- Upturn of 26% in EBITDA, with **margin gain of 60 bps**

## Saber



- Growth of 7% in revenue due to the **reduction in discounts**
- Increase of 44% in EBITDA, reflecting the **turnaround of the operation**, with **expressive margin increase**

<sup>1</sup> EBITDA considers Interest and Penalties on Tuition and does not consider impact of inventory surplus (non-cash)

<sup>2</sup> Proforma result, considering the classification of publishing expenses under cost of goods sold and the exclusion of the PIS/COFINS tax credits that reduced general and administrative expenses in 1Q19

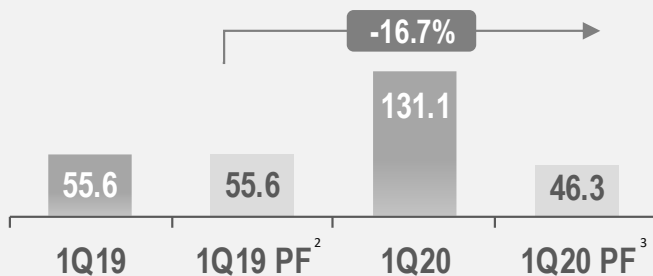


# Others and Cogna Results

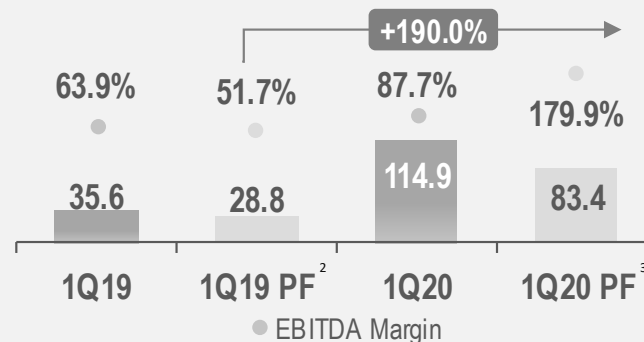
R\$ million

## Others

### Net Revenue



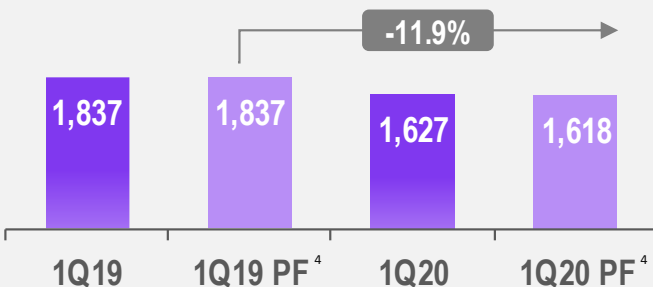
### EBITDA<sup>1</sup>



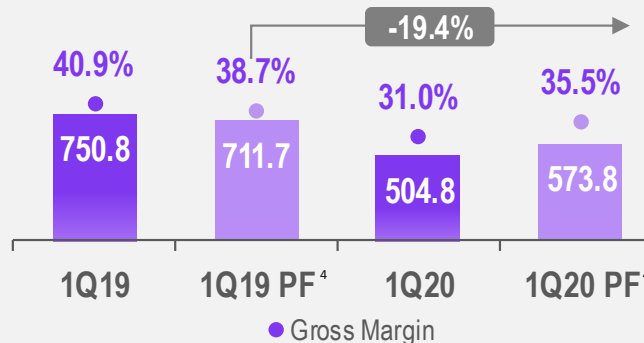
- Comparison between segments is not appropriate, due to the seasonality of the businesses, especially PNLD

## Cogna

### Net Revenue



### EBITDA<sup>1</sup>



- Decrease of 12% in revenue and 19% in EBITDA, with 3.3pp margin reduction
- Cogna results impacted by Kroton's reduction in revenue and EBITDA, mitigated by the improvement in performance of revenue and EBITDA in Platos, Saber and Vasta

<sup>1</sup> EBITDA considers Interest and Penalties on Tuition and does not consider impact of inventory surplus (non-cash)

<sup>2</sup> Proforma result, considering the classification of publishing expenses under cost of goods sold

<sup>3</sup> Proforma result, excluding revenues and expenses related to PNLD, which normally impact the 3Q and 4Q

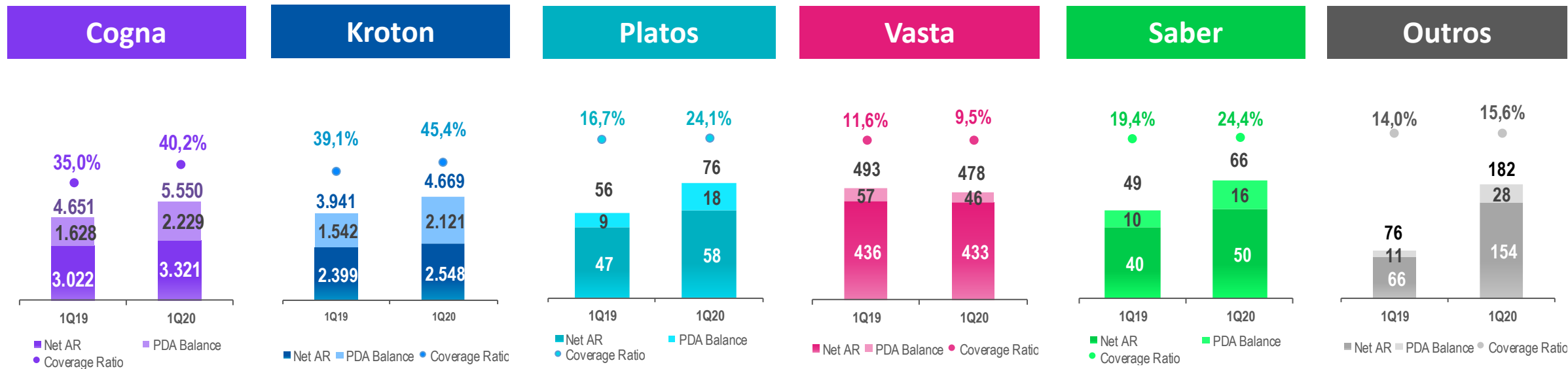
<sup>4</sup> Proforma result, considering the effects described in the segments

# Financial Performance

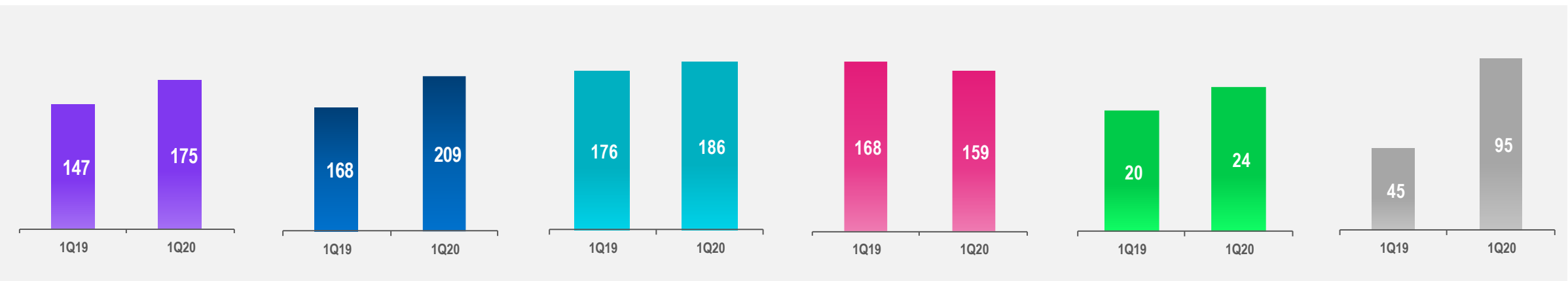
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# Accounts Receivable, Coverage Ratio and ART

Accounts Receivable and PDA  
(R\$ million)



Average Receivables Term  
(Days)



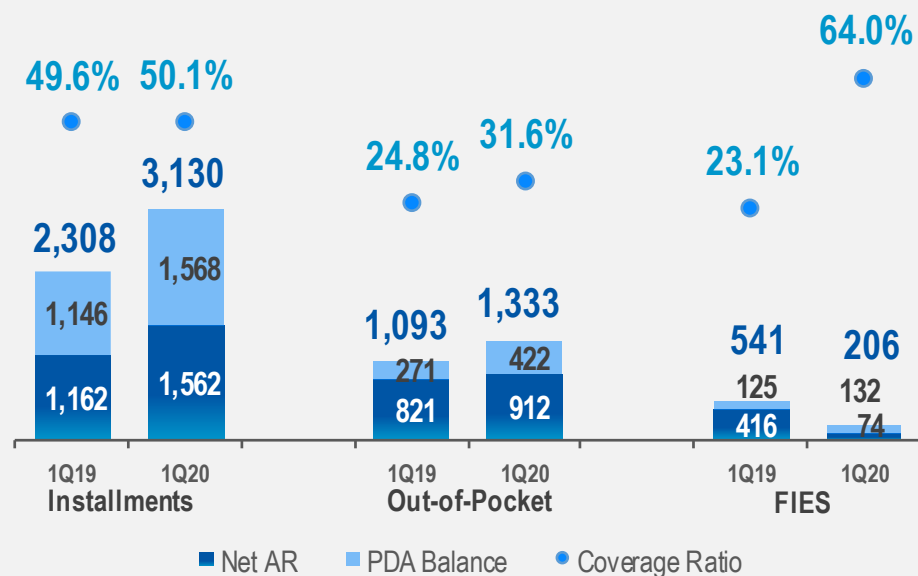


# Accounts Receivable, Coverage Ratio and ART

## Kroton

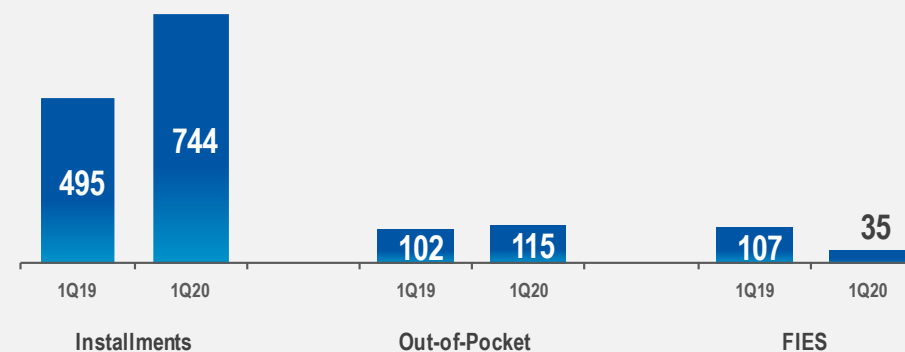
### Accounts Receivable and PDA

(R\$ million)



### Average Receivables Term

(Days)

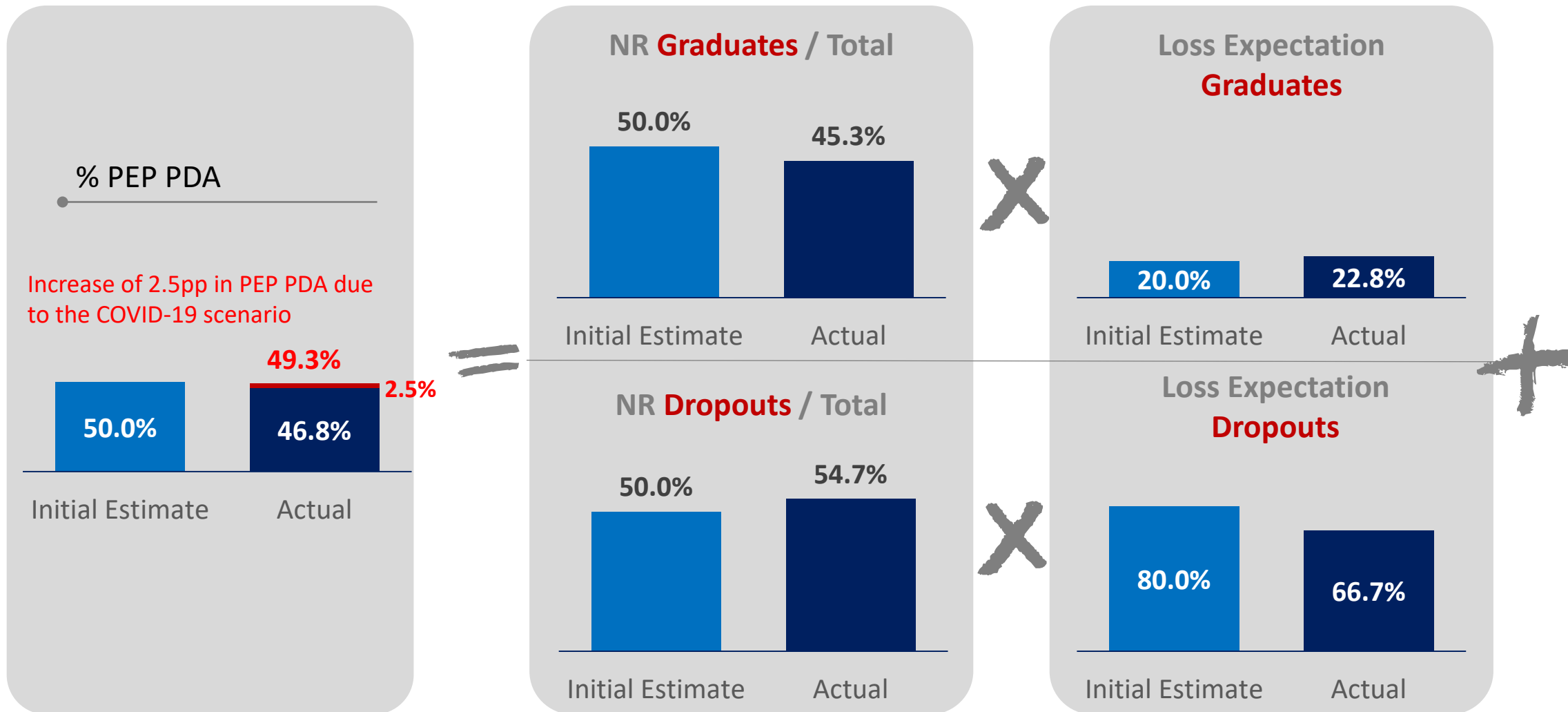


- PDA of installment products **appropriate** and in line with the **coverage ratio**
- Increase in the out-of-pocket coverage ratio, in line with our current **accounts receivable** and **level of uncertainty**

- AVT for installment products following the **maturity of the products**
- Out-of-pocket AVT increased, reflecting the increase during 2019, but **stable in relation to 4Q19**



# PDA Coverage – PEP



Provisioning for PEP is appropriate, even considering a potential worsening due to the COVID-19 effects



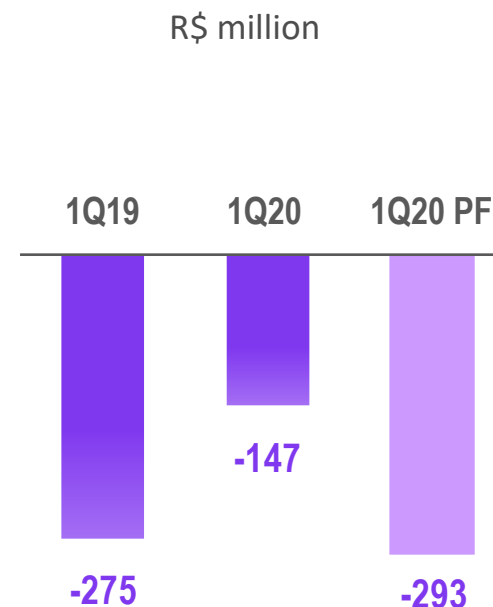
# Capex, Investments in Expansion and Operating Cash Generation

## Capex and Investments in Expansion




In 1Q20, the sum of Capex and Investments in Expansion reached **7.3% of Net Revenue**, 21% below 1Q19, seeing as the Company concluded its project of opening new units, missing only the expansion of units

## OCG After Capex and Investments in Expansion



Seasonally, the first quarter is of cash consumption. In 1Q20, the consumption was **47% lower** year-over-year, benefitting from the **lower working capital consumption** in addition to the receipt of amounts related to **PNLD 2020**.



# Closing Remarks

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## Kroton 2H20 Enrollments

- Systems and teams are prepared to guarantee the turn of the semester even if the quarantine persists
- 2020.2 enrollment already begun in a digital format (100% online admissions process)
- Acceleration of the migration to hybrid models supported by the digital transformation

## 2020 Scenarios

- We will not publish a guidance this year, given the high level of uncertainties
- Even in the stress scenario designed by the Company, we are not foreseeing an operating cash consumption (post capex) and the debt covenants will be met
- Emergency actions will become apparent already in 2Q20; structural measures with impact in 2H20

## Opportunities

- Current moment can bring M&A opportunities, which will be evaluated and can be concluded after a stabilization in the economic scenario
- In this initial phase, cash position of ~R\$3.5 billion (after recent debt issue) will be preserved

## Vasta

- 1Q20 results demonstrate a unique combination of robust brands, high growth (with the option of future acquisitions), high profitability and cash generation
- 2021 ACV: Go to Market initiated via commercial digital actions. Somos Digital School supporting the intake process, with technological solution being offered to prospect schools. Preliminary stages of the process, but daily performance is above 2020
- We are prepared for a potential listing<sup>(1)</sup> of Vasta in the USA

<sup>1</sup> As per material facts published on August 2, 2019 and November 21, 2019

**Bruno Giardino**  
[bruno.giardino@kroton.com.br](mailto:bruno.giardino@kroton.com.br)

**Pedro Gomes**  
[pedro.gsouza@kroton.com.br](mailto:pedro.gsouza@kroton.com.br)

**Ana Troster**  
[ana.mtroster@kroton.com.br](mailto:ana.mtroster@kroton.com.br)

# Investor Relations

[ir.cogna.com.br](http://ir.cogna.com.br)