



## 3Q19 Earnings Presentation

*November 2019*





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We have included in this presentation our Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Net Income, Adjusted Net Income Margin and Free Cash Flow, which are non-GAAP financial measures, together with their reconciliations, for the periods indicated. We understand that, although Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Net Income, Adjusted Net Income Margin and Free Cash Flow are used by investors and securities analysts in their evaluation of companies, these measures have limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our results of operations as reported under IFRS. Additionally, our calculations of Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Net Income, Adjusted Net Income Margin and Free Cash Flow may be different from the calculation used by other companies, including our competitors in the education services industry, and therefore, our measures may not be comparable to those of other companies.



# 3Q19 Earnings Call Key Messages



## On Track to Deliver 2019 Guidance

- ✓ R\$446 million Revenue in the LTM, **above 2019 ACV Guidance**
- ✓ **On track** to deliver FY2019 EBITDA margin between **35.5% and 37.5%**



## Strong Guidance for 2020 ACV

- ✓ ACV **growth** for Arco excluding Positivo between **32% and 34%**
- ✓ **Largest intake** of new students in the company's history
- ✓ Expect consolidated Arco's **ACV at ~R\$ 1 billion**



## Positivo Acquisition

- ✓ Integration started and we are confident about the **value creation opportunities**
- ✓ Preliminary PPA Estimate: **R\$ 1,500 million** of intangible assets + goodwill

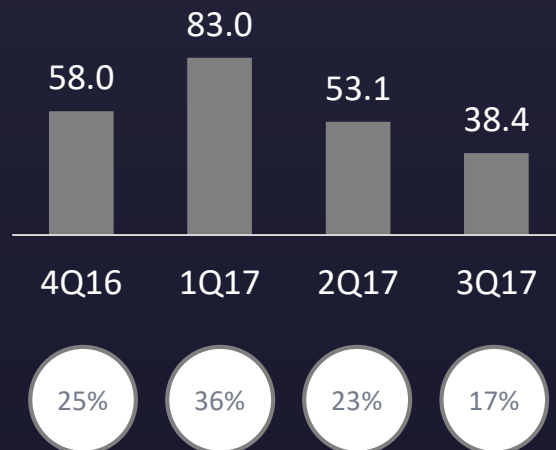




# We Once Again Delivered Above Initial ACV Expectations

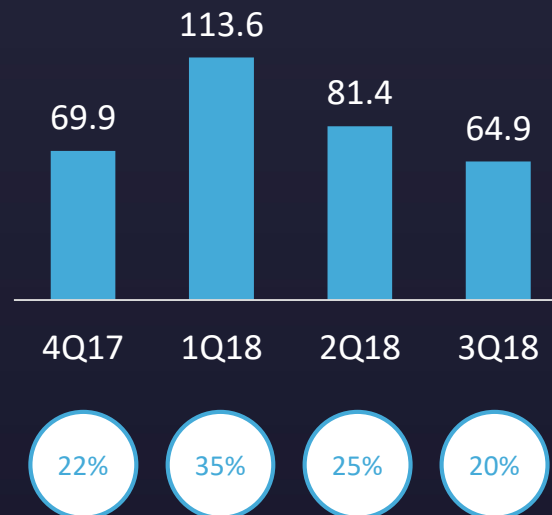
## 2017 ACV

Expected: R\$229.3 mm  
Delivered: R\$ 232.5 mm ↻ 1%



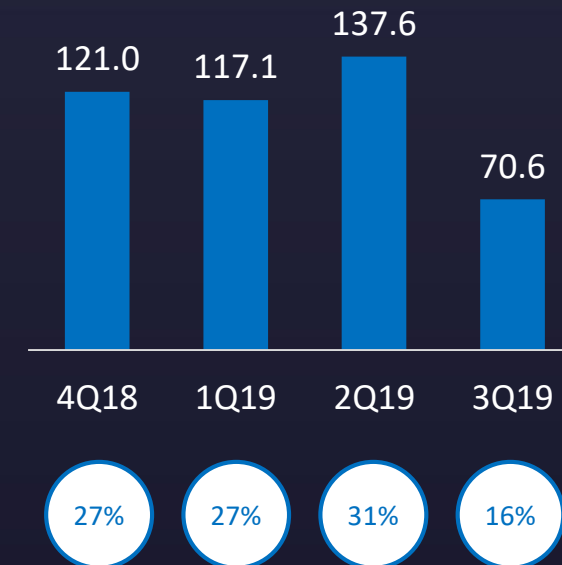
## 2018 ACV

Guidance: R\$322.1 mm  
Delivered: R\$ 329.8 mm ↻ 2%



## 2019 ACV

Guidance: R\$ 440.9 mm  
Delivered: R\$ 446.2 mm ↻ 1%





# 3Q19 and 9M19 Financial Highlights

## Revenues

R\$ 70.6mm  
3Q19

R\$ 325.2mm  
9M19

## Adjusted EBITDA margin

-10.3%  
3Q19

31.7%  
9M19

## Gross margin

79.9%  
3Q19

81.0%  
9M19

## Free Cash Flow

R\$ 22.3mm  
3Q19

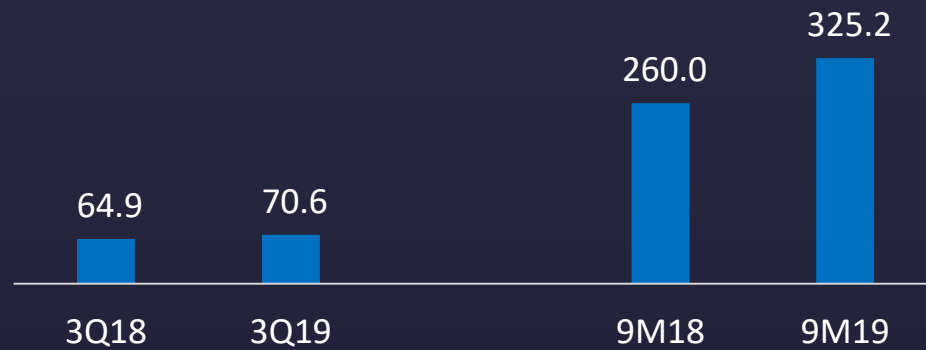
R\$ 103.8mm  
9M19



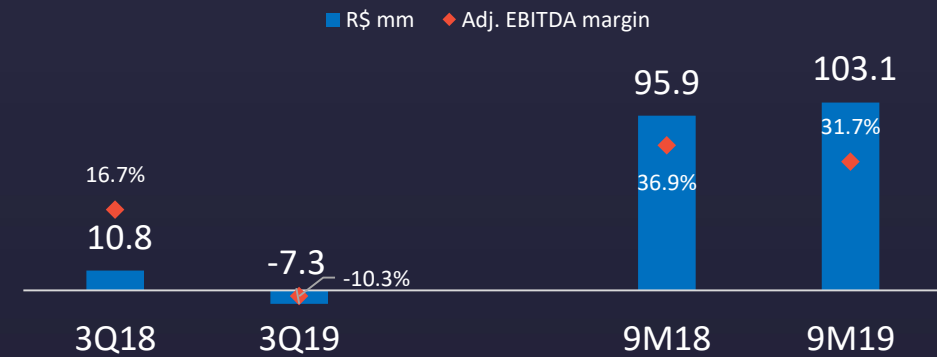
# 3Q19 and 9M19 Financial Highlights (cont'd)

In R\$, mm

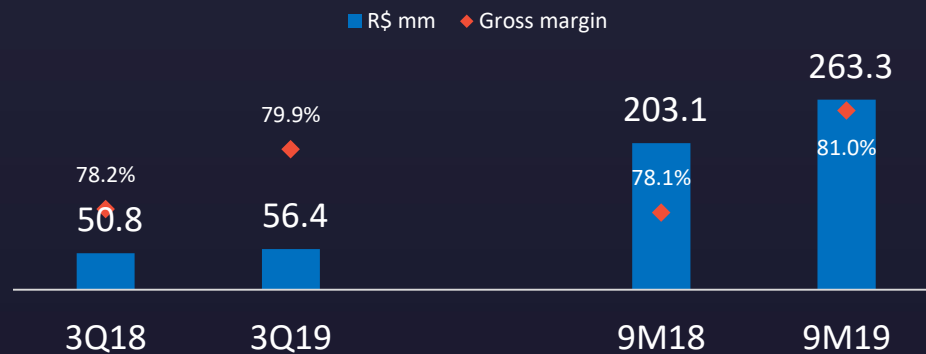
## Net Revenues



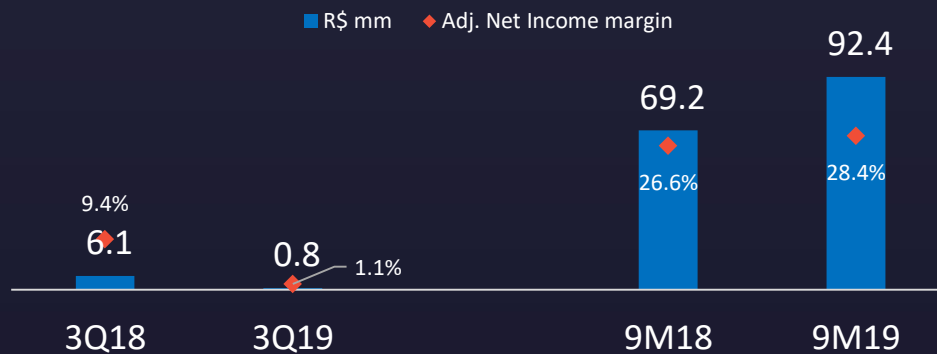
## Adjusted EBITDA



## Gross Profit



## Adjusted Net Income



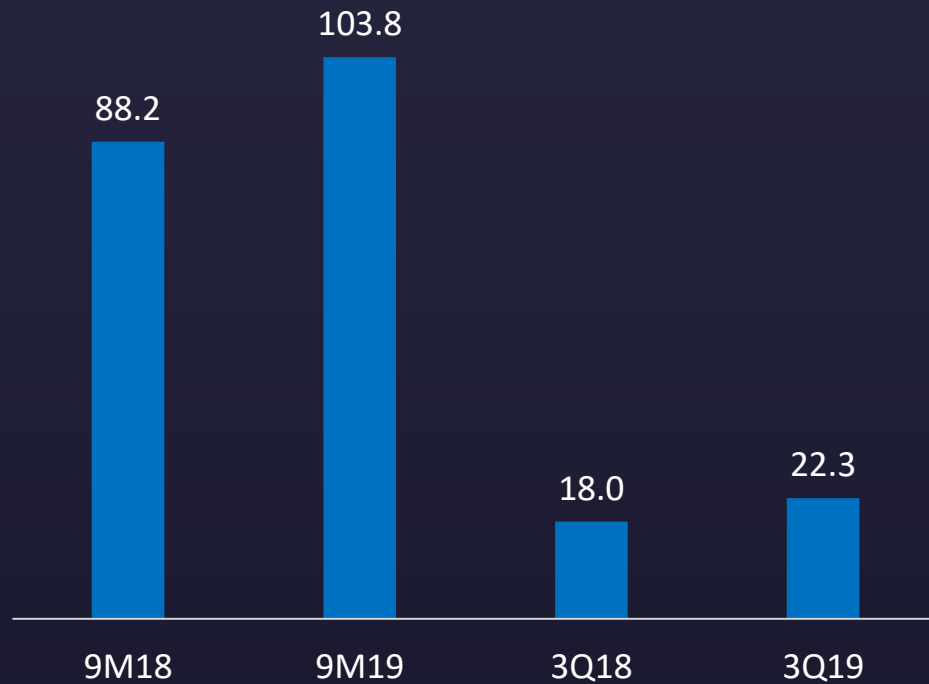


# Free Cash Flow: Sustainable Cash Flow Generation

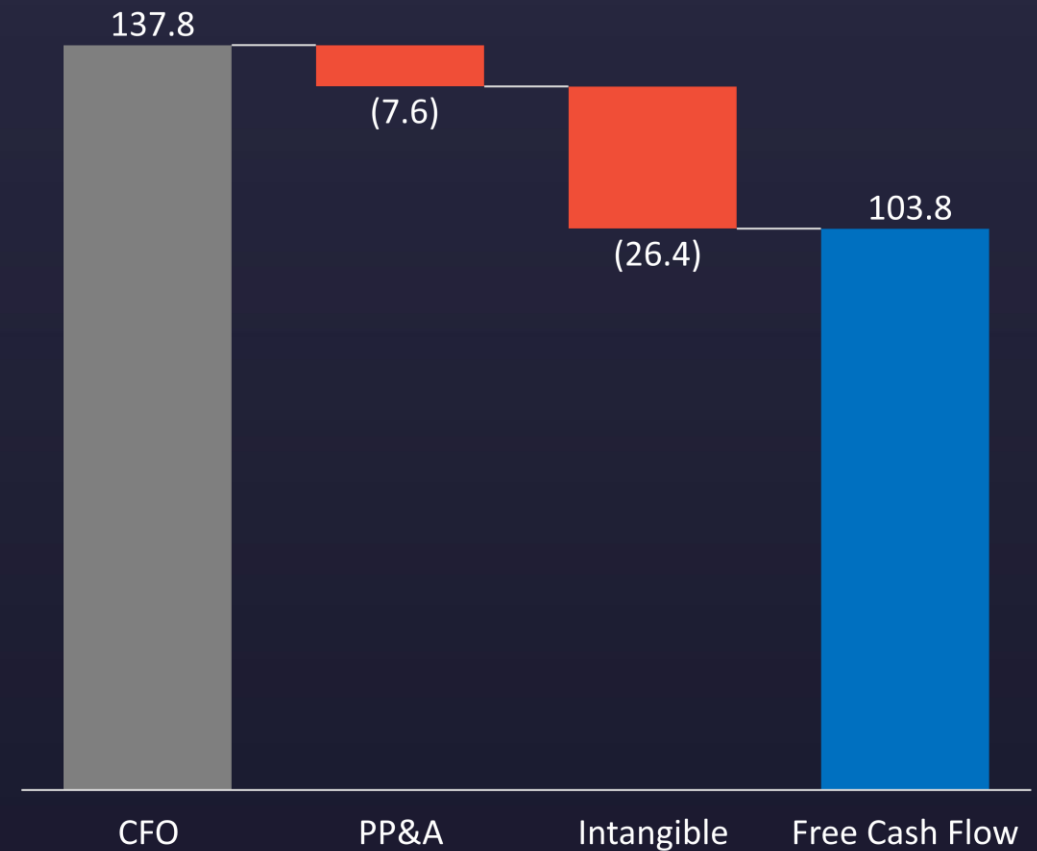
In R\$, mm

## Free Cash Flow

■ R\$ mm



## Evolution of Free Cash Flow (9M19)





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Consolidated ACV 2020	~R\$ 1 billion
ACV growth 2020, excluding Positivo	32% to 34%
Consolidated 2020 ACV Recognition on 4Q19	26% to 29%
Adjusted EBITDA Margin 2019 (Arco ex-Positivo)	35.5% to 37.5%

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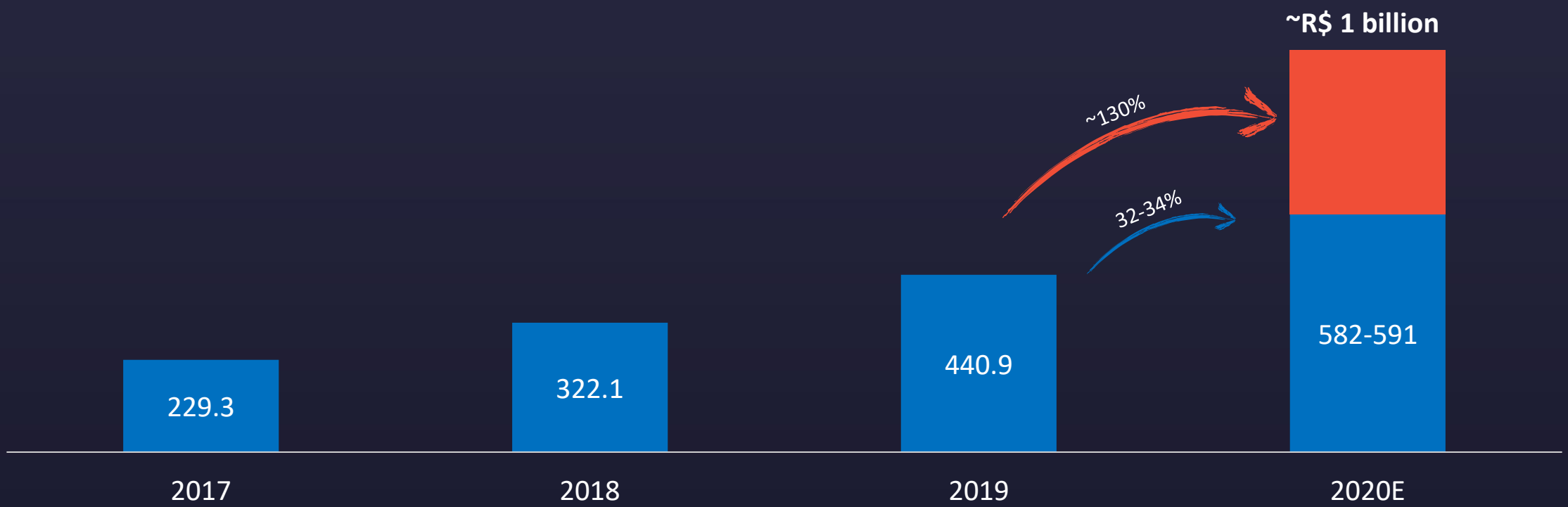




# ACV Evolution

In R\$, mm

■ Arco Standalone ■ New Arco





# Acquisition of Positivo

## Status

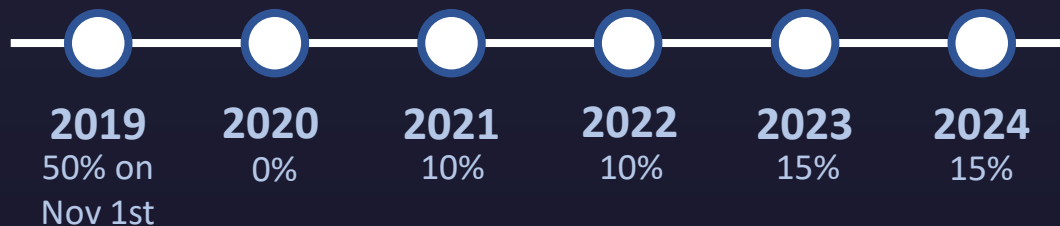
- ✓ CADE approval on October 23rd
- ✓ Closing of the transaction on November 1st

## Payment structure

Purchase price: R\$1,650 million in cash

- Arco expects to finance the installments with cash flow generated by the combined company
- To be adjusted by CDI rate

Payment schedule:



## Preliminary Purchase Price Allocation

# ~R\$ 1,500 million

Arco's preliminary PPA for the acquisition of Positivo based on June 2019 figures resulted in an estimate of approximately R\$1,500 million of both identifiable intangible assets and goodwill.

We estimate this amount should generate a tax benefit of R\$510 million over their amortization period, from the time the incorporation of Positivo by EAS Educação is finalized, which we expect will happen in the third quarter 2020.

Benefit schedule<sup>1</sup>:

Year 1-5	Year 6-9	Year 10	Year 11-20
~R\$ 70 mm per year	~R\$ 20 mm per year	~R\$ 10 mm per year	~ R\$ 6 mm per year



## Next Events

- Our business operates through annual contracts; therefore, we recommend investors to analyze our numbers on an annual basis.
- We intend to provide guidance as follows:

	1Q Call	2Q Call	3Q Call	4Q Call
2020 Consolidated ACV guidance			✓	
2020 Consolidated ACV confirmation				✓
% of ACV recognition for next quarter	✓	✓	✓	✓
Current fiscal year EBITDA margin	✓	✓	✓	
Next fiscal year EBITDA margin				✓



# Appendix





# Revenue Recognition and Annual Contract Value Bookings

## 1. How does Arco and Positivo recognize revenue?

We recognize our revenue when the content is made available to our partner schools. The same applies to Positivo.

## 2. When is Arco's content usually made available to partner schools?

We typically deliver our Core Curriculum content four times a year, in December - prior to the beginning of the school year - then March, June and August. We typically deliver our Supplemental Solutions twice a year, in December and June. In both cases, we deliver content two to three months prior to the start of each school quarter.

## 3. What is Annual Contract Value (ACV) Bookings?

We define it as the revenue we would contractually expect to recognize from a partner school in each school year pursuant to the terms of our contract with such school, assuming no further additions or reductions in enrolled students in such school year. We calculate ACV Bookings by multiplying the number of enrolled students at each partner school with the average ticket per student per year.



# Adjusted EBITDA Reconciliation

In R\$, 000's

<i>(In thousands of Brazilian reais)</i>	3Q19	3Q18
<b>Adjusted EBITDA Reconciliation</b>	(unaudited)	(unaudited)
Loss for the period	(108,486)	(60,334)
(+) Income taxes	(42,330)	4,749
(+/-) Finance result	88,781	1,749
(+) Depreciation and amortization	8,106	4,957
(+) Share of loss of equity-accounted investees	794	255
<b>EBITDA</b>	<b>(53,135)</b>	<b>(48,624)</b>
(+) Share-based compensation plan	34,878	59,472
(+) M&A expenses	8,486	-
(+) Others	2,467	-
<b>Adjusted EBITDA</b>	<b>(7,304)</b>	<b>10,848</b>
<hr/> Net Revenue	<hr/> 70,572	<hr/> 64,902
<i>Adjusted EBITDA Margin</i>	<i>-10.3%</i>	<i>16.7%</i>



# Adjusted Net Income Reconciliation

In R\$, 000's

<i>(In thousands of Brazilian reais)</i>	3Q19	3Q18
<b>Adjusted Net Income Reconciliation</b>	(unaudited)	(unaudited)
Loss for the period	(108,486)	(60,334)
(+) Share-based compensation plan	34,878	59,472
(+) Amortization of intangible assets from business combinations	3,623	2,977
(+/-) Changes in fair value of derivative instruments	8,483	(928)
(+/-) Changes in accounts payable to selling shareholders	81,781	-
(+) Share of loss of equity-accounted investees	794	255
<b>(-) Tax effects</b>	<b>(40,733)</b>	<b>2,104</b>
(+) Foreign exchange on cash and cash equivalents	(532)	-
(+) Interest expenses (income), net <i>(from M&amp;A acquisitions)</i>	10,008	2,538
(+) M&A expenses	8,486	-
(+) Other services	2,467	-
<b>Adjusted Net Income</b>	<b>769</b>	<b>6,084</b>
Net Revenue	70,572	64,902
<i>Adjusted Net Income Margin</i>	<i>1.1%</i>	<i>9.4%</i>



# Free Cash Flow Reconciliation

In R\$, 000's

<i>(In thousands of Brazilian reais)</i>	3Q19	3Q18
<b>Free Cash Flow Reconciliation</b>	(unaudited)	(unaudited)
Cash generated from operations	37,662	29,273
(-) Income tax paid	(5,430)	(4,434)
(-) Interest paid on lease liabilities	(177)	-
Cash Flow from Operating Activities	32,055	24,839
(-) Acquisition of property and equipment	(1,780)	(1,889)
(-) Acquisition of intangible assets	(7,982)	(4,937)
<b>Free Cash Flow</b>	<b>22,293</b>	<b>18,013</b>