

arco



1Q23 Earnings Presentation

May 2023



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We have included in this presentation our Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Net Income, Adjusted Net Income Margin, Free Cash Flow and Adjusted 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, Free Cash Flow and Adjusted 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, Free Cash Flow and Adjusted 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.



1Q23: Significant cash flow improvement was the main highlight

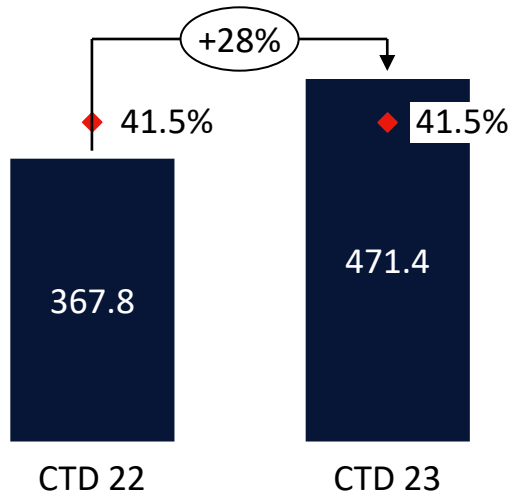
In R\$, M

Pedagogical segment margin flat YoY despite cost pressure

Financial & management (F&M) segment debuts adding growth

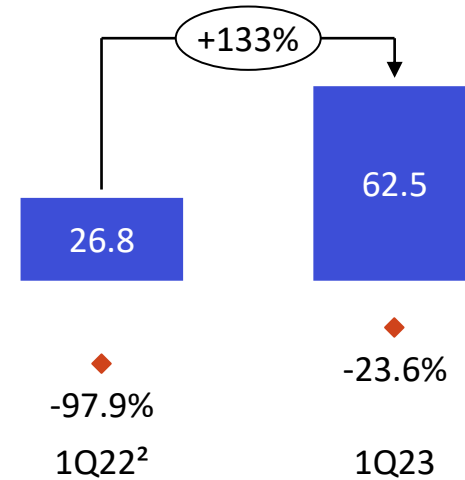
Improved cash profile reflects WK normalization & capital management

Adj. EBITDA Cycle to Date¹



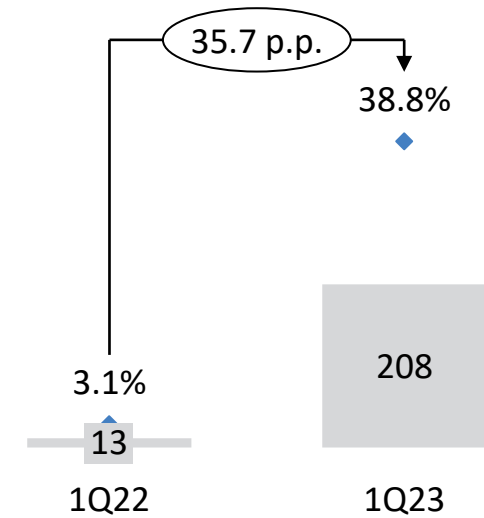
◆ Adj. EBITDA margin

Net revenue & Adj. EBITDA margin



■ Net revenue ◆ Adj. EBITDA mg.

Free Cash Flow to Firm³



◆ % of net revenue

1) Cycle to date ("CTD") figures includes 4Q results from previous year and 1Q results for the year and cut-offs, reflecting pedagogical business cycle. 2) 2022 figures are prior to Isaac's acquisition by Arco and are being disclosed for comparisons purposes only. 3) Refers to managerial free cash flow on slide 32 (reconciliation of free cash flow - managerial) for additional details.



We are reporting segments as we manage operations: Pedagogical solutions and Financial and Management solutions (F&M)





> 1Q23 RESULTS

> CORE & SUPPLEMENTAL SOLUTIONS

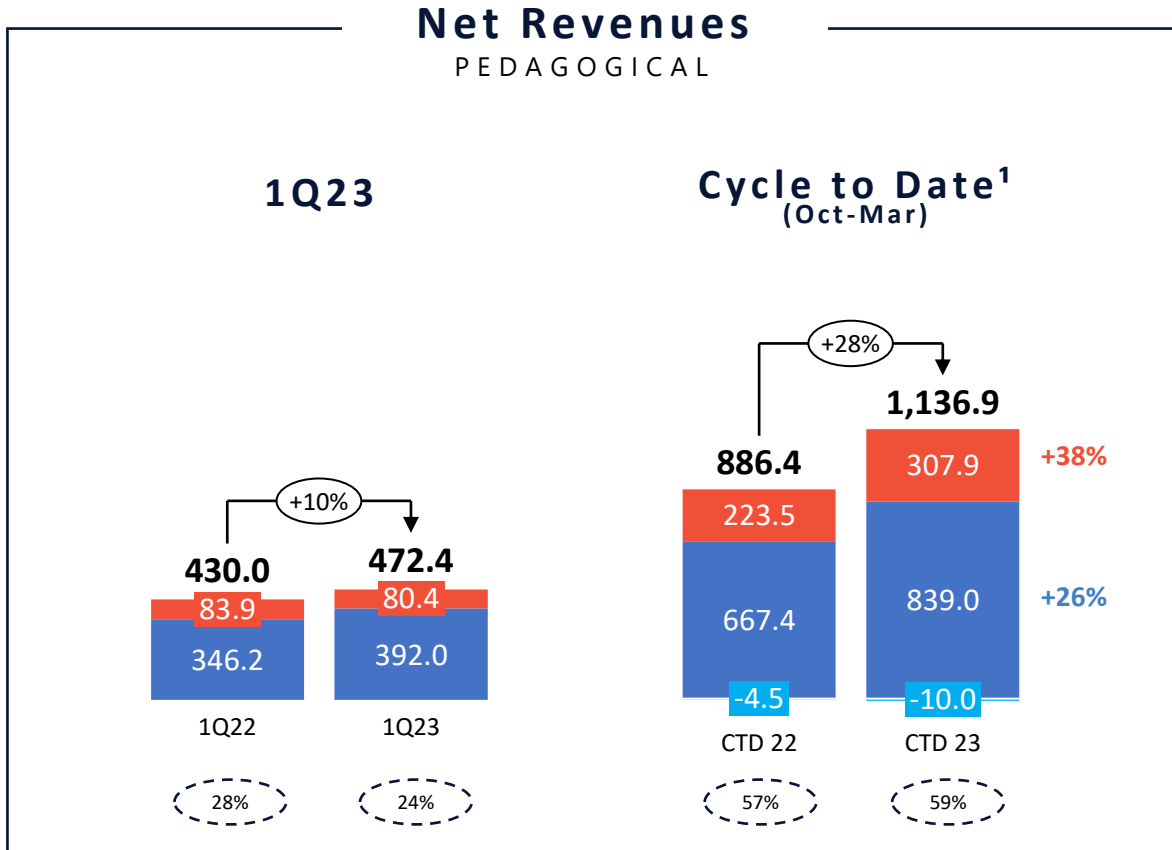
> FINANCIAL & MANAGEMENT SOLUTIONS





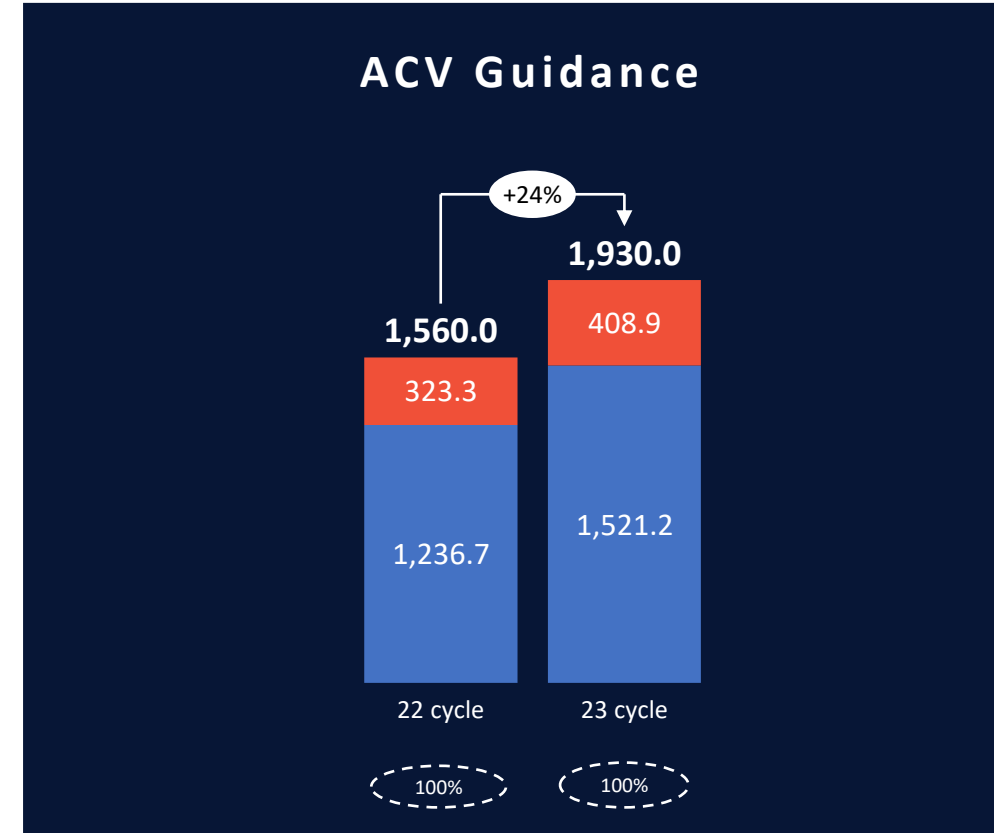
Solid top line growth for pedagogical solutions of 28% YoY in current school cycle

In R\$, M



1Q23 revenue recognition reflects higher 4Q22 recognition, caused by new supply strategy that reduces delivery count to school, particularly on supplemental

■ Core ■ Supp. ■ Cut-off ○ % of ACV from the respective cycle



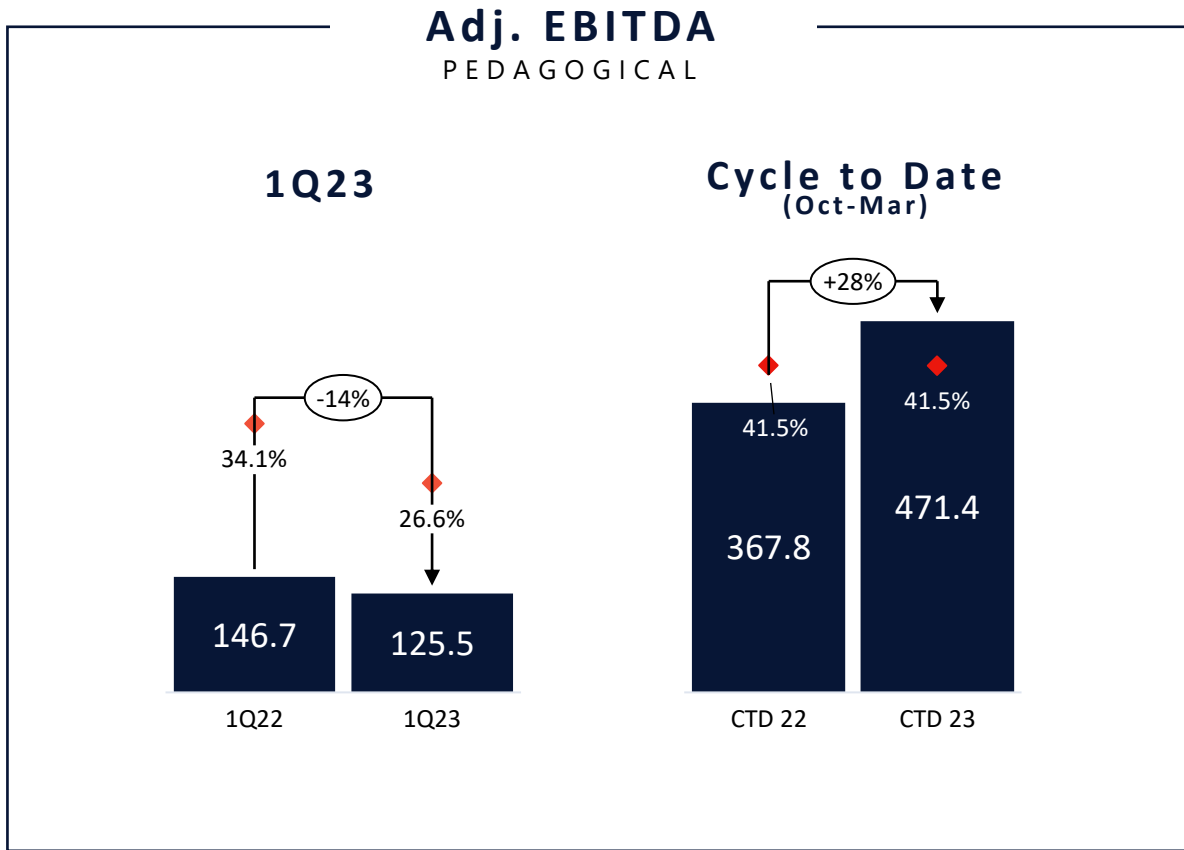
Our pedagogical solutions operate through annual contracts; therefore, we recommend investors to analyze our results on an annual basis

1) Cycle to date figures includes 4Q revenues from previous year and three-month revenue for the year, excluding (i) cut-offs (content from previous cycle delivered after Sep 30) and (ii) R\$ 5M revenue recognized in 4Q22 from pilot financial solution (ArcoPay).



Adj. EBITDA margins in 2023 cycle in line YoY despite cost pressures

In R\$, M



Consistent cycle to date Adj. EBITDA margins despite short term cost pressure related to paper and printing prices. 1Q23 presented lower margins YoY also affected by ACV recognition dynamics. We expect printing costs to improve in the 2H which combined with SG&A efficiency should allow Arco to deliver its 2023 Adj. EBITDA margin guidance.

Adj. EBITDA Guidance

36.5%-38.5% Pedagogical Adj. EBITDA Margin FY

- > We continue to roll-out cost reduction initiatives to offset and outpace recent content production cost pressures.
- > On top of that, we have delivered structural SG&A gains that will contribute on meeting our guidance.

Component	Value (R\$, M)
Adj. EBITDA CTD22	41.5
Costs	-5.5
SG&A	4.4
Other revenues & Adjustments (net)	1.1
Adj. EBITDA CTD23	41.5



We expect gross margin improvement in 2H23 coupled with continued SG&A optimization

In R\$, M

Gross margin to recover towards the 2H23

We are putting in place several cost efficiency initiatives that will drive gross margins up in 2H23 and from 2024 onwards:

- ✓ Printing prices renegotiation due to volume reallocation and integrated supply management strategy
- ✓ Direct paper negotiation and acquisition from producers
- ✓ More intense technology usage allowing for a more scalable content production and delivery setups

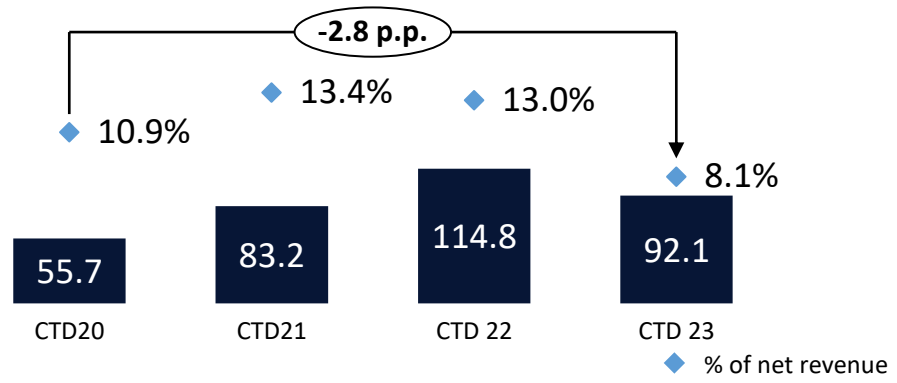
Results so far show printing costs reducing YoY in nominal terms for the 2024 cycle, which begin its printing process in August.

SG&A dilution has become a relevant source of margins for Arco

We will continue to unlock margins from internal efforts to operate the company in a leaner and more agile way:

- ✓ Simplified and more agile organizational structure
- ✓ Centralized renegotiation with third-party suppliers

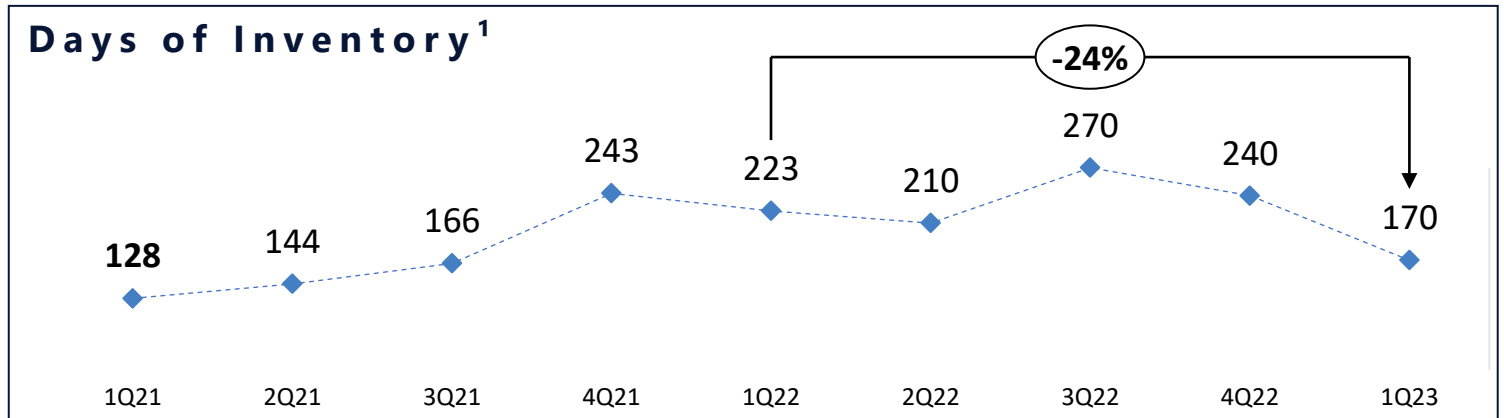
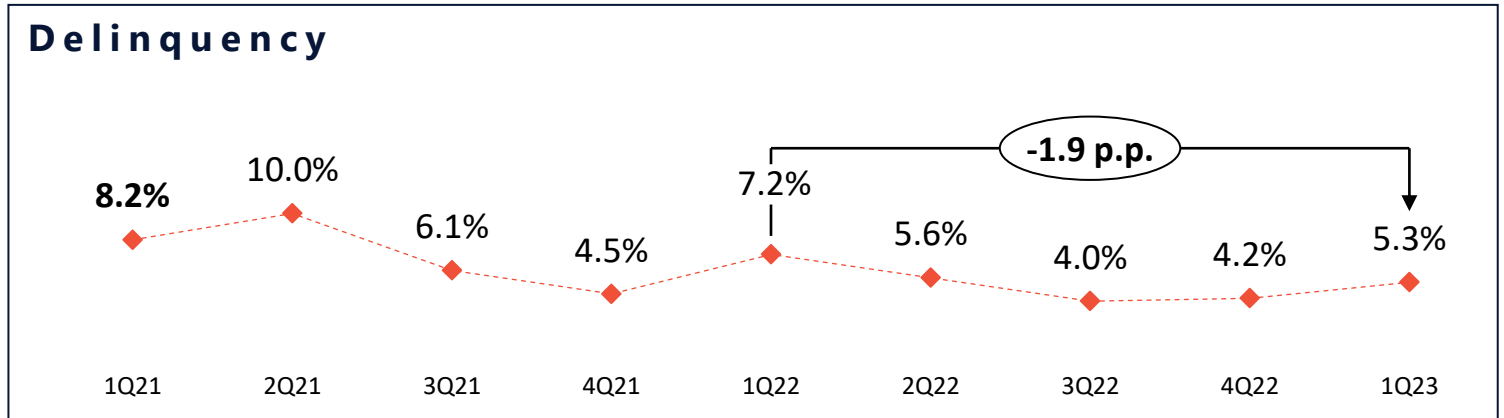
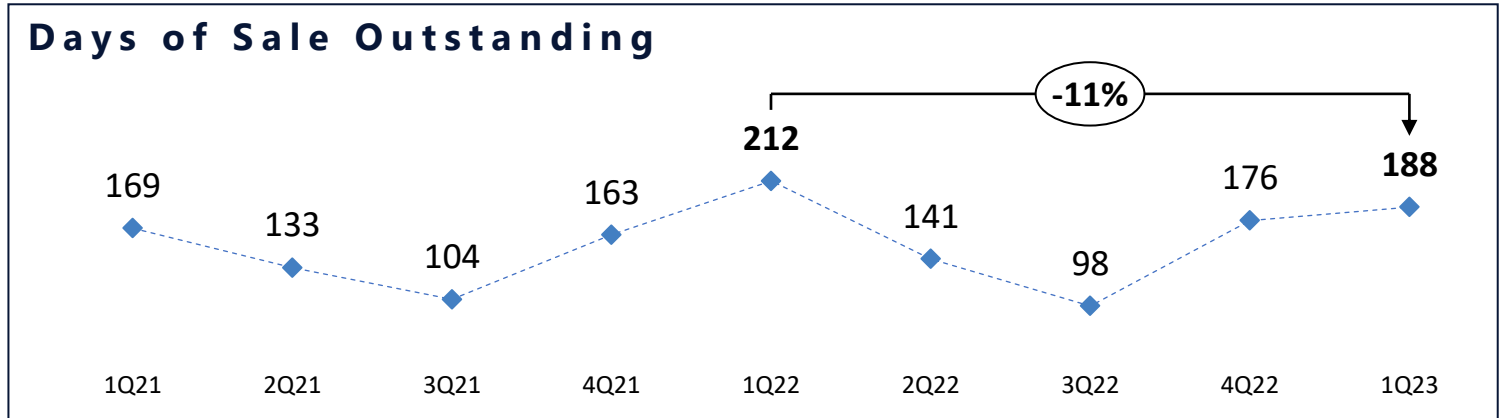
G & A cycle to date¹ (ex-D&A and adjustments²)



1) Cycle to date includes 4Q G&A expenses (ex-D&A) from previous year and three-month G&A expenses (ex-D&A) for the year. 2) For this analysis, we excluded all EBITDA adjustments that impacts G&A, such as: i) "Share-base compensation plan"; ii) "M&A expenses"; iii) "non-recurring expenses"; iv) "Effects related to Covid-19 pandemic".



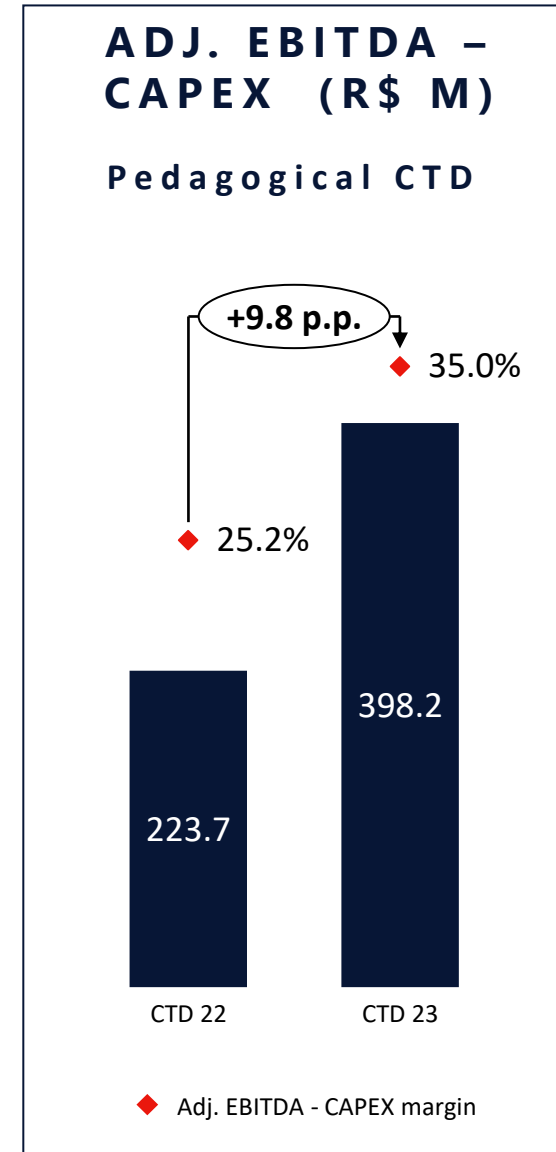
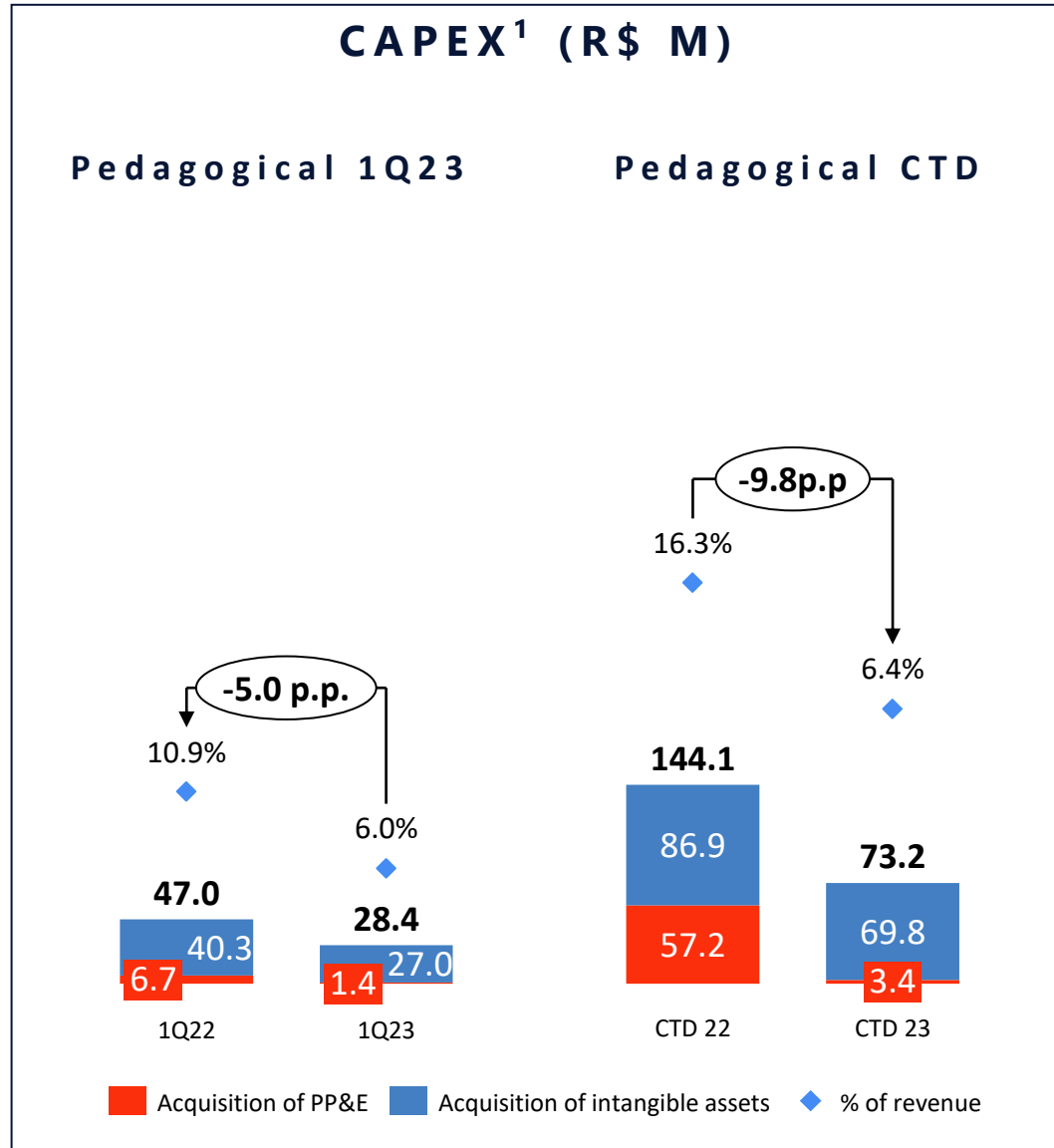
Pedagogical business delivered **improved WK dynamics** that were key to cash generation



General Note: Considers pedagogical segment only for comparative purposes. 1) Days of Inventory calculated considering costs excluding depreciation and amortization.



Alongside an optimized capital allocation strategy



1) For 1Q22, the acquisition of intangibles assets accordingly to the financial statements included the first portion (R\$5.5 million) of PGS & Mentis acquisition that was settled in February 2022. In the analysis above such acquisition was not consider due to it's M&A nature. Considering PGS & Mentis acquisition, the acquisition of intangibles assets would totalize R\$45.8 million and CAPEX/Net Revenue for 1Q22 would be 12.2%.



Resulting in improvements across main cash flow drivers in 1Q23

	R \$ M		% of revenue		YoY
	1Q22	1Q23	1Q22	1Q23	
Adj. EBITDA	146.7	125.5	34.1%	26.6%	-8 p.p.
(+/-) Non-cash adj.	(21.2)	(6.6)	-4.9%	-1.4%	+4 p.p.
(+/-) Working Capital	(22.7)	128.0	-5.3%	27.1%	+32 p.p.
(-) Income taxes paid	(42.7)	(30.9)	-9.9%	-6.6%	+3 p.p.
(-) CAPEX	(47.0)	(28.4)	-10.9%	-6.0%	+5 p.p.
Free cash flow to firm*	13.1	187.6	3.1%	39.7%	+37 p.p.

* Refers to managerial free cash flow on pedagogical business.



Translating into solid cash generation on pedagogical cycle to date

	R \$ M		% of revenue		
	CTD 22	CTD 23	CTD22	CTD23	YoY
Adj. EBITDA	367.8	471.4	41.5%	41.5%	(0) p.p.
(+/-) Non-cash adj.	(9.2)	67.9	-1.0%	6.0%	+7 p.p.
(+/-) Working Capital	(394.2)	(335.2)	-44.5%	-29.5%	+15 p.p.
(-) Income taxes paid	(44.6)	(34.0)	-5.0%	-3.0%	+2 p.p.
(-) CAPEX	(144.1)	(73.2)	-16.3%	-6.4%	+10 p.p.
Free cash flow to firm*	(224.2)	96.8	-25.3%	8.5%	+34 p.p.

* Refers to managerial free cash flow cycle to date for pedagogical business



> 1Q23 RESULTS

> CORE & SUPPLEMENTAL SOLUTIONS

> FINANCIAL & MANAGEMENT SOLUTIONS





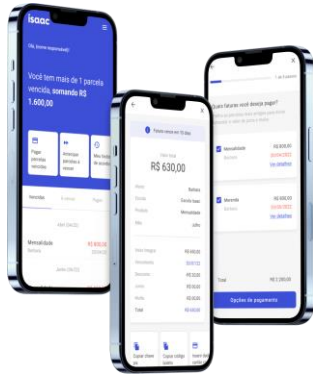
isaac: an all-in-one platform that provides **financial and software products to K-12 schools**

In R\$, M

Operating metrics as of March/23

R\$266M

Annual recurring revenue (ARR)¹



R\$2.9B

Total Payment Value (TPV)

Innovative and strong product fit...

- Schools use **legacy tools and processes** and have **low access to funding** from incumbent, one-size fits all players
- Isaac created “**Revenue Guarantee**”: financial product that streamlines **billing and collection processes** while **eliminating financial volatility to schools**

...With solid business fundamentals...

- **Revenue is recurring and monthly**: schools are paid in monthly installments during a 12-year long education cycle
- **Working capital is reduced** as most parents only delay a few days and **delinquency is structurally low** as delinquent students cannot reenroll

1) Annual Recurring Revenue (ARR) is the annualized revenue of the latest month, as of March 2023.



Thesis recap: With isaac, we added a **powerful and complementary earnings driver**

In R\$, M

Rapidly growing school base



Contracted schools

Take rate model, mandatory for all students with recurring revenues

All-year and shorter sales cycle with strong retention dynamics

First-mover advantage with stronger brand recognition and perception

Unlocking value with financial & managerial products



Revenue per customer

Complementary product offering to Core and Supplemental solutions

Pipeline of high-monetizing financial products targeted to schools, inhibiting competition

With a scalable and tech-enabled model



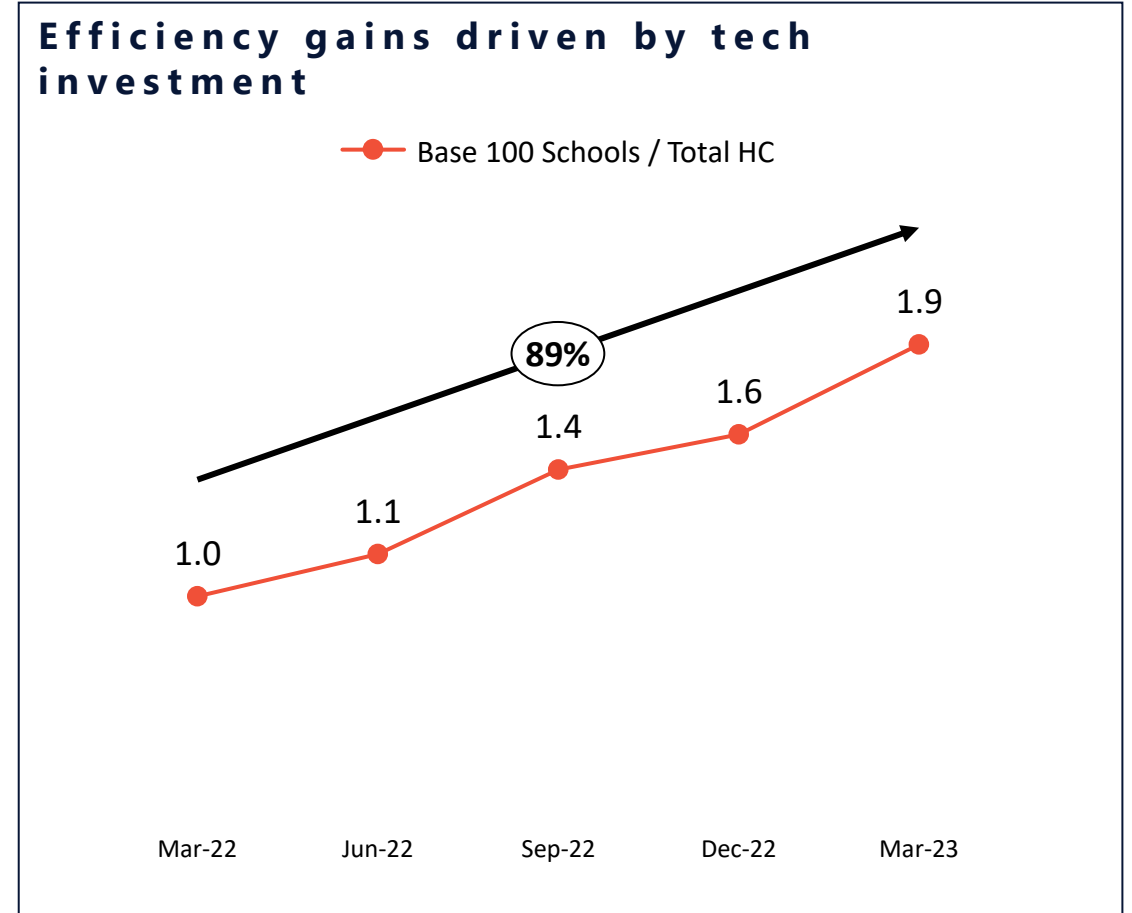
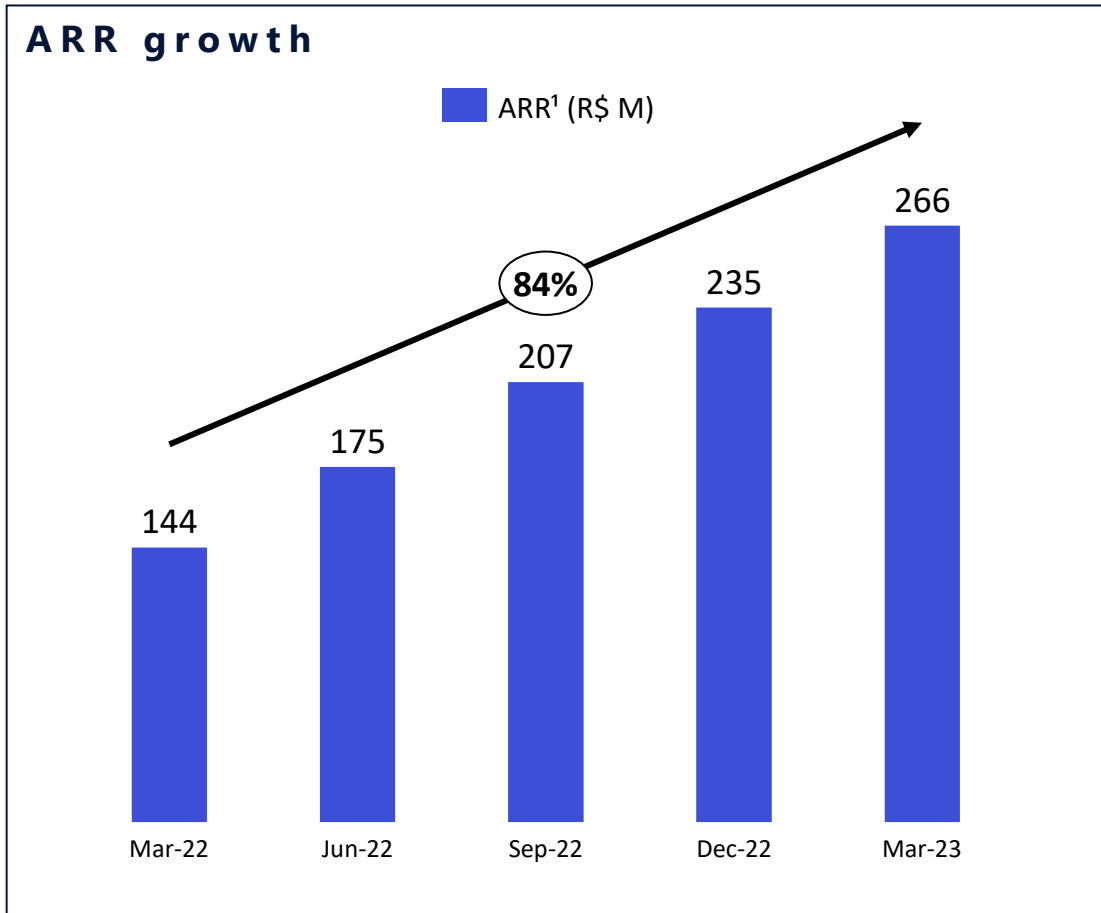
Operating margin

Investment in technology to improve pricing and collection for risk while reducing cost to serve



Robust growth and efficiency performance in 2022 and 1Q23, paving the way for 2023

In R\$, M

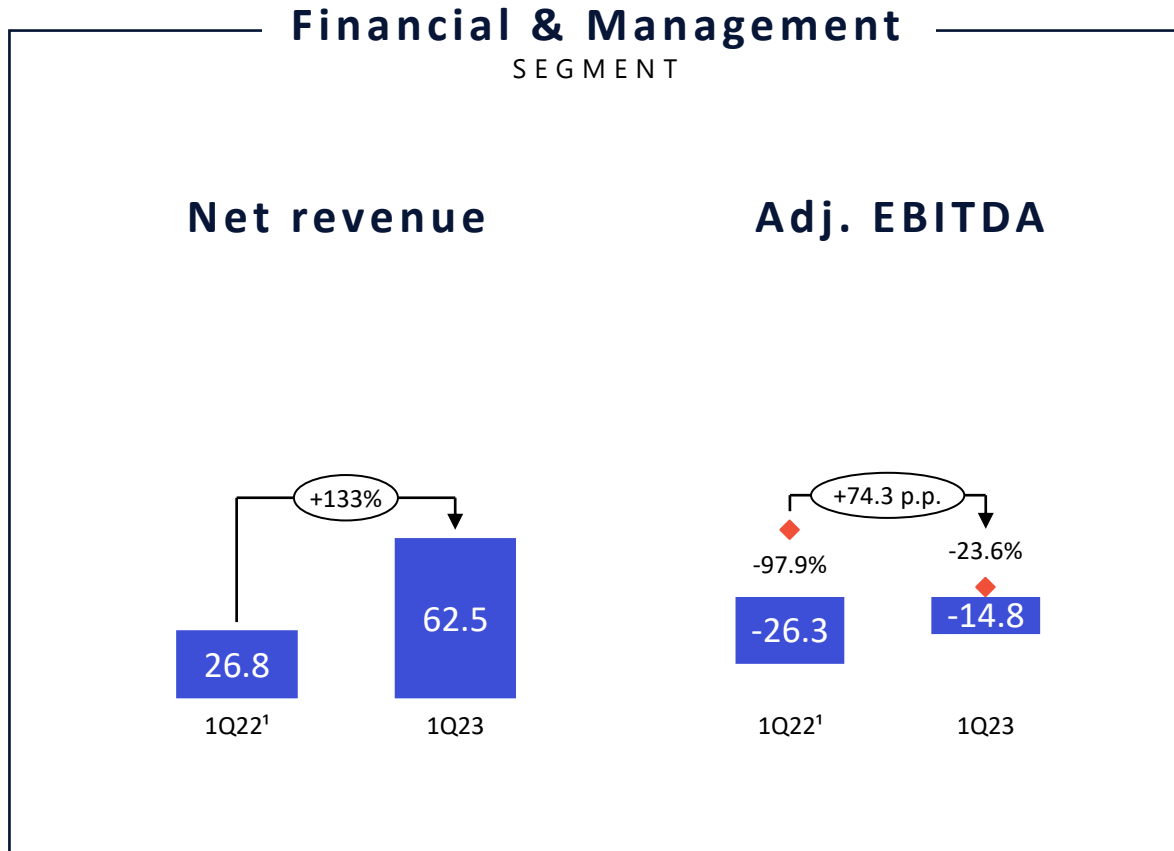


1) Annual Recurring Revenue (ARR) is the annualized revenue of the latest month, as of March 2023.



F&M delivered **133% revenue growth** and **74.3 p.p. margin expansion YoY¹**

In R\$, M



EBITDA improvement enabled by scale gains driven by tech investment and new product launches

We continue committed to our 2023 guidance

R\$ **300-350**

F&M
Net Revenue
FY

(10)%

F&M
Adj. EBITDA
Margin FY

1) 2022 figures are prior to isaac's acquisition by Arco and are being disclosed for comparisons purposes only.



> **1Q23 RESULTS**

> CONSOLIDATED RESULTS





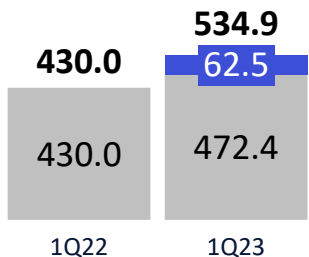
1Q23 results: consolidated snapshot

In R\$, M

1Q23 Consolidated Results

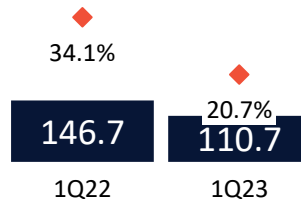
Net Revenue

■ Pedagogical ■ F&M



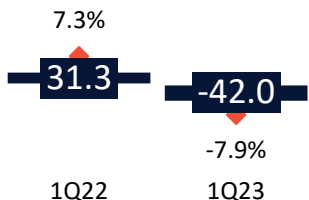
Adj. EBITDA¹

◆ Adj. EBITDA Margin



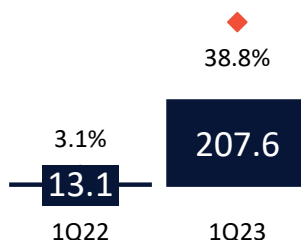
Adj. Net Income

◆ Adj. Net Margin



FCFF

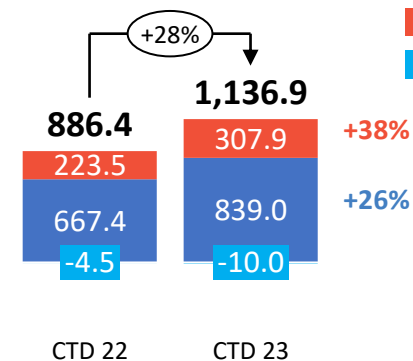
◆ % of net revenue



Pedagogical CTD

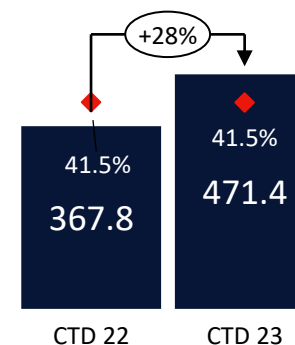
Net Revenue

■ Core
■ Supp.
■ Cut-off



Adj. EBITDA

◆ Adj. EBITDA margin

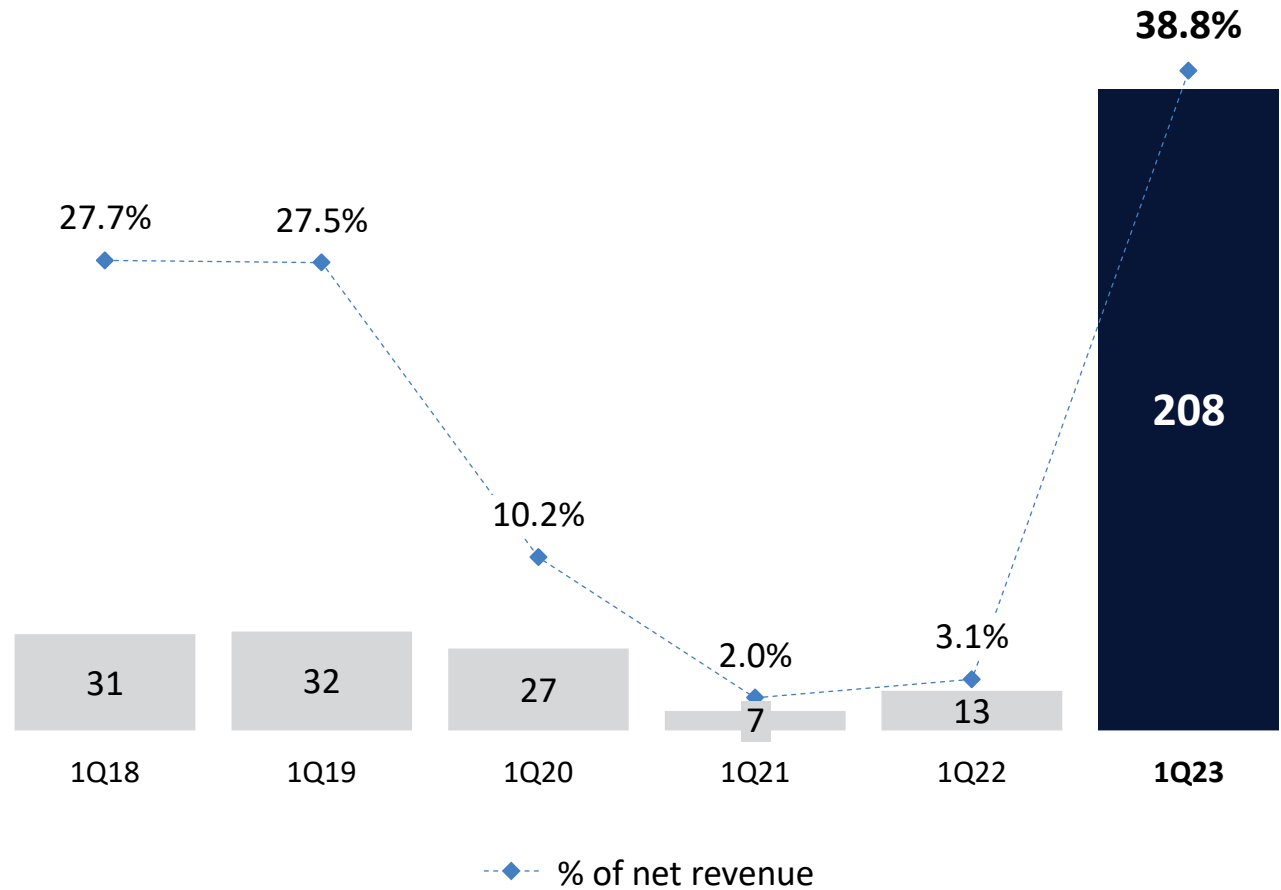


1. Consolidated Adj. EBITDA was a combination of both pedagogical and financial & management segments. Pedagogical Adj. EBITDA margin was 26.6% reflecting lower revenue recognition in first quarter versus previous cycle and cost pressures on paper supply chain.



1Q23 was a milestone in FCFF performance

Free Cash Flow to Firm* (R\$ M)



* Refers to managerial free cash flow. Please reference slide 32 (reconciliation of free cash flow - managerial) for additional details.



Delivering a consolidated 17.7% free cash flow

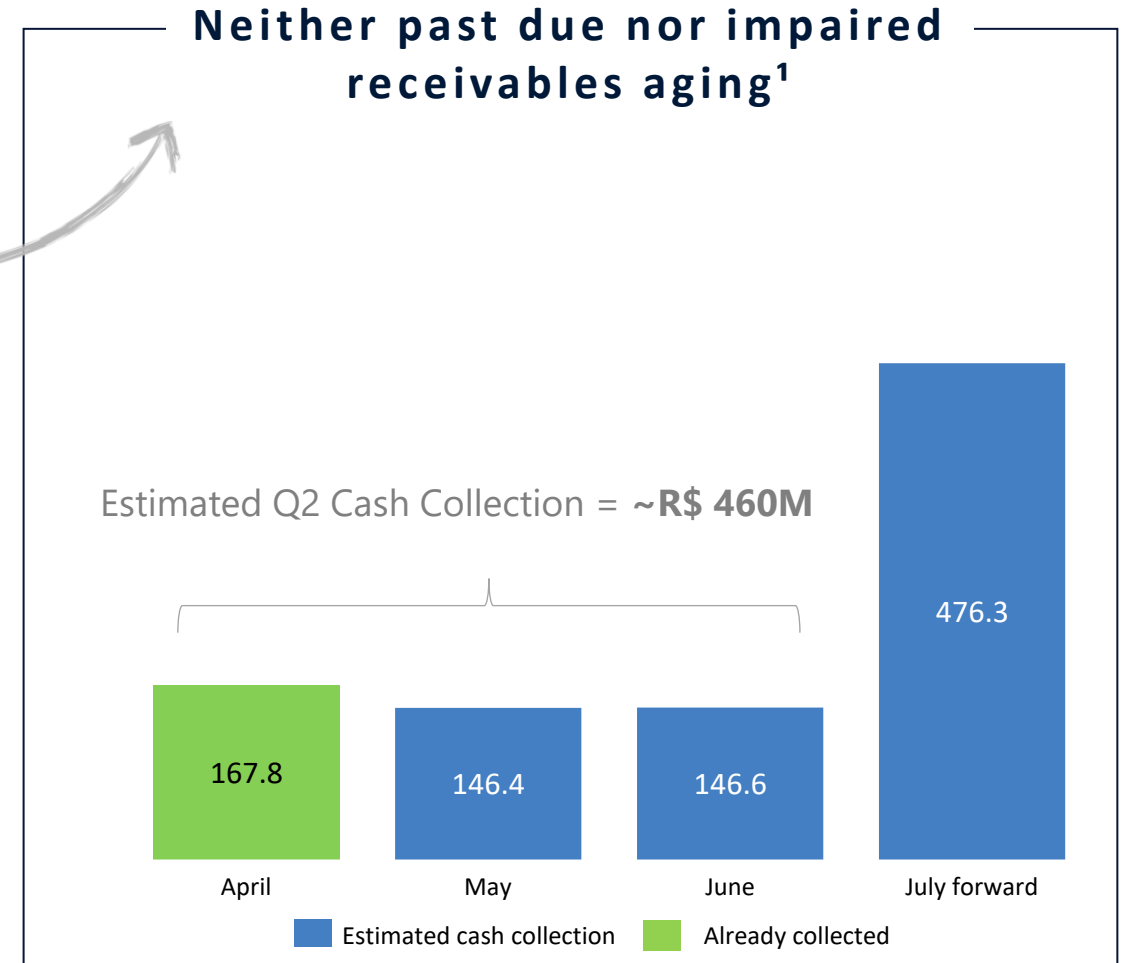
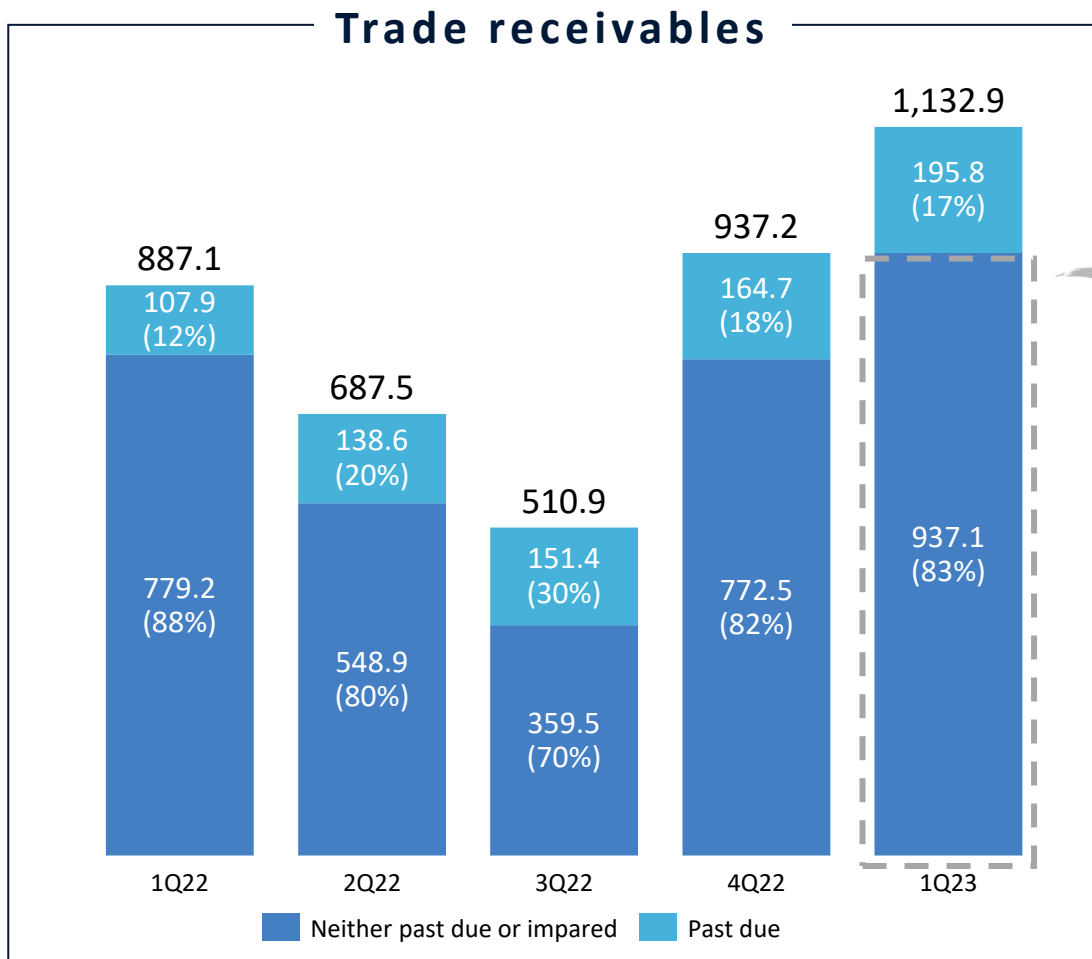
	R \$ M		% of revenue		
	1Q22	1Q23	1Q22	1Q23	YoY
Adj. EBITDA	146.7	110.7	34.1%	20.7%	(13) p.p
(+/-) Non-cash adj.	(21.2)	15.1	-4.9%	2.8%	+8 p.p
(+/-) Working Capital	(22.7)	150.0	-5.3%	28.0%	+33 p.p
(-) Income taxes paid	(42.7)	(31.2)	-9.9%	-5.8%	+4 p.p
(-) CAPEX	(47.0)	(37.0)	-10.9%	-6.9%	+4 p.p
Free cash flow to firm*	13.1	207.6	3.1%	38.8%	+36 p.p
(-) Financial expenses	(17.3)	(113.2)	-4.0%	-21.2%	(17) p.p
Free cash flow*	(4.1)	94.4	-1.0%	17.7%	+19 p.p

* Refers to managerial free cash flow (consolidated). Please see reconciliation slide 32 for additional details.



Initiating a year of robust cash collection

In R\$, M

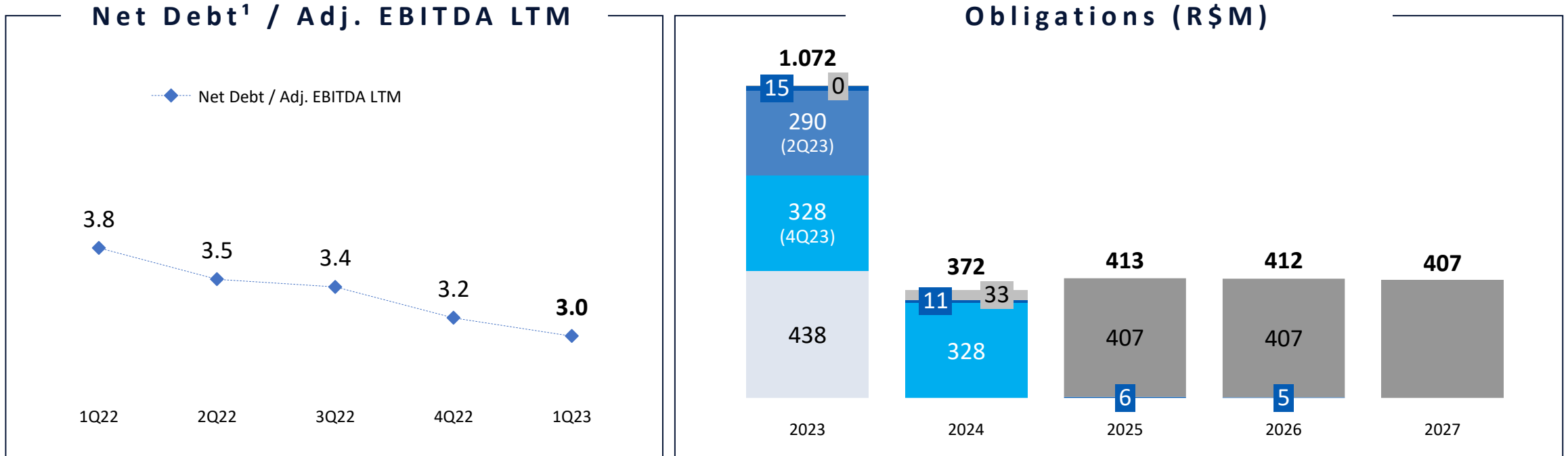


1) Figures for the aging breakdown are preliminary, unaudited and subject to change.



That will reinforce our continuous deleveraging process

In R\$, M



Obligations	Breakdown by type	Index
LOANS AND FINANCING ¹ R \$ 1,254 M	<ul style="list-style-type: none"> Debentures (R\$1,220 M) Other (R\$33 M) 	<ul style="list-style-type: none"> CDI+2.30% p.a. – paid semi annually Miscellaneous
ACCOUNTS PAYABLE TO SELLING SHAREHOLDERS R \$ 1,422 M	<ul style="list-style-type: none"> Others sellers notes (R\$37 M) Escola da Inteligência (R\$290 M) Positivo (R\$657 M) International School² (R\$438 M) 	<ul style="list-style-type: none"> Earn-outs & CDI Earn-out (ACV multiple) SELIC CDI

1) Excludes Convertible notes: considers the conversion into equity of the convertible senior notes with no future disbursement of principal (US\$150 M) issued on Nov 30, 2021. These notes mature in 7 years, on Nov 15, 2028, and bear interest at 8% per year fixed in Brazilian reais (R\$66 M per year). 2) Amount subject to an arbitration process. Please reference the Financial Statements as of March 31st, 2023, for additional details.

APPENDIX



Guidance & next events

In R\$, M

PEDAGOGICAL SOLUTIONS	
2023 CYCLE GUIDANCE	
2023 ACV recognition on 2Q23	20% – 22%
FISCAL YEAR GUIDANCE	
2023 adjusted EBITDA margin guidance	36.5% – 38.5%
2023 CAPEX as a percentage of Revenues	8% – 10%

FINANCIAL & MANAGEMENT SOLUTIONS	
FISCAL YEAR GUIDANCE	
2023 Revenue	~R\$300 – 350 M
2023 EBITDA margin (%)	~(10)%

NEXT EVENTS	1Q Call	2Q Call	3Q Call	4Q Call
2024 ACV guidance			✓	
2024 ACV confirmation				✓
% of ACV recognition for next quarter	✓	✓	✓	✓
Next fiscal year EBITDA margin guidance			✓	

Pedagogical solutions: Revenue recognition and annual contract value bookings

In R\$, M

1. How does Arco recognize revenue for its pedagogical solutions?

We recognize our revenue when the content is made available to our clients.

2. When is Arco's pedagogical 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 in 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 client in each year pursuant to the terms of our contract with such client, assuming no further additions or reductions in the number of customers in that specific year. We calculate ACV Bookings by multiplying the number of customers at each client with the average ticket per customer per year, net of discounts or courtesies.

Financial solutions: Key concepts to understand isaac business model, "Revenue Guarantee"

In R\$, M

Contracted schools

- Primary operating metric
- Represents total number of schools with active contracts with isaac
- Schools may not yet be yielding revenue due to the onboarding process of recently signed schools
- Schools sign contracts as long as or longer than 1 year for isaac to guarantee tuition from all of the enrolled students

TPV

Total payment volume

- Primary revenue driver
- TPV indicates the full amount to be transacted by isaac to contracted schools. It is calculated by the total tuition fee owed by parents to their schools

Take Rate

Gross take rate

- Revenue driver
- Percentage of TPV agreed upon contract signing
- Take rate is priced upon school sign-up based on school historical delinquency rate, risk profile and operating costs
 - It may be renegotiated or adjusted based on the contract's performance

ARR

Annual recurring revenue

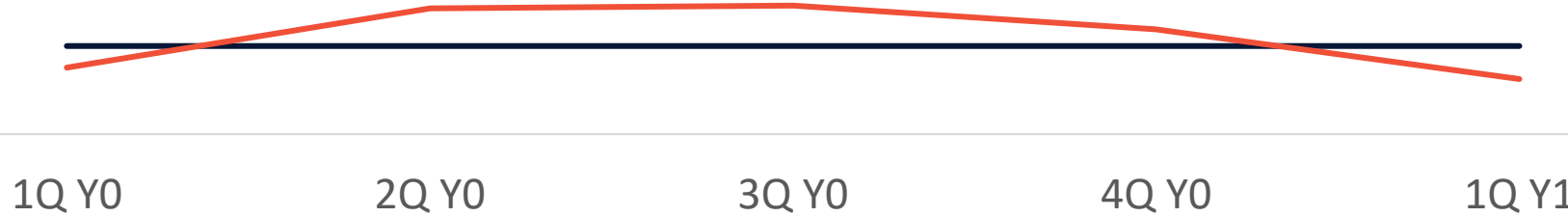
- Best proxy metric for revenue growth
- ARR is the contracted annualized revenue for a given month
- Annual contracts and recurring nature make ARR a good proxy for growth, given isaac's high growth profile, mitigating seasonal and onboarding effects

Financial solutions: Income statement and cash flow dynamics for isaac "revenue guarantee"

In R\$, M

Theoretical school
% of TPV

— Revenue — Delays (NPL+30)



Students can be enrolled until the end of march

Revenue

- Calculated as the product of the monthly guaranteed TPV and the take rate for each school in addition to late payments fees and interest
- Revenue is recognized monthly upon the payment to the school and is stable throughout the year, varying as

COGS + Selling expenses

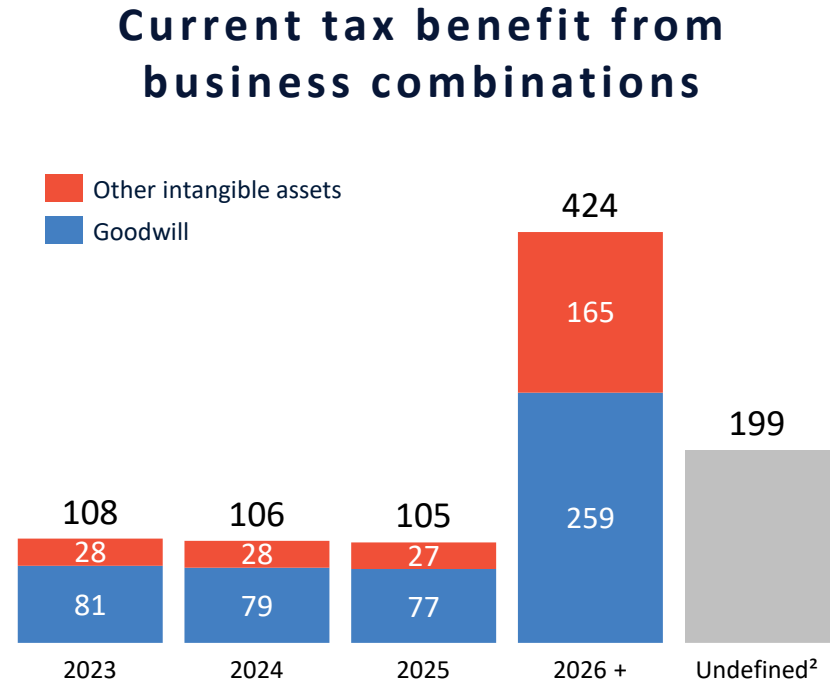
- Transactional costs and cost to serve is accrued on a monthly basis
- Includes provision for credit losses and write-offs. We currently provision a % of each month's TPV - such % is defined based on our predictive model of expected loss and consider current performance of our receivables as well as historical behavior of cohorts

Cashflow

- 2Q – Neutral working capital dynamics
- 3Q - 4Q – Negative working capital dynamics
- 1Q - Positive working capital dynamics

Ongoing corporate restructuring will further contribute to future cash generation

In R\$, '000



- > Expected incorporation schedule³: Escola da Inteligência (2023), Pleno (2023) and SAE Digital (2024)
- > As we incorporate other businesses into CBE we expect to capture additional tax benefits and therefore further reduce our effective tax rate, currently at 18.9% in 1Q23 (details on taxable income on slide 33)

1) Companhia Brasileira de Educação e Sistemas de Ensino S.A., entity incorporating acquired businesses. 2) Business not yet incorporated. 3) Subject to change.



Adjusted EBITDA reconciliation

In R\$, M
(unaudited)

Adjusted EBITDA Reconciliation	1Q23	1Q22
Profit (loss) for the period/year	90.622	102.659
(+/-) Income taxes	(29.939)	6.231
(+/-) Finance result	58.971	(34.132)
(+) Depreciation and amortization	93.176	65.781
(+/-) Share of loss of equity-accounted investees	852	5.642
EBITDA	213.682	146.181
(+) Share-based compensation plan (RSU - restricted stock units) ¹	36.980	15.423
(+) Share-based compensation plan and restricted stock units	20.824	8.020
(+) Provision for payroll taxes (restricted stock units)	16.156	7.403
(+) M&A expenses	3,089	1,472
(-) Other changes to equity accounted investees ²	(156.414)	(16.413)
(+) Non-recurring expenses ³	13.348	-
Adjusted EBITDA	110.685	146.663
Net revenue	534,906	430,037
EBITDA Margin	39.9%	34.0%
Adjusted EBITDA Margin	20.7%	34.1%

1) RSU was punctually impacted in 1Q23 due to incorporation/emission of isaac team plans. 2) Refers to (gains) losses related to capital contribution from others on investees leading to an increase in equity of the investee, and non-recurring expenses related to acquisitions. 3) Non-recurring expenses mainly relate to SOx implementation in acquired businesses.



Adjusted net income reconciliation

In R\$, M
(unaudited)

Adjusted Net Income Reconciliation	1Q23	1Q22
Profit (loss) for the period	90,622	102,659
(+) Share-based compensation plan ¹	36,980	15,423
(+) Share-based compensation plan and restricted stock units	20,824	8,020
(+) Provision for payroll taxes (restricted stock units)	16,156	7,403
(+) M&A expenses	3,089	1,472
(-) Other changes to equity accounted investees ²	(156,414)	(16,413)
(+) Non-recurring expenses ³	13,348	-
(+/-) Adjustments related to business combination	56,995	49,903
(+) Amortization of intangible assets from business combinations	30,363	28,457
(+/-) Changes in accounts payable to selling shareholders	17,601	7,028
(+) Interest expenses, net (adjusted by fair value)	9,031	14,418
(+/-) Non-cash adjustments related to derivative instruments and convertible notes ⁴	(54,983)	(105,649)
(+/-) Tax effects	(31,662)	(16,140)
Adjusted Net Income	(42,025)	31,255
Net Revenue	534,906	430,037
Adjusted Net Income Margin	-7.9%	7.3%
Weighted average shares	65,778	56,100
Adjusted EPS	(0.64)	0.56

1) RSU was punctually impacted in 1Q23 due to incorporation/emission of isaac team plans . 2) Refers to (gains) losses related to capital contribution from others on investees leading to an increase in equity of the investee. 3) Non-recurring expenses relate to (i) SOx implementation in acquired businesses. 4) Adjustment previously named "(+/-) Changes in fair value of derivative instruments".



Free cash flow reconciliation

In R\$, M
(unaudited)

Free cash flow (managerial)	1Q23	1Q22
(Loss) profit before income taxes	60,683	108,890
(+/-) Adj. to reconcile profit (loss) before income taxes to cash from operations	65,115	16,577
(+/-) Working Capital (changes in assets and liabilities)	150,026	(22,681)
Cash from operations	275,824	102,786
<i>% of Net revenues</i>	<i>51.6%</i>	<i>23.9%</i>
(-) Income taxes paid	(31,165)	(42,682)
(-) CAPEX ¹	(37,040)	(46,977)
Free cash flow to firm (managerial)¹	207,619	13,127
<i>% of Net revenues</i>	<i>38.8%</i>	<i>3.1%</i>
(-) Interest paid on loans and financing & lease liabilities	(112,957)	(16,887)
(-) Interest paid on accounts payable to selling shareholders	(227)	(378)
Free cash flow (managerial)	94,435	(4,138)
<i>% of Net revenues</i>	<i>17.7%</i>	<i>-1.0%</i>
(+/-) M&A related	119,473	(7,502)
(-) Repurchase of shares & foreign cash	(580)	(36,751)
(+/-) Loans and financing	(15,959)	(212,153)
(+/-) Financial investments (net)	1,330	20,560
Change in cash & financial investments	198,699	(239,984)
Cash & financial investments ³ at the beginning of the period	639,006	1,225,199
Cash & financial investments ³ at the end of the period	837,705	985,215

1) In 1Q22, the Acquisition of Intangible Assets line in our IFRS cash flow statement includes R\$ 5.5 million from PGS and Mentos acquisition. For managerial disclosure purposes, in the table above CAPEX did not include such operation. The R\$ 5.5 M was classified in "(+/-) M&A related" line.



Taxable income reconciliation

In R\$, M
(unaudited)

Taxable Income Reconciliation	1Q23	1Q22
Profit before income taxes	60,683	108,890
(+) Share-based compensation plan, RSU and provision for payroll taxes ¹	25,129	(2,232)
(+) Amortization of intangible assets from business combinations before incorporation ¹	4,181	7,752
(+/-) Changes in accounts payable to selling shareholders ¹	(9,226)	29,873
(+/-) Share of loss of equity accounted investees	852	5,642
(+) Net income from Arco Platform (Cayman)	(177,442)	(109,515)
(+) Fiscal loss without deferred	1,930	5,151
(+/-) Provisions booked in the period	103,356	31,285
(+) Tax loss carryforward	69,887	29,679
(+) Others	528	5,080
Taxable income	79,878	111,605
Current income tax under actual profit method	(27,159)	(37,945)
<i>% Tax rate under actual profit method</i>	<i>34%</i>	<i>34%</i>
(+) Effect of presumed profit benefit	-	-
Effective current income tax	(27,159)	(37,946)
<i>% Effective tax rate</i>	<i>-34%</i>	<i>-34%</i>
(+) Recognition of tax-deductible amortization of goodwill and added value ²	20,693	11,322
(+/-) Other additions (exclusions)	(8,619)	4,777
Effective current income tax accounted for goodwill benefit	(15,085)	(21,847)
% Effective tax rate accounting for goodwill benefit	18.9%	19.6%

1) Temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base that will yield amounts that can be deducted in the future when determining taxable profit or loss. 2) Added value refers to the fair value of intangible from business combinations.



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