**Arco Platform Limited**

Unaudited interim condensed

consolidated financial statements

March 31, 2021

**Arco Platform Limited**

Interim condensed consolidated statements of financial position

As of March 31, 2021, and December 31, 2020

*(In thousands of Brazilian reais, unless otherwise stated)*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Notes** |  | **March 31,** **2021** |  | **December 31, 2020** |
| **Assets** |  |  | (unaudited) |  |  |
| Current assets |  |  |  |  |  |
| Cash and cash equivalents | 4 |  |  360,356  |  | 424,410  |
| Financial investments | 5 |  |  657,348  |  | 712,645  |
| Trade receivables | 6 |  |  522,522  |  | 415,282  |
| Inventories | 7 |  |  69,230  |  | 74,076  |
|  Recoverable taxes |  |  |  22,113  |  | 19,304  |
| Related parties | 8 |  |  3,838  |  | 9,970  |
| Other assets |  |  |  30,581  |  | 24,073  |
| **Total current assets** |  |  |  **1,665,988**  |  | **1,679,760** |
| Non-current assets |  |  |  |  |  |
| Deferred income tax | 21 |  |  243,656  |  | 236,903  |
| Recoverable taxes |  |  |  1,121  |  | 1,121  |
| Financial investments | 5 |  |  14,294  |  | 10,349  |
| Related parties | 8 |  |  11,731  |  | 10,508  |
| Other assets |  |  |  25,280  |  | 22,239  |
| Investments and interests in other entities | 9 |  |  33,638  |  | 9,654  |
| Property and equipment | 10 |  |  26,481  |  | 26,087  |
| Right-of-use assets | 11 |  |  34,773  |  | 30,022  |
| Intangible assets | 12 |  |  2,575,577  |  | 2,549,637  |
| **Total non-current assets** |  |  |  **2,966,551**  |  | **2,896,520** |
| **Total assets** |  |  |  **4,632,539** |  | **4,576,280** |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Liabilities** |  |  |  |  |  |
| Current liabilities |  |  |  |  |  |
| Trade payables |  |  |  53,657  |  | 40,925  |
| Labor and social obligations | 14 |  |  87,102  |  | 85,069 |
| Taxes and contributions payable |  |  |  7,022  |  | 9,676  |
| Income taxes payable |  |  |  17,389  |  | 44,731 |
| Advances from customers |  |  |  97,185  |  | 23,080 |
| Lease liabilities | 11 |  |  14,565  |  | 12,742  |
| Loans and financing | 15 |  |  306,476  |  | 107,706  |
| Accounts payable to selling shareholders | 13 |  |  648,172  |  | 656,014  |
| Other liabilities |  |  |  3,042  |  | 331  |
| **Total current liabilities** |  |  |  **1,234,610**  |  | **980,274** |
|  Non-current liabilities |  |  |  |  |  |
| Labor and social obligations | 14 |  |  37,642  |  | 36,570  |
| Lease liabilities | 11 |  |  25,593  |  | 22,478  |
| Loans and financing | 15 |  |  3,157  |  | 203,413  |
| Provision for legal proceedings | 25 |  |  2,201  |  | 1,366  |
| Accounts payable to selling shareholders | 13 |  |  1,160,408  |  | 1,130,501  |
| Other liabilities |  |  |  889  |  | 794  |
| **Total non-current liabilities** |  |  |  **1,229,890**  |  | **1,395,122** |
| **Total liabilities** |  |  |  **2,464,500**  |  | **2,375,396** |
|  |  |  |  |  |  |
| Equity | 16 |  |  |  |  |
| Share capital |  |  |  11  |  | 11  |
| Capital reserve |  |  |  2,149,419  |  | 2,200,645  |
| Share-based compensation reserve |  |  | 87,387 |  | 80,817  |
| Accumulated losses |  |  | (68,778) |  | (80,589) |
| **Total equity** |  |  | **2,168,039** |  | **2,200,884** |
| **Total liabilities and equity** |  |  | **4,632,539** |  | **4,576,280** |

The accompanying notes are part of the unaudited interim condensed consolidated financial statements.

**Arco Platform Limited**

Interim condensed consolidated statements of income and comprehensive income

For the three-month periods ended March 31, 2021 and 2020

*(In thousands of Brazilian reais, except earnings per share)*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Notes** |  | **March 31, 2021** |  | **March 31, 2020** |
|  |  |  | (unaudited) |  | (unaudited) |
|  |  |  |  |  |  |
| Net revenue | 18 |  |  331,672  |  |  261,579  |
| Cost of sales | 19 |  |  (87,125) |  |  (67,220) |
|  |  |  |  |  |  |
| **Gross profit** |  |  |  **244,547**  |  |  **194,359**  |
|  |  |  |  |  |  |
| Selling expenses | 19 |  |  (119,658) |  |  (87,900) |
| General and administrative expenses | 19 |  |  (74,306) |  |  (66,783) |
| Other income, net |  |  |  1,525  |  |  412  |
|  |  |  |  |  |  |
| **Operating profit** |  |  |  **52,108**  |  |  **40,088**  |
|   |  |  |  |  |  |
| Finance income | 20 |  |  9,940  |  |  9,387  |
| Finance costs | 20 |  |  (38,614) |  |  (38,339) |
| Finance result | 20 |  |  **(28,674)** |  |  **(28,952)** |
|   |  |  |  |  |  |
| Share of loss of equity-accounted investees | 9 |  |  (1,023) |  |  (706) |
|  |  |  |  |  |  |
| **Profit before income taxes** |  |  |  **22,411**  |  |  **10,430**  |
|  Income taxes - income (expense) |  |  |  |  |  |
|  Current |  |  |  (17,353) |  |  (32,188) |
|  Deferred |  |  |  6,753  |  |  25,579  |
|  | 21 |  |  **(10,600)** |  |  **(6,609)** |
|  |  |  |  |  |  |
| **Net profit for the period** |  |  |  **11,811**  |  |  **3,821**  |
|  |  |  |  |  |  |
| Other comprehensive income for the period |  |  | - |  | - |
| **Total comprehensive income for the period** |  |  | **11,811** |  | **3,821** |
|  |  |  |  |  |  |
| Basic earnings per share - in Brazilian *reais* | 17 |  |  |  |  |
| Class A  |  |  | 0.21 |  | 0.07 |
| Class B |  |  | 0.21 |  | 0.07 |
| Diluted earnings per share - in Brazilian *reais* | 17 |  |  |  |  |
| Class A |  |  | 0.20 |  | 0.07 |
| Class B |  |  | 0.21 |  | 0.07 |

The accompanying notes are part of the unaudited interim condensed consolidated financial statements.

**Arco Platform Limited**

Interim condensed consolidated statements of changes in equity

For the three-month periods ended March 31, 2021 and 2020

*(In thousands of Brazilian reais, unless otherwise stated)*

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **Share capital** | **Capital reserve** | **Share-based compensation reserve** | **Accumulated losses** | **Total** |
|  |  |  |  |  |  |  |
| **Balances at December 31, 2019** |  | **11** | **1,607,622** | **84,546** | **(97,369)** | **1,594,810** |
|  |  |  |  |  |  |  |
| Net profit for the period |  | - | - | - | 3,821 | 3,821 |
| **Total comprehensive income** |  | **-** | **-** | **-** | **3,821** | **3,821** |
| Share based compensation plan |  | - | - | 8,907 | - | 8,907 |
|  |  |  |  |  |  |  |
| **Balances at March 31, 2020 (unaudited)** |  | **11** | **1,607,622** | **93,453** | **(93,548)** | **1,607,538** |
|  |  |  |  |  |  |  |
| **Balances at December 31, 2020** |  | **11** | **2,200,645** | **80,817** | **(80,589)** | **2,200,884** |
|  |  |  |  |  |  |  |
| Net profit for the period |  | - | - | - | 11,811 | 11,811 |
| **Total comprehensive income** |  | **-** | **-** | **-** | **11,811** | **11,811** |
| Share based compensation plan |  | - | - | 8,371 | - | 8,371 |
| Purchase of treasury shares (Note 16.b) |  | - | (53,027) | - | - | (53,027) |
| Investments shares transferred (Note 14) |  | - | 1,801 | (1,801) | - | - |
|  |  |  |  |  |  |  |
| **Balances at March 31, 2021 (unaudited)** |  | **11** | **2,149,419** | **87,387** | **(68,778)** | **2,168,039** |

The accompanying notes are part of the unaudited interim condensed consolidated financial statements.

**Arco Platform Limited**

Interim condensed consolidated statements of cash flows

For the three-month periods ended March 31, 2021 and 2020

*(In thousands of Brazilian reais)*

|  |  |  |  |
| --- | --- | --- | --- |
|  | **March 31, 2021** |  | **March 31, 2020** |
|  | (unaudited) |  | (unaudited) |
| **Operating activities** |  |  |  |
|  | Profit before income taxes for the period | 22,411 |  | 10,430 |
|  |  | Adjustments to reconcile profit before income taxes |  |  |  |
|  |  |  | Depreciation and amortization |  48,052  |  |  28,675  |
|  |  |  | Inventory reserves |  2,224  |  |  2,106  |
|  |  |  | Allowance for doubtful accounts |  3,889  |  |  6,168  |
|  |  |  | Loss on sale/disposal of property and equipment and intangible assets disposed |  133  |  |  672  |
|  |  |  | Fair value change in financial instruments from acquisition interests |  -  |  |  54  |
|  |  |  | Changes in accounts payable to selling shareholders |  (2,188) |  |  6,600  |
|  |  |  | Share of loss of equity-accounted investees |  1,023  |  |  706  |
|  |  |  | Share-based compensation plan | 9,366 |  |  8,907  |
|  |  |  | Accrued interest |  3,689  |  |  1,242  |
|  |  |  | Interest accretion on acquisition liability |  27,381  |  |  20,266  |
|  |  |  | Income from non-cash equivalents |  (3,766) |  |  (2,039) |
|  |  |  | Interest on lease liabilities |  1,019  |  |  732  |
|  |  |  | Provision for legal proceedings |  646  |  |  33  |
|  |  |  | Provision for payroll taxes (restricted stock units) |  (521) |  |  5,888  |
|  |  |  | Foreign exchange income |  279  |  |  (742) |
|  Other financial cost/revenue, net | (359) |  | - |
| Changes in assets and liabilities |  |  |  |
|  | Trade receivables |  (109,075) |  |  (20,712) |
|  | Inventories |  3,578  |  |  (485) |
|  | Recoverable taxes |  (477) |  |  (1,694) |
|  | Other assets |  (3,931) |  |  (17,036) |
|  | Trade payables |  12,118  |  |  12,638  |
|  | Labor and social obligations |  2,335  |  |  (5,542)  |
|  | Taxes and contributions payable |  (2,804) |  |  (2,560) |
|  | Advances from customers |  73,783  |  |  49,480  |
|  | Other liabilities |  423  |  |  (58) |
|  |  |  |  |  |
|  | **Cash generated from operations** |  **89,228**  |  |  **103,729**  |
|  |  |  |   |  |  |  |
|  | Income taxes paid |  (46,988) |  |  (57,543) |
|  | Interest paid on lease liabilities |  (860) |  |  (425) |
|  | Interest paid on accounts payable to selling shareholders |  (4,153) |  | **-** |
|  | Interest paid on loans and financing |  (3,567) |  | **-** |
|  | Payments for contingent consideration |  -  |  | (3,696) |
|  | **Net cash flows from operating activities** |  **33,660** |  |  **42,065**  |
|  |  |  |  |  |
| **Investing activities** |  |  |  |
|  | Acquisition of property and equipment |  (2,998) |  |  (2,377) |
|  | Payment of investments and interests in other entities |  (25,027) |  |  (12,675) |
|  | Acquisition of subsidiaries, net of cash acquired | (15,217) |  | - |
|  | Acquisition of intangible assets |  (32,701) |  |  (17,059) |
|  | Purchase (sale) of financial investments |  55,117  |  |  (183,176) |
|  | **Net cash flows used in investing activities** |  **(20,826)**  |  |  **(215,287)** |
| **Financing activities** |  |  |  |
| Purchase of treasury shares |  (53,026) |  | - |
| Payment of lease liabilities |  (3,390) |  |  - |
| Payment of loans and financing |  (1,700) |  | (2,354) |
| Payment to owners to acquire entity’s shares | (18,493) |  | - |
| Loans and financing |  -  |  |  198,925  |
| **Net cash flows (used in) from financing activities** |  **(76,609)** |  | **196,571** |
|  |  |  |  |
| Foreign exchange effects on cash and cash equivalents |  (279) |  |  742  |
|  |  |  |  |
| **(Decrease) increase in cash and cash equivalents** |  **(64,054)**  |  |  **24,091**  |
|  |  |  |  |
| Cash and cash equivalents at the beginning of the period |  424,410  |  |  48,900  |
| Cash and cash equivalents at the end of the period |  360,356  |  |  72,991  |
| **(Decrease) increase in cash and cash equivalents** | **(64,054)** |  |  **24,091**  |

The accompanying notes are part of the unaudited interim condensed consolidated financial statements.

**Notes to the unaudited interim condensed consolidated financial statements**

**Expressed in thousands of Brazilian reais, unless otherwise stated**

* + 1. Corporate information

Arco Platform Limited (“Arco”) is a holding company incorporated under the laws of the Cayman Islands on April 12, 2018 and whose shares are publicly traded on the National Association of Securities Dealers Automated Quotations Payments exchange (NASDAQ) under the ticker symbol “ARCE”. Arco and its subsidiaries are collectively referred to as the Company. Arco became the parent company of Arco Educação S.A. ("Arco Brazil") through the completion of the corporate reorganization and initial public offering of the Company in 2018. Arco Brazil is the holding company of the operating subsidiaries, including PSD Educação S.A. (“PSD”), which provides educational content from basic to secondary education (“K-12 curriculum”). The Company’s principal administrative office is located at 2840 Rua Augusta, 9th Floor, Consolação, São Paulo, Brazil.

These unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors on May 21, 2021.

1.2 Significant events during the

1. **Acquisition of investments**

Acquisition of additional shares of Geekie

On January 20, 2021, Arco acquired an additional 1.36% interest in Geekie’s share capital through a capital increase of R$4,000, increasing its total interest to 57.42%.

Investment in INCO Limited (“INCO”)

On January 25, 2021, the Company acquired 8,571,427 series B ordinary shares of INCO, a company that provides financial and administrative services to private schools, equivalent to 30% of the total stock capital for R$ 25,000. See Note 9 for further information.

Acquisition of COC and Dom Bosco learning systems

On March 6, 2021, the Company announced that it entered into a definitive agreement (the “Purchase Agreement”) with Pearson Education do Brasil Ltda. (“Pearson”) to acquire COC and Dom Bosco, two important K-12 learning systems in Brazil, for R$920 million in cash.

COC and Dom Bosco have over 50 years of academic track record in Brazil, serving over 800 partner schools and around 210 thousand students in all regions of the country, from pre-K to high school and pre-university. The brands have a strong presence in the Southeast region of Brazil, especially in the state of São Paulo.

Arco expects to accelerate the growth of COC and Dom Bosco by updating their content and technology, improving distribution and customer service capabilities, as well as to cross-sell supplemental solutions within the COC and Dom Bosco partner school base.

Pursuant to the Purchase Agreement, Arco will acquire 100% of COC and Dom Bosco learning systems for R$920 million in cash, equivalent to 14.4x 2020 EBITDA, with (i) 80% of the purchase price payable at the time of closing, and (ii) the remaining 20% of the purchase price payable on the first anniversary of the closing date, as adjusted. The transaction also includes an agreement with Pearson to distribute some supplemental educational solutions for K-12 schools in Brazil.

This transaction is not subject to any shareholder approvals, but is subject to customary closing conditions, including Brazilian antitrust approvals.

Acquisition of Me Salva!

On March 12, 2021, the Company announced that it had acquired Me Salva!, an online educational solution that prepares students to be admitted to the best universities in Brazil.

Me Salva! was founded in 2011 with the mission of helping students to improve their ENEM scores and to be admitted to the best universities in the country. The online solutions platform offers recorded and live video classes, comprehensive exercises, essay writing tools, assessment tests, 1-on-1 tutoring and personalized study plans.

This transaction expands Arco’s supplemental solutions portfolio to test prep and tutoring, with an estimated addressable market of R$5 billion and favorable growth prospects. The deal rationale relies on accelerating Me Salva!’s growth by leveraging Arco’s resources, and strengthening Arco’s B2B2C winning factors with new digital capabilities. See Note 3 for further information.

1. **Information related to Covid-19 pandemic**

In January 2021, the COVID vaccine began to be applied in Brazil. Vaccination started with the priority groups: health workers, the elderly, the disabled and indigenous villagers. Although there is no exact date for application in 100% of the population, expectations are for 2022.

Despite the beginning of the vaccination, Brazil is facing a new wave of contamination from COVID-19 variants and the future impact of the COVID-19 pandemic on an ongoing basis is still uncertain and will remain a factor in the analysis of key estimates and judgements used in preparing the Company’s financial statements, especially given the rapid and unexpected changes the pandemic is posing to global and local economic environments.

The measures of restrictions taken by Brazilian states and local authorities directly impacted the education industry by indefinitely postponing on-site school activities. Nonetheless, as education is an important and essential service, Brazilian private schools are conducting classes on a flex model, with classroom and virtual classes. In Brazil, the resumption of economic activity is occurring in stages, some activities are gradually being released by some states, including in person classes in some cases in accordance with specific health and safety protocols. The return is occurring differently in each Brazilian state, according to their particular situations.

Notwithstanding the above, the Company did not suspend its activities and, despite the return allowed by the authorities, most of its workforce continues to work remotely from home, except for some people from administrative teams and distribution centers’ teams that are working on site in accordance with health and safety protocols and social distancing guidelines. In this scenario, the Company has made additional investments in IT and network infrastructure; incurred additional expenses for cleaning and disinfecting the installations; purchased alcohol and masks; funded COVID-19 tests and H1N1 flu vaccination campaigns with the objective of taking care of its employees, reducing the demand for care in health units and facilitating the diagnosis of COVID-19. The Company also delivered chairs, computers, and work kits to its employees. Additionally, to support partner schools, since day 1 of the pandemic, the Company has made available an integrated platform with daily live classes to all students, webinars, broadcast, and remote support to maintain student learning, while complying with the social distancing measures.

The measures discussed above, including travel restrictions, were put in place to safeguard the health and safety of our employees, customers, and suppliers, but have not limited the Company’s ability to maintain its operations. In addition, these alternative working arrangements have not adversely affected financial reporting systems, internal control over financial reporting or disclosure controls and procedures.

Our content production continues according to the scheduled curriculum calendar and the current educational material has been delivered to the schools according to their calendar for the year, enabling the Company to recognize revenues on these products.

With respect to the Company’s distribution and delivery capacity, which relies on third parties, the Company’s main suppliers did not raise any issues related to their ability to fulfill scheduled shipments or indicated the need to incur in any significant additional expenses.

As a result, as of March 31, 2021, the following events and transactions occurred during the period:

* The Company incurred additional expenses of R$ 579 related to health care in food and emotional health programs offered to the Company’s employees.
* The Company assessed the existence of potential impairment indicators and the possible impacts on the key assumptions and projections caused by the pandemic on the recoverability of long-lived assets and concluded that there are no indications that demonstrate the need to recognize a provision for impairment of long-lived assets in the consolidated financial statements.
* The Company obtained rent concessions, regarding leased buildings, that occurred as a direct consequence of the COVID-19 pandemic and were accounted as if they were not lease modifications. Therefore, no changes occurred in the expected useful life and residual value of properties and equipment. For the quarter ended March 31, 2021, the discount obtained was R$ 132.

Given the uncertainty around the extent and timing of the future spread of COVID-19, the imposition of additional protective measures, or the relaxation of existing protective measures, it is not possible to accurately predict COVID-19's general impact on the education industry or to reasonably estimate its impact on Arco's results of operations, cash flows or financial condition, including, but not limited to:

* A decrease in the number of students, which may impact the expected amount of revenue.
* An increase in bad debts due to the current economic scenario.
* A change in the fair value of financial instruments.
* The renegotiation of loans and lease agreements to ensure the continued strength of the Company’s financial position.

Management will continue to monitor and assess the impact COVID-19 may have on the Company’s business financial performance and position and cash flows.

* + 1. Significant accounting policies

2.1 Basis for preparation of the consolidated financial statements

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain disclosures included in the Company’s annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the IASB have been condensed or omitted. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2020, which include information necessary or useful to understanding the Company’s business and financial statement presentation. In particular, the Company’s significant accounting policies were presented in Note 2 Significant accounting policies to the consolidated financial statements for the year ended December 31, 2020.

The accounting policies applied in the preparation of these unaudited interim condensed consolidated financial statements are consistent with those applied and disclosed in the Company’s consolidated financial statements for the year ended December 31, 2020.

In preparing these unaudited interim condensed consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenue, and expenses. Actual results may differ from these estimates. The critical judgements made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those applied and disclosed in Note 3 Significant accounting estimates and assumptions to the Company’s consolidated financial statements for the year ended December 31, 2020.

The unaudited interim condensed consolidated financial statements are presented in Brazilian reais (“BRL” or “R$”), which is the Company’s functional and presentation currency. All amounts are rounded to the nearest thousands, except when otherwise indicated.

2.2 Changes in accounting policies and disclosures

New and amended standards and interpretations

A number of new or amended standards became applicable for the current reporting period. The Company did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards..

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company’s financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective. The Company is assessing the impact that changes in the standards will have in current practice, but does not expect a significant impact to occur on the Company's financial statements:

* Amendments to IAS 1: Classification of Liabilities as Current or Non-current
* Reference to the Conceptual Framework – Amendments to IFRS 3
* Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
* Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
* Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
* Definition of Accounting Estimates (Amendments to IAS 8)
* Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)
* Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)
	+ 1. Business combinations and acquisition of non-controlling interests

The fair value of the identifiable assets and liabilities as of the date of each acquisition was:

|  |
| --- |
|  |
|  | **Fair value as of the acquisition date** |
|  | **March 31, 2021** |
|  | **Me Salva!** |
| Assets |  |
| Cash and cash and equivalents | 10,562 |
| Trade receivables | 2,010 |
| Inventories | 80 |
| Recoverable taxes | 7 |
| Other assets | 160 |
| Property and equipment | 145 |
| Right-of-use assets | 112 |
| Intangible assets | 12,100 |
|  | 25,176 |
| Liabilities |  |
| Trade payables |  614  |
| Labor and social obligations |  296  |
| Taxes and contributions payable |  211  |
| Leases |  112  |
| Loans and financing |  91  |
| Advances from customers |  322  |
| Other liabilities |  2,262  |
|  |  3,908  |
| **Total identifiable net assets at fair value** |  **21,268**  |
|  |  |
| Goodwill arising on acquisition | 28,030 |
| **Purchase consideration transferred** | **49,298** |
| Cash paid | 15,779 |
| Capital contribution | 10,000 |
| Forward contract of controlling interest at acquisition | 22,196 |
| Retained payments | 1,324 |
| ***Analysis of cash flows on acquisition:*** |  |
| Transaction costs of the acquisition (included in cash flows fromoperating activities) | (192) |
| Cash paid and subscribed capital net of cash acquired with the subsidiary (included in cash flows from investing activities) | (15,217) |

The purchase price allocation is subject to change during the period of completion of the determination of the fair value of intangible assets according to the deadline defined by IFRS.

* + - * 1. Me Salva! Cursos e Consultorias S/A (“Me Salva!”)

On March 12, 2021, the Company acquired control of Me Salva!, by acquiring 60.0% of the outstanding shares on the acquisition date.

Me Salva! is an online educational solution that prepares students to be admitted to the best universities in Brazil.

The purchase consideration transferred was R$ 49,298, comprised of: (i) R$ 15,779 related to cash consideration paid on the acquisition date; (ii) R$ 10,000 capital contribution paid on the acquisition date; (iii) R$ 1,324 retained for the period of 5 years for any eventual inaccuracies in the fulfillment of the guarantees given in the purchase and sale agreement, which will be released in five annual installments, and; (iv) the amount of R$ 22,196 which will be paid in March 2025.

The Company did not recognize deferred taxes related to the business combination because the tax basis and the accounting basis, including fair value adjustments, were the same at the date of the business combination.

*Goodwill*

The goodwill recorded on the acquisition was R$ 28,030 and it is expected to be deductible for tax purposes after the Company merges the acquiree. For the purposes of impairment testing, the goodwill has been allocated to the Supplemental operating segment.

The goodwill acquired is primarily attributable to the expected synergies and other benefits from combining the assets and activities of Me Salva! with those of the Company. The goodwill paid is based on the Business Plan prepared for purposes of the acquisition, and the principal business assumptions used were considered by the administration as appropriate.

*Transaction costs*

Transaction costs of R$ 192 were expensed and are included in general and administrative expenses as of March 31, 2021.

Measurement of fair value

The valuation techniques used for measuring the fair value of separate identified intangible assets acquired were as follows:

|  |  |
| --- | --- |
| Asset acquired | Valuation technique |
| Customer relationship | Multi-period excess earning methodThe method considers the present value of net cash flows expected to be generated by customer relationship, by excluding any cash flows related to contributory assets. |
| Non-compete agreement | With-and-without methodThe With-and-Without method consists of estimating the fair value of an asset by the difference between the value of this asset in two scenarios: a scenario considering the existence of the asset in question and another, considering its non-existence. |
| **Trademarks** | Relief-from-royalty methodThe relief-from-royalty method considers the discount estimated royalty payments that are expected to be avoided as a result of the educational platform being owned. |
| **Software** | Replacement costThe method considers the amount that an entity would have to pay to replace at the present time, according to its current worth. |
| **Educational content** | Replacement costThe method considers the amount that an entity would have to pay to replace at the present time, according to its current worth. |

* + - * 1. Revenue and profit contribution

The individual net revenue and net income from the acquisition date through the period end for business combination are presented below:

|  |  |
| --- | --- |
|  | **March 31, 2021** |
|  | **Me Salva!** |
|  |  |
| Total net revenue | 939 |
| Loss before income taxes | (236) |

Total revenue and income and net income for the Company are presented below on a pro-forma basis assuming the acquisition had occurred at the beginning of the year:

|  |  |
| --- | --- |
|  | **March 31, 2021** |
|  |  |
| Pro-forma total net revenue | 333,185 |
| Pro-forma profit before income taxes |  22,323 |

This pro-forma financial information is presented for informational purposes only and does not purport to represent what the Company's results of operations would have been had it completed the acquisition on the date assumed, nor is it necessarily indicative of the results that may be expected in future periods.

* + 1. Cash and cash equivalents

|  |  |  |  |
| --- | --- | --- | --- |
|  | **March****31, 2021** |  | **December****31, 2020** |
|  | (unaudited) |  |  |
|  |  |  |  |
| Cash and bank deposits | 38,840 |  | 7,536 |
| Bank deposits in foreign currency (a)  | 5,120 |  | 28,327 |
| Cash equivalents (b) | 316,396 |  | 388,547 |
|  | **360,356** |  | **424,410** |

1. Short-term deposits maintained in U.S. dollar.
2. Cash equivalents correspond to financial investments in Bank Certificates of Deposit (“CDB”) of highly rated financial institutions. As of March 31, 2021, the average interest on these CDB is equivalent to 84.7% (December 31, 2020: 95.4%) of the Interbank Certificates of Deposit (“CDI”). These financial investments are available for immediate use and have insignificant risk of changes in value.
	* 1. Financial investments

|  |  |  |  |
| --- | --- | --- | --- |
|  | **March****31, 2021** |  | **December 31, 2020** |
|  | (unaudited) |  |  |
|  |  |  |  |
| Financial investments (a) | 670,532 |  | 721,935  |
| Financial investments in foreign currency  | 593 |  | 542  |
| Other | 517 |  | 517  |
|  | **671,642** |  | **722,994** |
| Current | 657,348 |  | 712,645  |
| Non-current | 14,294 |  | 10,349  |

1. Financial investments correspond to investments managed by highly rated financial institutions. As of March 31, 2021, the average interest on these investments is equivalent to 101.7% (2020: 101.3%) of the CDI. The average CDI rate during the three-month period was 0.16% per month.

* + 1. Trade receivables

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **March****31, 2021** |  | **December****31, 2020** |
|  |  | (unaudited) |  |  |
|  |  |  |  |  |
| From sales of educational content |  | 585,943 |  | 475,507  |
| From related parties (Note 8) |  | 3,898 |  | 3,209  |
|  |  | **589,841** |  | **478,716**  |
| (-) Allowance for doubtful accounts |  | (67,319) |  | (63,434) |
|  |  | **522,522** |  | **415,282** |

As of March 31, 2021, and December 31, 2020, the aging of trade receivables was as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **March****31, 2021** |  | **December****31, 2020** |
|  |  | (unaudited) |  |  |
|  |  |  |  |  |
| Neither past due nor impaired |  | 481,879 |  | 360,737 |
|  |  |  |  |  |
| Past due |  | 107,962 |  | 117,979 |
|  |  |  |  |  |
| 1 to 60 days |  | 20,478 |  | 26,206 |
| 61 to 90 days |  | 6,876 |  | 9,973 |
| 91 to 120 days |  | 4,522 |  | 10,528 |
| 121 to 180 days |  | 10,968 |  | 18,887 |
| More than 180 days |  | 65,118 |  | 52,385 |
|  |  | **589,841** |  | **478,716** |

The movement in the allowance for doubtful accounts for the three-month periods ended March 31, 2021 and 2020, was as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **March****31, 2021** |  | **March****31, 2020** |
|  |  | (unaudited) |  | (unaudited)  |
|  |  |  |  |  |
| Balance at beginning of the period |   | (63,434) |  | (30,051) |
| Additions |  | (3,889) |  |  (6,168) |
| Receivables written off during the period as uncollectible |  | 4 |  |  911  |
| **Balance at end of period** |  | **(67,319)** |  |  **(35,308)** |

* + 1. Inventories

|  |  |  |  |
| --- | --- | --- | --- |
|  | **March****31, 2021** |  | **December****31, 2020** |
|  | (unaudited) |  |  |
|  |  |  |  |
| Educational content | 23,347 |  | 30,167  |
| Educational content in progress (a) | 37,919 |  | 37,276  |
| Consumables and supplies | 1,702 |  | 1,198  |
| Inventories held by third parties | 6,262 |  | 5,435  |
|  | **69,230** |  | **74,076** |

1. Costs being incurred to develop educational content. These costs include incurred personnel costs and third parties’ services for editing educational content and related activities (graphic design, editing, proofreading and layout, among others).

Educational content is presented net of inventory reserve. The movement in the inventory reserve for the three-month periods ended March 31, 2021 and 2020 was as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **March****31, 2021** |  | **March****31, 2020** |
|  |  | (unaudited) |  | (unaudited) |
|  |  |  |  |  |
| Balance at beginning of the period |  | (7,510) |  |  (6,517) |
| Inventory reserve |  | (2,224) |  |  (2,106) |
| Write-off of inventories against reserve |  | 832 |  |  949  |
| **Balance at end of the period** |  | **(8,902)** |  |  **(7,674)** |

* + 1. Related parties

The table below summarizes the balances and transactions with related parties:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **March****31, 2021** |  | **December****31, 2020** |
| **Assets** | (unaudited) |  |  |
| **Trade receivables**  |  |  |  |
| Livraria ASC Ltda. and Educadora ASC Ltda. (a) | 3,898 |  | 3,209 |
|  | **3,898** |  | **3,209** |
| **Loans to related parties** |  |  |  |
| Loans - Geekie (b) | 4,383 |  | 4,361 |
| OISA Tecnologia e Serviços Ltda. (c) | - |  | 5,018 |
| Former shareholders - EI (d) | 11,186 |  | 11,099 |
|  | **15,569** |  | **20,478** |
| Current | 3,838 |  | 9,970 |
| Non-current | 11,731 |  | 10,508 |
|  |  |  |  |
| Liabilities |  |  |  |
| **Advances from customers** |  |  |  |
| Livraria ASC Ltda. and Educadora ASC Ltda. (a) | (116) |  | (150) |
|  | **(116)** |  | **(150)** |
| **Other liabilities**OISA Tecnologia e Serviços Ltda. (e) | 145 |  | 469 |  |
|  | **145** |  | **469** |  |
|  | **March****31, 2021** |  | **March****31, 2020** |  |
|  | (unaudited) |  | (unaudited) |
| **Net revenue** |  |  |  |
| Livraria ASC Ltda. and Educadora ASC Ltda. (a) | 1,829 |  | 624 |
| OISA Tecnologia e Serviços Ltda. (e) | 5 |  | - |
|  | 1,834 |  | 624 |
|  |  |  |  |
| **Expenses** |  |  |   |
| ASC Empreendimentos Ltda. and OSC Empreendimentos Ltda. | - |  |  (1) |
|  |  |  |  |
| **Finance income** |  |  |  |
| WPensar S.A. | - |  | 13  |
| Geekie (b) | 22 |  | 167  |
| OISA Tecnologia e Serviços Ltda. (c) | 19 |  | -  |
| Minority shareholders - EI (d) | 87 |  | -  |
|  | **128** |  | **180** |

1. Arco Ventures S.A. and International School sell educational content to Livraria ASC Ltda. and Educadora ASC Ltda., entities under common control of the Company’s controlling shareholders. The transactions are priced based on contract price at the sales date. Sales price for these transactions are conducted at arm’s length, at similar observable market prices.
2. On January 17, 2019, the Company loaned R$ 4,000 to Geekie Partners S.A., the current minority shareholder of Geekie, through a loan agreement with payment due in June 2022, interest of 110% of the CDI, and with their entire interest in Geekie’s shares as collateral to the transaction. During the three-month period, the Company recognized R$ 22 of interest income. The transaction was intended to support Geekie’s working capital needs.
3. On October 23, 2020, the Company loaned R$ 5,000 to OISA Tecnologia e Serviços Ltda. (“ISAAC”),an affiliate of the Company and which a member of its key management personnel is a Director of Company. The entity is developing a project to assist schools in financial and administrative management. The amount was paid in February 2021 and the Company recognized R$ 19 of interest income.
4. Amount due by minority shareholders of Escola da Inteligência, with an interest rate of 100% CDI and maturing in May 2023. During the three-month period, the Company recognized R$ 87 of interest income.
5. WPensar provides financial intermediation services to OISA. Amounts collected by WPensar are transferred to OISA net of the value of the service provided. As of March 31, 2021, the amount to be transferred to OISA is R$ 145 and during the three-month period the recognized revenue from financial intermediation was R$ 4.

*Key management personnel compensation*

Key management personnel compensation comprised the following:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **March****31, 2021** |  | **March****31, 2020** |
|  | (unaudited) |  | (unaudited) |
|  |  |  |  |
| Short-term employee benefits | 18,688 |  | 12,443 |
| Restricted stock units | 10,729 |  | 15,958 |
|  | **29,417** |  | **28,401** |

Compensation of the Company’s key management includes short-term employee benefits comprised by salaries, bonuses, labor and social charges, and other ordinary short-term employee benefits.

Certain executive officers also participate in the Company’s share-based compensation plan (Note 14).

* + 1. Investments and interests in other entities
1. Investments

**Bewater Ventures I GA Fundo de Investimento em Participações Multiestratégia (“Bewater”)**

On July 24, 2020, the Company, through its subsidiary PSD Educação S.A. acquired 9,670 Class B quotas of Bewater Ventures I GA Fundo de Investimento em Participações Multiestratégia, a fund managed by Paraty Capital. On the date of transaction, the Company paid the total amount of R$ 9,670, corresponding to a total interest of 14.5% in Bewater. On February 2, 2021, Bewater carried out a new round of capital injection, in which the Company acquired an additional 27 class B quotas, having an 11.1% interest in the fund due to the dilution of the interest.

The fund made a minority investment in Group A, a company that provides educational solutions for higher education. The investment in Bewater is measured at fair value through profit and loss.

**INCO Limited (“INCO”)**

On January 25, 2021, the Company entered into a Share Purchase Agreement with INCO Limited, or INCO, the controlling entity of OISA, a company that provides financial and administrative services to private schools, according to which we acquired 8,571,427 series B ordinary shares, equivalent to 30% of the total stock capital of INCO, for a total amount of R$25,000. Based on the signed agreement, the Company does not have control of INCO but exercises significative influence over the entity since it is one of the four members of INCO’s Board of Directors.

* + 1. Property and equipment

Reconciliation of carrying amount:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  | **March 31, 2021** |  | **March****31, 2020** |  |
|  |  |  |  |  |  |  |  | (unaudited) |  | (unaudited) |  |
|  | **Machinery and equipment** | **Vehicles** | **Furniture and** **fixtures** | **IT equipment** | **Facilities**  | **Leasehold** **improvements** | **Others** | **Total** |  | **Total** |  |
|   |   |   |   |   |   |   |  |   |  |   |  |
| **Cost** |  |  |  |  |  |  |  |  |  |  |  |
| **At the beginning of the period** | **1,991** | **307** | **3,929** | **12,895** | **123** | **14,478** | **6,722** | **40,445** |  | **28,351** |  |
| Additions | 157 | - | 33 | 2,744 | - | 33 | 31 | 2,998 |  | 2,377 |  |
| Business combination | 10 | - | 65 | 20 | - | 50 | - | 145 |  | - |  |
| Disposals | - | - | - | (167) | - | - | - | (167) |  | - |  |
| **At the end of the period** | **2,158** | **307** | **4,027** | **15,492** | **123** | **14,561** | **6,753** | **43,421** |  | **30,728** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Depreciation** |  |  |  |  |  |  |  |  |  |  |  |
| **At the beginning of the period** | **(253)** | **(126)** | **(706)** | **(3,661)** | **(35)** | **(4,616)** | **(4,961)** | **(14,358)** |  | **(7,023)** |  |
| Depreciation charge for the period | (94) | (18) | (100) | (793) | (3) | (1,069) | (546) | (2,623) |  | (1,536) |  |
| Depreciation of disposals | - | - | - | 41 | - | **-** | **-** | 41 |  | - |  |
| **At the end of the period** | **(347)** | **(144)** | **(806)** | **(4,413)** | **(38)** | **(5,685)** | **(5,507)** | **(16,940)** |  | **(8,559)** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Net book value** |  |  |  |  |  |  |  |  |  |  |  |
| **At the beginning of the period** | **1,738** | **181** | **3,223** | **9,234** | **88** | **9,862** | **1,761** | **26,087** |  | **21,328** |  |
| **At the end of the period** | **1,811** | **163** | **3,221** | **11,079** | **85** | **8,876** | **1,246** | **26,481** |  | **22,169** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Annual depreciation rates | 10% | 20% | 10% | 20% | 10% | 10% to 50% | 33% |  |  |  |  |

The Company assesses at each reporting date, whether there is an indication that a property and equipment asset may be impaired. If any indication exists, the Company estimates the asset’s recoverable amount. There were no indications of impairment of property and equipment as of and for the three-month periods ended March 31, 2021 and 2020.

* + 1. Leases

The balance sheet shows the following amounts relating to leases:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **March****31, 2021** |  | **December****31, 2020** |  |
|  | (unaudited) |  |  |  |
| **Right-of-use assets** |  |  |  |  |
| Properties | 34,697 |  | 29,938  |  |
| Machinery and equipment | 76 |  | 84  |  |
|  | **34,773** |  | **30,022** |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **March****31, 2021** |  | **December****31, 2020** |  |
|  | (unaudited) |  |  |  |
| **Lease liabilities** |  |  |  |  |
| Current | 14,565 |  | 12,742  |  |
| Non-current | 25,593 |  | 22,478  |  |
|  | 40,158 |  | **35,220** |  |

Set out below, are the carrying amounts of the Company’s right-of-use assets and lease liabilities and the movements during the period:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **March****31, 2021** |  | **March****31, 2020** |
|  | (unaudited) |  | (unaudited) |
| **Right-of-use assets** |  |  |  |
| **At the beginning of the period** | **30,022** |  | **21,631** |
| Additions | 7,927 |  |  237  |
| Disposal | (64) |  | - |
| Lease modification (a) | 200 |  |  441  |
| Depreciation expense | (3,424) |  | (1,838)  |
| Business combination | 112 |  | - |
| **At the end of the period** | **34,773** |  | **20,471** |
|  |  |  |  |
| Average annual depreciation rate | 28.4% |  | 24.3% |

|  |  |  |  |
| --- | --- | --- | --- |
|  | **March****31, 2021** |  | **March****31, 2020** |
|  | (unaudited) |  | (unaudited) |
| **Lease liabilities** |  |  |  |
| **At the beginning of the period** | **35,220** |  |  **25,857** |
| Additions | 7,927 |  |  237 |
| Disposal | (70) |  | - |
| Lease modification (a) | 200 |  |  441 |
| Business combination | 112 |  | - |
| Interest expense | 1,019 |  | 732 |
| Payments of lease liabilities | (3,258) |  |  (2,354)  |
| Discounts on leases | (132) |  | - |
| Interest paid | (860) |  |  (425)  |
| **At the end of the period** | **40,158** |  | **24,488** |
|  |  |  |  |

(a) Refers to price adjustments that occur annually as defined in the lease agreements.

The Company entered into fiduciary agreements with Banco Safra S.A. in the amount of R$ 10,903 to guarantee payment due in the lease agreements of the São Paulo office. These agreements are calculated considering a rate of 1.95% per year and are adjusted annually by the General Market Price Index (IGP-M).

The Company recognized rent expense from short-term leases and low-value assets of R$ 2,252 for the three-month period ended March 31, 2021 (March 31, 2020: R$ 703).

* + 1. Intangible assets and goodwill

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  | **March****31, 2021** |  | **March****31, 2020** |  |
|  |  |  |  |  |  |  |  |  |  |  | (unaudited) |  | (unaudited) |  |
|  | **Goodwill** | **Rights on contracts** | **Customer relationships** | **Educational system** | **Copyrights** | **Software license and development** | **Trademarks** | **Educational platform** | **Non-compete agreement** | **In Progress** | **Total** |  | **Total** |  |
|   |   |   |   |   |   |   |  |  |  |  |   |  |   |  |
| **Cost** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **At the beginning of the period** | **1,394,351** | **15,263** | **322,143** | **280,998** | **29,460** | **45,317** | **476,354** | **170,348** | **11,856** | **1,857** | **2,747,947** |  | **1,890,899** |  |
| Acquisitions (a) | - | - | - | - | 2,289 | 5,781 | - | 20,435 | 298 | 3,898 | 32,701 |  | 17,059 |  |
| Disposals | - | - | - | - | - | - | - | (252) | - | - | (252) |  | (956) |  |
| Business combinations | 28,030 | - | 60 | 771 | 179 | 4,087 | 6,885 | - | 118 | - | 40,130 |  | - |  |
| Finalization of price allocation (b) | (4,000) | - | - | - | - | - | - | - | - | - | (4,000) |  | - |  |
| Transfer | - | - | - | - | - | - | - | 4,138 | - | (4,138) | - |  | - |  |
| **At the end of the period** | **1,418,381** | **15,263** | **322,203** | **281,769** | **31,928** | **55,185** | **483,239** | **194,669** | **12,272** | **1,617** | **2,816,526** |  | **1,907,002** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Amortization** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **At the beginning of the period** | **-** | **(6,818)** | **(38,237)** | **(49,175)** | **(18,103)** | **(9,741)** | **(27,315)** | **(46,164)** | **(2,757)** | **-** | **(198,310)** |  | **(78,996)** |  |
| Amortization | - | (437) | (8,506) | (8,046) | (1,972) | (2,764) | (6,415) | (14,055) | (683) | - | (42,878) |  | (27,938) |  |
| Amortization of disposals | - | - | - | - | - | - | - | 239 | - | - | 239 |  | 284 |  |
| **At the end of the period** | **-** | **(7,255)** | **(46,743)** | **(57,221)** | **(20,075)** | **(12,505)** | **(33,730)** | **(59,980)** | **(3,440)** | **-** | **(240,949)** |  | **(106,650)** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Net book value** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **At the beginning of the period** | **1,394,351** | **8,445** | **283,906** | **231,823** | **11,357** | **35,576** | **449,039** | **124,184** | **9,099** | **1,857** | **2,549,637** |  | **1,811,903** |  |
| **At the end of the period** | **1,418,381** | **8,008** | **275,460** | **224,548** | **11,853** | **42,680** | **449,509** | **134,689** | **8,832** | **1,617** | **2,575,577** |  | **1,800,352** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Annual amortization years | **-** | 10 | 5 to 16 | 3 to 10 | 3 | 2 to 5 | 10 to 20 | 3 to 10 | 2 to 5 | - |  |  |  |  |

1. The acquisitions of the period are mainly due to the development of educational content from the 2021 collection year, development of technology platforms for the supply of digital content, as well as licenses and software development for new projects.
2. Refers to the Geekie purchase price allocation adjustment made within the completion of the determination of the fair value of intangible assets according to the period defined by IFRS.

**(a) Goodwill**

The carrying amount of goodwill by operating segment was:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **March****31, 2021** |  | **December** **31, 2020** |
|  | (unaudited) |  |  |
|  |  |  |  |
| Core |  914,091  |  | 918,091  |
| Supplemental |  504,290  |  | 476,260  |
|  |  **1,418,381**  |  | **1,394,351** |

*Impairment test for goodwill*

The Company performs its annual impairment test in December and whenever circumstances indicate that the carrying value may be impaired. The Company’s impairment test for goodwill is based on value-in-use calculations. The key assumptions used to determine the recoverable amount for the different cash generating units were disclosed in the annual consolidated financial statements for the year ended December 31, 2020.

There were no indications of impairment for the three-month periods ended March 31, 2021.

(b) Other intangible assets

Intangible assets, other than goodwill, are valued separately for each acquisition and are amortized during each useful life. The useful lives and methods of amortization of other intangibles are reviewed at each financial year end and adjusted prospectively, if appropriate.

For the three-month periods ended March 31, 2021 there were no indicators that the Company’s intangible assets with definite lives might be impaired.

* + 1. Accounts payable to selling shareholders

The breakdown of the liabilities regarding balances of accounts payable from business combinations and investments in associates is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **March****31, 2021** |  | **December 31, 2020** |
|  | (unaudited) |  |  |
| **Accounts payable to selling shareholders** |  |  |  |
| Acquisition of International School (a) | 362,968 |  | 354,950 |
| Acquisition of NS Educação Ltda. (b) | 5,800 |  | 5,724 |
| Acquisition of Escola em Movimento (c) | 1,029 |  | 1,024 |
| Acquisition of Nave à Vela (d) | - |  | 21,941 |
| Acquisition of Positivo (e) | 907,722 |  | 903,428 |
| Acquisition of WPensar (f) | 3,623 |  | 3,605 |
| Acquisition of Studos (g) | 11,260 |  | 11,349 |
| Acquisition of EI (h) | 374,266 |  | 363,502 |
| Acquisition of Geekie (i) | 118,171 |  | 120,992 |
| Acquisition of Me Salva! (j) | 23,741 |  | - |
|  | **1,808,580** |  | **1,786,515** |
| Current | 648,172 |  | 656,014 |
| Non-current | 1,160,408 |  | 1,130,501 |
|  |  |  |  |
|  |  |  |  |

1. The financial liability is recorded at the present value of the estimated amount payable to the non-controlling shareholder to acquire the remaining interest using an estimated interest rate of 13.5% (13.8% in 2020). During the three-month period ended March 31, 2021 the Company recognized R$ 7,788 of interest. The amount payable is based on realized EBITDA for the 2019 and 2020 school years. The amount payable is subject to an arbitration process and will be paid when the course of arbitration mentioned in Note 24. Based on the realized EBITDA for the 2019 and 2020 school years, the accounts payable increased by R$ 230 of fair value adjustment during the three-month period ended March 31, 2021.
2. This amount was retained for any contingent liabilities that may arise, which will be released in annual installments until December 31, 2022. The amount is being adjusted by the interest from Interbank certificates of deposit (CDI).
3. This amount was retained for any contingent liabilities that may arise, which will be released in two annual installments on the first and second anniversary of the acquisition until June 2021. The amount is being adjusted by the Brazilian basic interest rate (SELIC).
4. This amount is related to the remaining acquisition of 49% interest in Nave payable until February 2022. The second tranche was paid in February 2021 and on the same date, as agreed between the Company and the minority shareholders, the parties decided to anticipate the payment of the third tranche. Therefore, on March 31, 2021, the Company has a 100% interest in Nave. During the three-month period ended March 31, 2021, the Company recognized R$ 705 of interest.
5. The amount of the contract is updated by CDI from November 1, 2019 to March 31, 2021. The amount represents 50% of the acquisition price and will be paid over 4 years, 20% payable in 2021 and 2022 and 30% payable in 2023 and 2024. The payment is secured by a guarantee letter through a chattel mortgage of 20% of PSD shares and 100% of SAE shares. During the three-month period ended March 31, 2021, the Company recognized R$ 4,296 of interest.
6. This amount corresponds to 20% of the acquisition price and is being retained until September 30, 2021, for any eventual inaccuracies in the fulfillment of the guarantees given in the purchase and sale agreement. The amount is updated considering 100% of the Interbank certificates of deposit (CDI) calculated from the date of acquisition until the maturity date.
7. The obligation is recognized at present value of the acquisition price using an estimated interest rate of 5,2% for the first installment that will be paid in September 2021 and 6,0% for the second installment due in September 2022. The first and second installments will be paid over the next two years on the anniversary of the acquisition date.
8. This amount is related to the remaining acquisition of 40% interest in EI and will occur over the next two years and subject to price adjustments. This amount is recorded at the present value using an estimated interest rate of 12.9% (13.1% in 2020).

The next installment is payable on May 14, 2021 by the greater of:

* R$ 88,000, or;
* 10 times EI’s ACV book value for 2021 multiplied by 48,43% and multiplied by 60,0% less installment paid in cash on the acquisition date.

The last installment is payable on May 31, 2023 for 6 times EI’s ACV book value for 2023 plus cash generation and multiplied for 40%.

During the three-month period ended March 31, 2021 the Company recognized R$ 10,902 of interest and the accounts payable decreased by R$ 138.

1. The financial liability is recorded at the present value of the estimated amount payable to the non-controlling shareholder upon the exercise of purchasing of the remaining interest using an estimated interest rate of 14.6% (13.1% in 2020). The exercise price will be calculated for two different content (“Geekie One” and “Geekie Others”) and is determined by the greater of:

Geekie One: 8 times Geekie’s ACV book value for 2022 less net debt, multiplied by the remaining interest of sellers; or 0.65 times the multiple of the Company’s ACV book value for 2022, multiplied by Geekie’s ACV for 2022, less net debt, multiplied by the remaining interest of sellers. The amount is due on June 1, 2022.

Geekie Others: 8 times Geekie’s revenue for 2022 multiplied by the remaining interest of sellers; or 0.65 times the multiple of the Company’s ACV book value for 2022, multiplied by Geekie’s revenue for 2022, multiplied by the remaining interest of sellers. The amount is due on January 6, 2023.

During the three-month period ended March 31, 2021 the Company recognized R$ 3,459 of interest and the accounts payable decreased by R$ 2,280.

1. The liability is composed of the present value of the balance payable for the remaining 40% interest in Me Salva!, plus the retained amount defined in the contract. The balance is recognized at present value, using a discount rate of 13.1%. The payment of the retained portion is in the amount of R$ 1,324 and will be made in 5 equal annual installments, commencing in June 2022, while the payment of the second stage will be made in 2025. The acquisition price of 40% is calculated based on based on the estimated 2024 revenue multiplied by 3, plus cash generation. During the three-month period ended March 31, 2021 the Company recognized an interest expense of R$ 221.
	* 1. Labor and social obligations
2. Variable remuneration (bonuses)

The Company recorded bonuses related to variable remuneration of employees and management in cost of sales, selling and administrative expenses in the amount of R$7,337 during the three-month period ended March 31, 2021.

1. Share-based compensation plan

Restricted stock units

In 2019 the Company issued a new share-based payment program called restricted stock units (“RSU”) of the holding company Arco Platfom Limited for employees registered with the Company's subsidiaries, which will be available for sale by the beneficiaries annually, on their anniversary dates, with the exception of the members of the Board, whose shares are blocked for sale for one year after the issue. The related compensation expense will be recognized over the following schedule:

|  |  |
| --- | --- |
| **Final vesting date** | **Quantity of stocks** |
| 28/09/2019 | 197,951 |
| 30/06/2020 | 3,086 |
| 28/09/2020 | 215,709 |
| 30/06/2021 | 3,086 |
| 28/09/2021 | 215,709 |
| 28/09/2022 | 17,757 |
| 30/06/2022 | 5,400 |
| 31/03/2021 | 14,713 |
| 31/03/2022 | 14,713 |
| 31/03/2023 | 20,670 |
| 31/03/2024 | 17,870 |
| **Total** | **726,664** |

The participant's right to effectively receive ownership of the restricted shares will be conditioned to the participant's continuance and performance as an employee, director or director of any company in the business group from the grant date until the grace periods (“Vesting”). If a participant leaves the group, or not achieving the proposed goal, the participant will be entitled to receive his or her vested shares and a pro rata amount of the granted and unvested shares, by reference to the vesting period in which the termination occurred and based on the number of days the participant was employed by us. The total amount will be calculated based on the proposed goal multiplied by a rate between 80% and 120%. After the vesting period, the restricted shares have the same rights and privileges as any shareholder.

The following table reflects the movements from the grant date until March 31, 2021:

|  |  |
| --- | --- |
|  | **Number of restricted stock units** |
| Outstanding at December 31, 2020 | **161,231** |
| Granted | 69,477 |
| Effectively forfeited | (3,018) |
| Estimated forfeited | (8,103) |
| **Outstanding at March 31, 2021** | **219,587** |

The total compensation expense for the three-month period ended March 31, 2021, including taxes and social charges, was R$10,729, (R$8,371 of principal and R$2,358 of taxes and contributions) net of estimated forfeited. These awards are classified as equity settled.

The fair value of these equity instruments was measured on the grant date as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Grant date** | **Total shares granted** | **Total shares vested** | **Total shares outstanding** | **Average fair value at grant date** | **Unit value average** |
| 30/04/2019 | 542,760 | (404,700) | 110,056 | 68,800 | 126.76 |
| 30/06/2019 | 1,543 | (1,543) | - | 319 | 206.66 |
| 30/06/2019 | 1,543 | (1,543) | - | 274 | 177.71 |
| 15/10/2019 | 37,929 | (25,881) | 7,698 | 7,593 | 200.18 |
| 23/01/2020 | 13,000 | (6,517) | 7,580 | 2,788 | 214.48 |
| 02/03/2020 | 36,673 | (18,191) | 20,123 | 8,762 | 238.93 |
| 04/03/2020 | 13,164 | (10,988) | 4,388 | 3,346 | 254.21 |
| 03/09/2020 | 3,600 | (1,805) | 2,099 | 883 | 245.18 |
| 19/11/2020 | 3,562 | (800) | 3,562 | 772 | 216.63 |
| 19/11/2020 | 3,086 | (1,827) | 3,086 | 669 | 216.63 |
| 10/02/2021 | 58,600 | (16,095) | 50,966 | 12,019 | 205.11 |
| 23/02/2021 | 1,838 | (134) | 1,838 | 366 | 198.87 |
| 26/02/2021 | 9,366 | (2,232) | 8,191 | 1,841 | 196.58 |
| **Total** | **726,664** | **(492,256)** | **219,587** | **108,432** |  |

The grant date is the date on which the entity and the counterparty (including employee) entered into a share-based payment agreement, that is, when the entity and the counterparty have a shared understanding of the terms and conditions of the agreement.

Matching program

On February 26, 2021, our Restricted Shares Plan Advisory Committee approved our first Matching Program, pursuant to which the Company will match the number of Class A shares (at no additional cost to the participant) that were acquired by the participant at fair market value (“investment shares”), using the amounts received by the participant as a short term incentive and designated by our board of directors to be used as an investment in investment shares, provided certain vesting conditions are satisfied.

Under the matching shares program, participants are required to (i) be employed or providing services to the Company through each vesting date, as set forth in the applicable award agreement and (ii) hold the investment shares through each vesting date. The vesting period may not exceed five years. In addition, upon each vesting date, a portion of the investment shares will become free of restrictions and the participant will be allowed to freely negotiate such shares.

All such shares, including the investment shares acquired by the participants of the Matching Program, will be available for sale by the beneficiaries annually, over four years, on March 31 of each year.

As of March 31, 2021 the Company transferred 9,366 investment shares under the Matching Program with an average price of R$ 196.6.

* + 1. Loans and financing

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Interest rate** |  | **Maturity** |  | **2021** |  | **2020** |
|  |  |  |  |  |  |  |  |  |
| Bank loan |  | 100% CDI + 2.7% pa |  | December/2021 |  | 100,436  |  | 100,395  |
| Bank loan |  | 100% CDI + 2.7% pa |  | January/2022 |  | 200,871  |  | 200,788  |
| Bank loan |  | 8.1% pa |  | March/2022 |  | 1,212  |  | 1,500  |
| Bank loan |  | 8.2% pa |  | May/2022 |  | 6,960  |  | 8,373  |
| Bank loan (a) |  | 3.7% pa |  | October/2023 |  |  91 |  | - |
| Bank loan |  | 3.8% pa |  | November/2023 |  | 63  |  | 63  |
|  |  |  |  |  |  | **309,633** |  | **311,119** |
| Current |  |  |  |  |  | 306,476 |  | 107,706  |
| Non-current |  |  |  |  |  | 3,157 |  | 203,413  |

1. Loan acquired by Me Salva!, the Company’s subsidiary, for working capital. The amount will be settled in 3 installments until October 2023 and bear interest at the rate of 3.7% per annum.

All financing arranged by Company is not subject to any financial covenants a of three-month period ended March 31, 2021.

* + 1. Equity

Share capital

As of March 31, 2021, and December 31, 2020, Arco’s share capital is represented by 57,587,563 common shares of par value of US$ 0.00005 each, comprised by 27,400,848 Class B common shares and 30,186,715 Class A common shares.

The Class B common shares are entitled to 10 votes per share and the Class A common shares, which are publicly traded, are entitled to one vote per share. The Class B common shares are convertible into an equivalent number of Class A common shares and generally convert into Class A common shares upon transfer subject to limited exceptions.

The dual class structure will exist as long as the total number of issued and outstanding Class B common shares is at least 10% of the total number of shares outstanding.

Capital reserve

Repurchase program

On January 6, 2021, our Board of Directors approved a share repurchase program, or the Repurchase Program, to comply with management long-term incentive plan obligations. Pursuant to the Repurchase Program, we may repurchase up to 500,000 of our outstanding Class A common shares in the open market, based on prevailing market prices, or in privately negotiated transactions, over a period beginning on January 6, 2021 continuing until the earlier of the completion of the repurchase or January 6, 2023, depending upon market conditions.

On March 31, 2021 the Company approved to increase the share repurchase limit of its existing share repurchase program established on January 6, 2021, or the Repurchase Program. Pursuant to the increased repurchase limit, Arco may repurchase up to 2,500,000 million of its outstanding Class A common shares in the open market, based on prevailing market prices, or in privately negotiated transactions, over a period beginning on March 31, 2021 continuing until the earlier of the completion of the repurchase or January 6, 2023, depending upon market conditions.

As of March 31, 2021 the Company has a total of 267,215 of treasury Class A common shares under the Repurchase Program with an average price of US$ 35.6.

* + 1. Earnings per share (EPS)

Basic

Basic EPS is calculated by dividing profit attributable to the equity holders of the parent by the weighted average number of Class A and Class B common shares outstanding during the period.

Diluted

Diluted EPS is calculated by dividing profit attributable to the equity holders of the parent by the weighted average number of Class A and Class B common shares outstanding during the period plus the weighted average number of common shares that would be issued on conversion of all potential common shares with dilutive effects.

The following table reflects the profit attributable to equity holders of the parent and the share data used in the basic and diluted EPS computations:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |
|  | **March 31, 2021 (unaudited)** |  | **March 31, 2020 (unaudited)** |
|  | **Class A** | **Class B** | **Total** |  | **Class A** | **Class B** | **Total** |
|  |  |  |  |  |  |  |  |
| **Profit attributable to equity holders of the parent** | 6,174 | 5,637 | **11,811** |  | 1,915 | 1,906 | 3,821 |
| Weighted average number of common shares outstanding (thousand) | 30,010 | 27,401 | 57,411 |  | 27,538 | 27,401 | 54.939 |
| Effects of dilution from: |  |  |  |  |  |  |  |
| Share-based compensation plan (thousands) | 220 | - |  |  | 397 | - |  |
|  |  |  |  |  |  |  |  |
| Basic earnings per share - R$ | 0.21 | 0.21 |  |  | 0.07 | 0.07 |  |
| Diluted earnings per share - R$ | 0.20 | 0.21 |  |  | 0.07 | 0.07 |  |

Diluted profit per share is calculated by the weighted average number of outstanding shares, in order to assume the conversion of all potential dilutive shares. Diluted result per share is calculated considering the instruments that may have a potential dilutive effect in the future, such as share-based payment instruments, using the treasury shares method when the effect is dilutive.

* + 1. Revenue

The Company’s net revenue is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **March****31, 2021** |  | **March****31, 2020** |
|  | (unaudited) |  | (unaudited) |
|  |  |  |  |
| Educational content | 330,840 |  |  259,692  |
| Other | 1,648 |  |  2,184  |
| Deductions: |  |  |  |
| Taxes | (816) |  |  (297) |
| **Net revenue** | **331,672** |  |  **261,579**  |
|  |  |  |  |
|  |  |  |  |
|   | **March31, 2021** | **March31, 2020** |
|   |  |  | (unaudited) |  |  | (unaudited) |
| **Segments** | **Core** | **Supplemental** | **Total** | **Core** | **Supplemental** | **Total** |
| **Type of goods or service** |  |  |  |   |   |   |
| Educational content | 263,458 | 66,566 | 330,024 | 220,145 | 39,250 | 259,395 |
| Other | 1,120 | 528 | 1,648 | 538 | 1,646 | 2,184 |
| **Total net revenue from contracts with customers** | 264,578 | 67,094 | 331,672 | 220,683 | 40,896 | 261,579 |
| **Timing of revenue recognition** |  |  |  |  |  |  |
| Transferred at a point in time | 264,578 | 67,094 | 331,672 | 220,683 | 40,896 | 261,579 |
| **Total net revenue from contracts with customers** | **264,578** | **67,094** | **331,672** | **220,683** | **40,896** | **261,579** |

The Company recognized impairment losses on trade receivables arising from contracts with customers, included under selling expenses in the statement of income, of R$ 3,889 and R$ 6,168 for the three-month periods ended March 31, 2021 and 2020, respectively.

* + 1. Expenses by nature

|  |  |  |  |
| --- | --- | --- | --- |
|  | **March****31, 2021** | **March****31, 2020** |  |
|  | (unaudited)  | (unaudited) |  |
|  |  |  |  |
| Content providing |  46,628  | 43,442 |  |
| Operations personnel | 9,326 | 5,398 |  |
| Inventory reserves |  2,224  | 2,106 |  |
| Freight | 8,004 | 6,491 |  |
| Depreciation and amortization | 16,435 | 7,392 |  |
| Other | 4,508 | 2,391 |  |
| **Cost of sales** | **87,125** | **67,220** |  |
|  |  |  |  |
| Sales personnel | 57,072 | 38,007 |  |
| Depreciation and amortization | 25,454 | 18,093 |  |
| Sales & marketing | 5,101 | 8,327 |  |
| Customer support | 22,077 | 15,109 |  |
| Allowance for doubtful accounts | 3,889 | 6,168 |  |
| Real estate rentals | 379 | 211 |  |
| Other | 5,686 | 1,985 |  |
| **Selling expenses** | **119,658** | **87,900** |  |
|  |  |  |  |
| Corporate personnel | 27,162 | 22,011 |  |
| Third party services | 19,861 | 20,264 |  |
| Real estate rents | 907 | 400 |  |
| Travel expenses | 116 | 1,727 |  |
| Tax expenses | 1,778 | 1,727 |  |
| Software licenses | 1,987 | 1,035 |  |
| Share-based compensation plan | 11,724 | 15,960 |  |
| Depreciation and amortization | 6,163 | 3,190 |  |
| Other | 4,608 | 469 |  |
| **General and administrative expenses** | **74,306** | **66,783** |  |
|  |  |  |  |
| **Total** |  **281,089**  | **221,903** |  |

* + 1. Finance result

|  |  |  |  |
| --- | --- | --- | --- |
|  | **March****31, 2021** |  | **March****31, 2020** |
|  | (unaudited) |  | (unaudited) |
|  |  |  |  |
| Income from financial investments | 4,867 |  |  928  |
| Changes in fair value of financial investments (a) | 13 |  |  1,426  |
| Changes in fair value of derivative instruments (b) | - |  |  4,205  |
| Changes in accounts payable to selling shareholders (Note 13) | 2,418 |  | - |
| Foreign exchange gains  | 976 |  |  1,023  |
| Interest income | 1,191 |  |  1,199  |
| Other | 475 |   |  606  |
| **Finance income** | **9,940** |  |  **9,387**  |
|  |  |  |  |
| Changes in fair value of derivative instruments (b) | - |  |  (4,259) |
| Changes in accounts payable to selling shareholders (Note 13) | (230) |  |  (6,600) |
| Financial discounts granted | (1,170) |  |  (1,300) |
| Bank fees | (2,006) |  |  (1,145) |
| Foreign exchange loss | (1,255) |  |  (281) |
| Interest on acquisition of investments (c) | (27,381) |  |  (20,266) |
| Interest on loans and financing | (3,689) |  |  (1,242) |
| Interest lease liabilities | (1,019) |  |  (732) |
| Other | (1,864) |   |  (2,514) |
| **Finance costs** | **(38,614)** |  |  **(38,339)** |
|  |  |  |  |
| **Finance result** | **(28,674)** |  | **(28,952)** |

1. Refers to gains on financial investments measured at FVTPL.
2. Refers to changes in the fair value of derivative financial instruments, comprised of the put and call options from business acquisitions and investments in associates and joint ventures.
3. Refer to interest expense on liabilities related to business combinations and investments in associates.

* + 1. Income taxes

(a) Reconciliation of income taxes expense

|  |  |  |
| --- | --- | --- |
|  | **March****31, 2021** | **March****31, 2020** |
| (unaudited) | (unaudited) |
|  |  |   |
| Profit before income taxes | 22,411 | 10,430 |
| Combined statutory income taxes rate - % (a) | 34% | 34% |
|  | (7,620) | (3,546) |
| Income tax benefit (expense) at statutory rates |
|   |  |  |
| Reconciliation adjustments: |  |  |
|  Share of loss of equity-accounted investees | (348) | (240) |
|  Effect of presumed profit of subsidiaries | 492 | 561 |
|  Non-deferred tax loss (b) | (2,391) | (660) |
|  Stock option (b) | (338) | - |
|  Other (additions) exclusions, net  | (395) | (2,724) |
|   | (10,600) | (6,609) |
|  |  |  |
| Current |  (17,353) |  (32,188) |
| Deferred |  6,753  |  25,579  |
| Income taxes benefit (expense) |  (10,600) |  (6,609) |
|   |  |  |
| Effective rate | 47.3% | 63.4% |
|  |  |  |

1. Considering that Arco Platform Ltd. is domiciled in Cayman and there is no income tax in that jurisdiction, the combined tax rate of 34% demonstrated above is the current rate applied to Arco Brasil S.A. which is the holding company of all operating entities of Arco Platform, in Brazil.
2. Permanent differences of non-deductible expenses.

(b) Deferred income taxes

The changes in the deferred tax assets and liabilities are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **As of December 31, 2020** | **Recognized in profit or loss** | **As of March****31, 2021** |
|  |  |  | (unaudited) |
| **Deferred tax assets** |  |  |  |
| Tax losses carryforward | **64,764** | 5,798 | **70,562** |
| Temporary differences |  |  |  |
| Financial instruments from acquisition of interests | **117,393** | 6,000 | **123,393** |
| Other temporary differences | **46,815** | 1,835 | **48,650** |
| Share base compensation | **6,473** | 2,161 | **8,634** |
| Tax benefit from tax deductible goodwill | **11,547** | (1,008) | **10,539** |
| Amortization of intangible assets | **16,821** | 1,223 | **18,044** |
| **Total deferred tax assets** | **263,813** | **16,009** | **279,822** |
| **Deferred tax liabilities** |  |  |  |
| Financial instruments – put options on equity method investments | **(9,231)** | - | **(9,231)** |
| Tax benefit from tax deductible goodwill | **(15,678)** | (9,407) | **(25,085)** |
| Other temporary differences | **(2,001)** | 151 | **(1,850)** |
| **Total deferred tax liabilities** | **(26,910)** | **(9,256)** | **(36,166)** |
| **Deferred tax assets (liabilities), net** | **236,903** | **6,753** | **243,656** |
|  |  |  |  |
| Deferred tax assets  | 236,903  |  | 243,656 |
| Deferred tax liabilities  | -  |  | - |

* + 1. Segment information

Segment information is presented consistently with the internal reports provided to the Company’s main key executives and chief operating decision makers. They are responsible for allocating resources, assessing the performance of the operating segments, and making the Company’s strategic decisions.

The Executive Officers have defined the operating segments based on the reports used to make structured strategic decisions, which allow for decision-making based on these structures:

1. Core: The Core Curriculum business segment provides solutions that address the Brazilian K-12 curriculum requirements through a personalized and interactive learning experience. Students access content in various formats, such as digital, video, print, and other audiovisual formats that are aligned with the daily curriculum of their classes.
2. Supplemental: The Supplemental Solutions business segment provide additional value-added content that private schools can opt in for, in addition to the Core Curriculum solution. Currently, the Company’s primary Supplemental product is an English as a second language (ESL) bilingual teaching program. Technological solutions for communication with the students’ parents, learning laboratories that use the methodology of maker culture, a platform of questions to students and teachers and content to develop socio-emotional skills are also offered.

The Executive Officers do not make strategic decisions or evaluate performance based on geographic regions. Also, based on the agreements signed with schools as of March 31, 2021, none of our customers individually represented more than 5% of our total revenue.

|  |  |
| --- | --- |
|  | **Three-month period ended March 31, 2021 (unaudited)** |
|  | **Core** | **Supplemental** | **Total reportable segments** | **Adjustments and eliminations** | **Total** |
| Net revenue | 264,578 | 67,094 | 331,672 | - | 331,672 |
| Cost of sales | (71,870) | (15,255) | (87,125) | - | (87,125) |
| **Gross profit** | **192,708** | **51,839** | **244,547** | **-** | **244,547** |
| Selling expenses | (99,753) | (19,905) | (119,658) | - | (119,658) |
| **Segment profit** | **92,955** | **31,934** | **124,889** | **-** | **124,889** |
| General and administrative expenses | - | - | - | - | (74,306) |
| Other income, net | - | - | - | - | 1,525 |
| **Operating profit** | - | - | - | - | **52,108** |
| Finance income | - | - | - | - | 9,940 |
| Finance costs | - | - | - | - | (38,614) |
| Share of loss of equity-accounted investees | - | - | - | - | (1,023) |
| **Profit before income taxes** | - | - | - | - | **22,411** |
| Income taxes expense | - | - | - | - | (10,600) |
| **Profit for the period** | - | - | - | - | **11,811** |
|  |  |  |  |  |  |
| **Other disclosures** |  |  |  |  |  |
| Depreciation and amortization | 44,578 | 3,474 | 48,052 | - | 48,052 |
| Investments in associates and joint ventures | 33,638 | - | 33,638 | - | 33,638 |
| Capital expenditures | 33,626 | 2,073 | 35,699 | - | 35,699 |

|  |  |
| --- | --- |
|  | **Three-month period ended March 31, 2020 (unaudited)** |
|  | **Core** | **Supplemental** | **Total reportable segments** | **Adjustments and eliminations** | **Total** |
| Net revenue | 220,683 | 40,896 | 261,579 | - | 261,579 |
| Cost of sales | (59,245) | (7,975) | (67,220) | - | (67,220) |
| **Gross profit** | **161,438** | **32,921** | **194,359** | **-** | **194,359** |
| Selling expenses | - | - | - | - | (87,900) |
| General and administrative expenses | - | - | - | - | (66,783) |
| Other income, net | - | - | - | - | 412 |
| **Operating profit** | - | - | - | - | **40,088** |
| Finance income | - | - | - | - | 9,387 |
| Finance costs | - | - | - | - | (38,339) |
| Share of loss of equity-accounted investees | - | - | - | - | (706) |
| **Profit before income taxes** | - | - | - | - | **10,430** |
| Income taxes expense | - | - | - | - | (6,609) |
| **Profit for the period** | - | - | - | - | **3,821** |
|  |  |  |  |  |  |
| **Other disclosures** |  |  |  |  |  |
| Depreciation and amortization | 26,550 | 2,125 | 28,675 | - | 28,675 |
| Investments in associates and joint ventures | 60,543 | - | 60,543 | - |  60,543 |
| Capital expenditures | 16,468 | 2,968 | 19,436 | - | 19,436 |

Capital expenditures consist of additions of property and equipment and intangible assets. There were no inter-segment revenues in the three-month periods ended March 31, 2021 and 2020.

Segment performance is evaluated based on segment profit and is measured consistently with profit or loss in the consolidated financial statements. Selling expenses, general and administrative expenses, other income (expenses) net, finance result, share of profit (loss) of equity-accounted investees and income taxes are managed on a Company basis and are not allocated to operating segments.

There were no adjustments or eliminations in the profit or loss between segments. Intersegmental eliminations refer to transactions due between companies in the Core and Supplemental segments, such as: loans, accounts payable and accounts receivable. Segment assets and liabilities are measured in the same way as in the financial statements. These assets and liabilities are allocated based on the operations of the segment.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Core** | **Supplemental** | **Total reportable segments** | **Adjustments and eliminations** | **Total** |
| **March 31, 2021 (unaudited)** |  |  |  |  |  |
| Total assets | 4,387,879 | 280,589 | 4,668,468 | (35,929) | 4,632,539 |
| Total liabilities | 2,428,962 | 71,467 | 2,500,429 | (35,929)  | 2,464,500 |
|  |  |  |  |  |  |
| **December 31, 2020**  |  |  |  |  |  |
| Total assets | 3,294,834 | 162,609 | 3,457,443 | (24,581) | 3,432,862  |
| Total liabilities | 1,793,636 | 56,269 | 1,849,905 | (24,581) | 1,825,324  |

* + 1. Financial instruments

The Company holds the following financial instruments:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Financial assets** |  | **Assets at FVPL** |  | **Assets at amortized cost** |  | **Total** |
| **March 31, 2021 (unaudited)** |  |  |  |  |  |  |
| Cash and cash equivalents |  | - |  | 360,356 |  | 360,356 |
| Financial investments |  | 593 |  | 671,049 |  | 671,642 |
| Trade receivables |  | - |  | 522,522 |  | 522,522 |
| Related parties |  | - |  | 15,569 |  | 15,569 |
| Investments in financial instruments (Bewater) |  | 9,660 |  | - |  | 9,660 |
|  |  | **10,253** |  | **1,569,496** |  | **1,579,749** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Financial assets** |  | **Assets at FVPL** |  | **Assets at amortized cost** |  | **Total** |
| **December 31, 2020**  |  |  |  |  |  |  |
| Cash and cash equivalents |  | - |  | 424,410  |  | 424,410  |
| Financial investments |  | 17,645  |  | 705,349  |  | 722,994  |
| Trade receivables |  | - |  | 415,282  |  | 415,282  |
| Related parties |  | - |  | 20,478  |  | 20,478  |
| Investments in financial instruments (Bewater) |  | 9,654  |  | - |  | 9,654  |
|  |  | **27,299** |  | **1,565,519** |  | **1,592,818**  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Financial liabilities** |  | **Liabilities at FVPL** |  | **Liabilities at amortized cost** |  | **Total** |
| **March 31, 2021 (unaudited)** |  |  |  |  |  |  |
| Trade payables |  | - |  | 53,657 |  | 53,657 |
| Accounts payable to selling shareholders |  | 879,146 |  | 929,434 |  | 1,808,580 |
| Lease liabilities |  | - |  | 40,158 |  | 40,158 |
| Loans and financing |  | - |  | 309,633 |  | 309,633 |
|  |  | **879,146** |  | **1,332,882** |  | **2,212,028** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Financial liabilities** |  | **Liabilities at FVPL** |  | **Liabilities at amortized cost** |  | **Total** |
| **December 31, 2020**  |  |  |  |  |  |  |
| Trade payables |  | - |  | 40,925 |  | 40,925 |
| Accounts payable to selling shareholders |  | 861,385 |  | 925,130 |  | 1,786,515 |
| Lease liabilities |  | - |  | 35,220 |  | 35,220 |
| Loans and financing |  | - |  | 311,119 |  | 311,119 |
|  |  | **861,385** |  | **1,312,394** |  | **2,173,779** |

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

**Recognized fair value measurements**

*(i) Fair value hierarchy*

The table below explains the judgements and estimates made in determining the fair values of the financial instruments that are recognized and measured at fair value through profit or loss in the consolidated financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Company has classified its financial instruments into the three levels.

Assets and liabilities measured and recognized at fair value as follows:

|  |  |
| --- | --- |
|  |  |
|  | **Hierarchy** |  | **March****31, 2021** | **December****31, 2020** |
|  |  |  | (unaudited) |  |
| **Financial assets** |   |   |  |  |
| Financial investments | Level 2 |  | 593 | 17,645 |
| Investments at fair value | Level 1 |   | 9,660 | 9,654 |
|  |  |   |  |  |
| **Financial liabilities** |  |   |  |  |
| Accounts payable to selling shareholders | Level 3 |  | 879,146 | 861,385 |

As of March 31, 2021, and December 31, 2020, the Company assessed the fair values of its financial instruments and concluded that carrying amounts and fair values approximate. The estimated realizable values of financial assets and liabilities were determined based on available market information and appropriate valuation methodologies.

The Company’s policy is to recognize transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

There were no transfers between levels for recurring fair value measurements during the financial statement period.

*(ii) Valuation techniques used to determine fair values*

Specific valuation techniques used to value financial instruments include:

* the use of quoted market prices or dealer quotes for similar instruments;
* the fair value of derivatives is calculated with Black & Scholes; and
* the fair value of the remaining financial instruments is determined using discounted cash flow analysis.

All the resulting fair value estimates are included in levels 1 and 2 except for contingent consideration and certain derivative contracts, where the fair values have been determined based on present values and the discount rates used were adjusted for counterparty or own credit risk.

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

*(iii) Fair value measurements using significant unobservable inputs (level 3)*

The following table presents the changes in level 3 items for the three-month periods ended March 31, 2021 and 2020.

|  |  |  |  |
| --- | --- | --- | --- |
| **Recurring fair value measurements** | **Financial instruments – call options on equity method investments (assets)** | **Financial instruments – put options on equity method investments (liabilities)** | **Accounts payable to selling shareholders** |
| As of December 31, 2019  | **35,946** | **(33,940)** |  **(328,668)** |
| Payment | - | - | 3,696 |
| Changes in accounts payable to selling shareholders | - | - | (6,600) |
| Interest expense | - | - | (11,280) |
| Gains (loss) recognized in statement of income | (4,096) | 4,041 | - |
| **As of March 31, 2020 (unaudited)** | **31,850** | **(29,899)** | **(342,852)** |
|  |  |  |  |
| As of December 31, 2020 | - | - | **(861,385)** |
| Acquisitions | - | - | (23,520) |
| Payment | - | - | 22,646 |
| Changes in accounts payable to selling shareholders | - | - | 2,188 |
| Interest expense | - | - | (23,075) |
| Reclassification | - | - | 4,000 |
| **As of March 31, 2021 (unaudited)** | **-** | **-** | **(879,146)** |

*(iv) Transfers between levels 2 and 3*

During the three-month periods ended March 31, 2021 and 2020, the Company did not transfer any financial instruments from level 2 into level 3.

 *(v) Valuation processes*

The finance department of the Company performs and reviews the valuations of items required for financial reporting purposes, including level 3 fair values. Discussions of valuation processes and results conform with the Company’s yearly reporting periods. Also, the Company hires specialists to measure fair value of certain financial assets independently.

The main level 3 inputs used by the Company are derived and evaluated as follows:

* Discount rates for financial assets and financial liabilities are determined using a capital asset pricing model to calculate a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the asset.
* Risk adjustments specific to the counterparties (including assumptions about credit default rates) are derived from observable market data of credit risk grading.
* Earnings growth factors for unlisted equity securities are estimated based on market information for similar types of companies.
* Contingent consideration – expected cash outflows are estimated based on the terms of the business combinations and the entity’s knowledge of the business as well as how the current economic environment is likely to impact it.
	+ 1. Commitments and contingencies
1. *Legal proceedings*

The Company is party to labor and tax litigation in progress, which arise during the ordinary course of business. The provisions for probable losses arising from these matters are estimated and periodically adjusted by Management, supported by the opinion of its external legal advisors.

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Civil** |  | **Labor** |  | **Taxes** |  | **Total** |
| **Balance at December 31, 2019** |  |  | **-** |  | **122** |  | **129** |  | **251** |
| Additions |  |  | 564  |  | 108  |  | 137  |  | 809  |
| Business combination |  |  | -  |  | -  |  | 599  |  | 599  |
| Reversals |  |  | (99) |  | (178) |  | (16) |  | (293) |
| **Balance at December 31, 2020** |  |  | **465** |  | **52** |  | **849** |  | **1,366** |
| Additions |  |  | 195 |  | 683 |  | 3 |  | 881 |
| Reversals |  |  | - |  | - |  | (46) |  | (46) |
| **Balances at March 31, 2021 (unaudited)** |  |  | **660** |  | **735** |  | **806** |  | **2,201** |

As of March 31, 2021, the Company was party to lawsuits classified as possible losses totaling R$ 8,984 (R$ 7,863 as of December 31, 2020), as shown below:

|  |  |  |  |
| --- | --- | --- | --- |
|   | **March 31, 2021**  |  | **December 31, 2020** |
|   | (unaudited) |  |  |
| Civil (a) |  6,614  |  | 6,367  |
| Labor (b) |  2,370  |  | 1,496  |
| **Total** |  **8,984**  |  | **7,863** |

1. The civil proceedings relate mainly to copyright and customer claims, including those related to the early termination of certain agreements, among others.
2. The labor proceedings to which the Company is a party were filed by former employees or suppliers and third-party service providers’ employees seeking joint liability for the acts of the Company’s suppliers and service providers.

On September 19, 2019, Mr. Ulisses Borges Cardinot, the non-controlling shareholder in our subsidiary, International School, filed a request for arbitration with the Center for Arbitration and Mediation of the Chamber of Commerce Brazil-Canada in Brazil against Arco Platform Limited, PSD Educação S.A. and Arco Educação S.A. This request for arbitration purporting to assert the non-controlling shareholder’s rights related to both the form of payment (shares) and the calculation of the purchase price under the Investment Agreement is still ongoing.

As the arbitration proceeding progresses the estimated amount payable by PSD to the non-controlling shareholder may be lower than the provision recorded, due to the disposition of the Investment Agreement that sets forth that the payment schedule of the purchase price shall be anticipated in case of an initial public offering. Conversely, the estimated amount payable by PSD to the non-controlling shareholder may be higher than the provision recorded in light of the claims asserted by the non-controlling shareholder.

In light of the arbitration proceeding and based on standard IAS 37 Provisions, contingent liabilities and contingent assets, the Company understands that the circumstances, risks and uncertainties of the arbitration must be taken into consideration in order to reach the best estimate of the liability. Contingencies should be reevaluated at each balance sheet date and adjusted to reflect the best current estimate.

Therefore, in light of the current stage of the proceeding and the range of potential outcomes, the calculation methodology of the estimate has remained unchanged, consistent with the estimate previously calculated and reported.

Based on this analysis, the Company has recorded the provision at the present value of the amount considered the appropriate estimate of the amount of the purchase price under the Investment Agreement payable to the non-controlling shareholder and discounted to present value. The provision is calculated based on the realized EBITDA for the school years of 2019 (first installment) and 2020 (second installment), both, net of debts, as determined in the agreement. The school year is defined as the twelve-month period starting in October of the previous year to September of the mentioned current year. The first and second installments will be paid in the course of the arbitration. Based on realized numbers, the liability increased by R$ 230 in 2021 and was recorded as financial expense as described in Note 13.a). During the three-month period ended March 31, 2021, the Company recognized R$ 7,788 of interest related to the liability.

* + 1. Transactions not involving cash

The Company carried out the non-cash activities in the three-month period ended March 31, 2021, which are not reflected in the statement of cash flows, mainly related to the effects of lease contracts signed in the period as described in Note 11 and retained payments and acquisition from business combination in Note 3.

* + 1. Subsequent events

Shares repurchase

In April 2021, the Company purchased an aggregate of 362,621 Class A common shares for a total of approximately US$ 10.1 million. This repurchase was made in accordance with the Repurchase Program mentioned in Note 16.

Investment in Tera Treinamentos Profissionais Ltda. (“Tera”)

On April 9, 2021, PSD acquired an interest of 23,43% in Tera for R$ 15,000 through the purchase of interest from minority shareholders and capital increase.

Tera provides courses and training for professional and management development and additionally provides consulting services in project development, IT and marketing.

Acquisition of Quadrado Mágico Desenvolvimento e Licenciamento de Software S.A. (“Quadrado Mágico”)

On April 22, 2021, the Company entered into an agreement (the “Purchase Agreement”) to acquire Quadrado Mágico, which provides educational services, acting specifically in the Learning Management System (LMS), for R$30 million, subject to price adjustments.

This transaction is subject to customary closing conditions, including Brazilian antitrust approvals.

Payment of Escola da Inteligência

As mentioned in Note 13, on May 14, 2021 the Company concluded the first stage of the Escola da Inteligência acquisition with the payment of R$ 88,000, which added to the R$ 200,000 paid in December 2020, refers to a 60% of interest in the acquired business.

Investment in INCO Limited

In April 2021, the Company invested US$ 6.1 million in INCO in a new round of investments. Arco maintains a participation and/or shareholders agreement which represents a non-controlling of INCO.

Change of corporate name

On April 19, 2021, according to a resolution approved by the Board of Directors and registered at the Board of Trade of Ceará, the corporate name of the subsidiary PSD

Educação S.A. was changed to Companhia Brasileira de Educação e Sistemas de Ensino S.A.

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