



arco

Arco signs definitive
agreement to acquire

isaac

October 6th, 2022



FORWARD-LOOKING STATEMENTS

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KEY MESSAGES

ABOUT ISAAC

- isaac is an all-in-one platform that provides financial and software products to K-12 schools. isaac's flagship product is the revenue guarantee, which streamlines billing and collections, while eliminating financial risk for schools, and providing a smooth payment experience for parents.
- isaac is a pioneer in Education FinTech, culminating in a **strong product market fit**, reaching **R\$188M ARR¹** and **850 schools** in **20 months** of operation.
- **isaac has an attractive business model with high LTV/CAC and contribution IRR.** The Company can **self-fund its operations with no need of additional capital²** and **is expected to EBITDA break-even by early 2024.**

STRATEGIC RATIONALE

- Arco invested in isaac's seed and Series A rounds. This acquisition strengthens our synergistic views of bringing innovation to K-12 schools and is a fundamental step towards **creating the world's largest operating system for schools.**
 - isaac's acquisition leads to an immediate **increase of R\$8B³ in Arco's TAM.** Additionally, there is room for further TAM expansion as isaac develops new solutions.
 - Arco's large school base and cross-sell expertise will enable isaac to achieve even faster growth. Arco can **grow isaac 10x only within its ecosystem of partner schools, unlocking up to R\$1.7B of revenues through cross-sell.**
 - isaac **increases Arco's talent density and strengthens important capabilities** such as technology, product, and data science that will complement and foster our innovative culture.

TRANSACTION SUMMARY

STRUCTURE

- Arco Platform Limited has agreed to acquire **75.1%** of the share capital of isaac through an exchange of shares transaction. Prior to the acquisition, Arco held 24.9% of the share capital of isaac.
- isaac's shareholders will receive ~**10.4 million shares of Arco**, equivalent to 15.8% of Arco's equity interest post deal. **The EV/ARR¹ multiple as of Aug 2022 was 2.7x².**
 - Of the ~10.4 million shares, ~1.0 million are Arco treasury shares, and ~9.4 million are newly issued Arco shares, translating into a 14.2% dilution for current Arco shareholders.
- isaac's founding shareholders will be subject to a lock-up period of 3 years with 1/3 of their shares being released each year.

MANAGEMENT & GOVERNANCE

- isaac will become an operating unit of Arco Platform and will continue to be led by CEO David Peixoto and CSO Ricardo Sales, founders of isaac.
- isaac's shareholders will enter into certain non-competition, non-solicitation and non-interference covenants at the closing of the transaction.

CLOSING

- The transaction is subject to customary closing conditions, including receipt of regulatory approvals in Brazil. Arco expects the transaction to close in fiscal year 2022.

isaac

The category and innovation
leader of EdFintech

isaac: one of the most successful startups of the last 2 years in Latin America

isaac is a vertical platform to address K-12 schools' overarching needs with software and financial solutions, having started by tackling working capital management

Aug 2020

Founded by David Peixoto
and Ricardo Sales

850

Partner schools²

R\$2.0B

TPV³

R\$188M

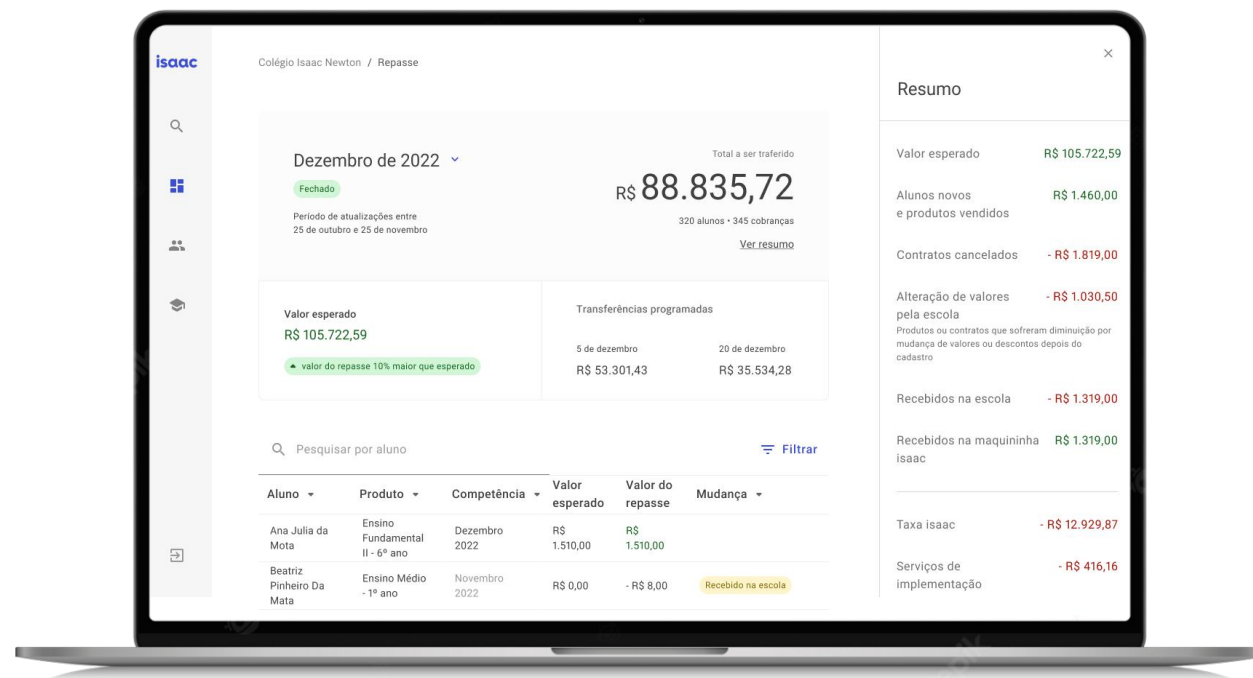
ARR¹

280k

Students²

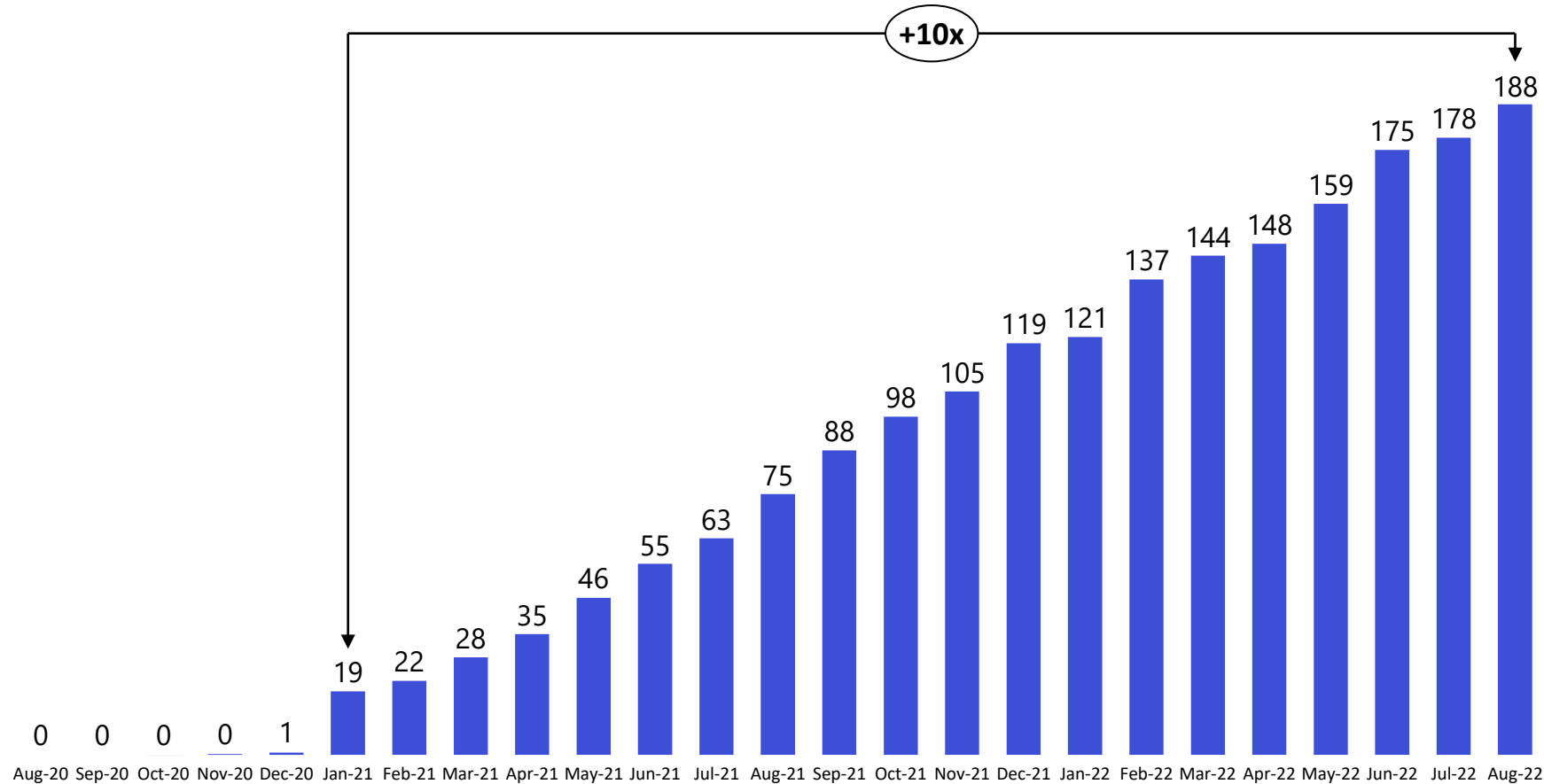
~10%

Avg LTM MoM TPV
Growth



Strong product fit and go-to-market advantages culminated into hypergrowth

Annualized Recurring Revenue (ARR, R\$M)



Go-to-market advantages

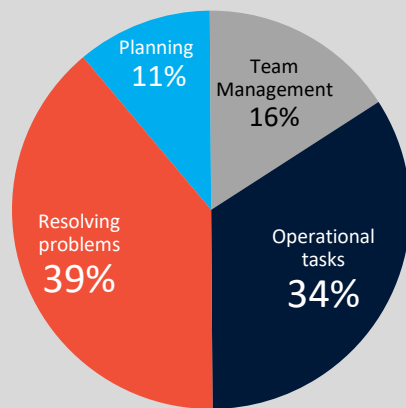
- Shorter sales cycle: discussions directly with **decision maker**
- Mandatory** for all students of all grades
- Year-long sales**
- No geographic exclusivity**
- All school profiles**

K-12 private market is like retail 30 years ago: most schools use obsolete and low-performance administrative routines, processes and tools and have low access to funding

1

Schools are managed by teachers

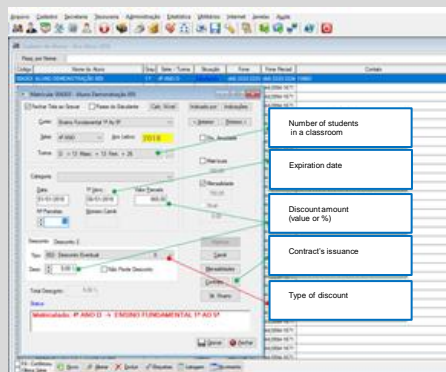
School owners love to teach but end up spending **70% of their time with bureaucratic tasks**¹



2

Legacy systems offer no help

Education ERPs are confusing, complex and only take up more time from school owners



3

Schools struggle with past due bills

Even though residual delinquency converges to a low single digit², 30-60 days delays cause massive **damage to schools' cash flow**



4

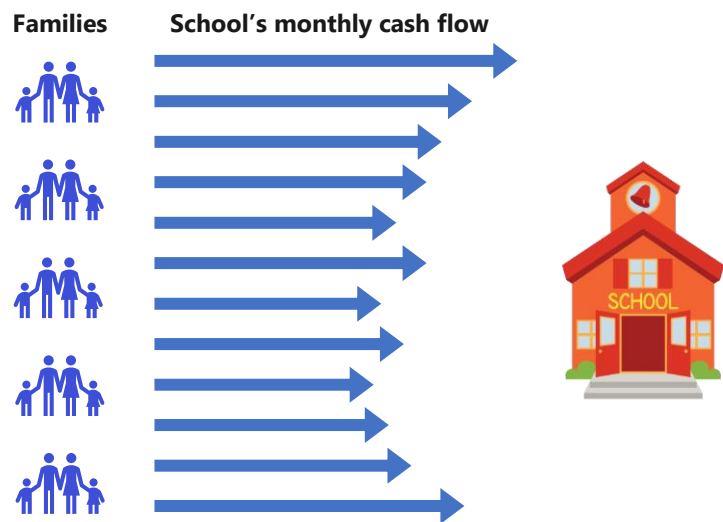
Funding is scarce and expensive

Schools end up **financing themselves** with exorbitant implied interest rates



isaac's first offering, "revenue guarantee", streamlines billing and collections for schools while eliminating financial risk for schools and providing a smooth payment experience for parents

without isaac



- Delinquency and delays
- Friction with parents
- Limited financial management
- No revenue management

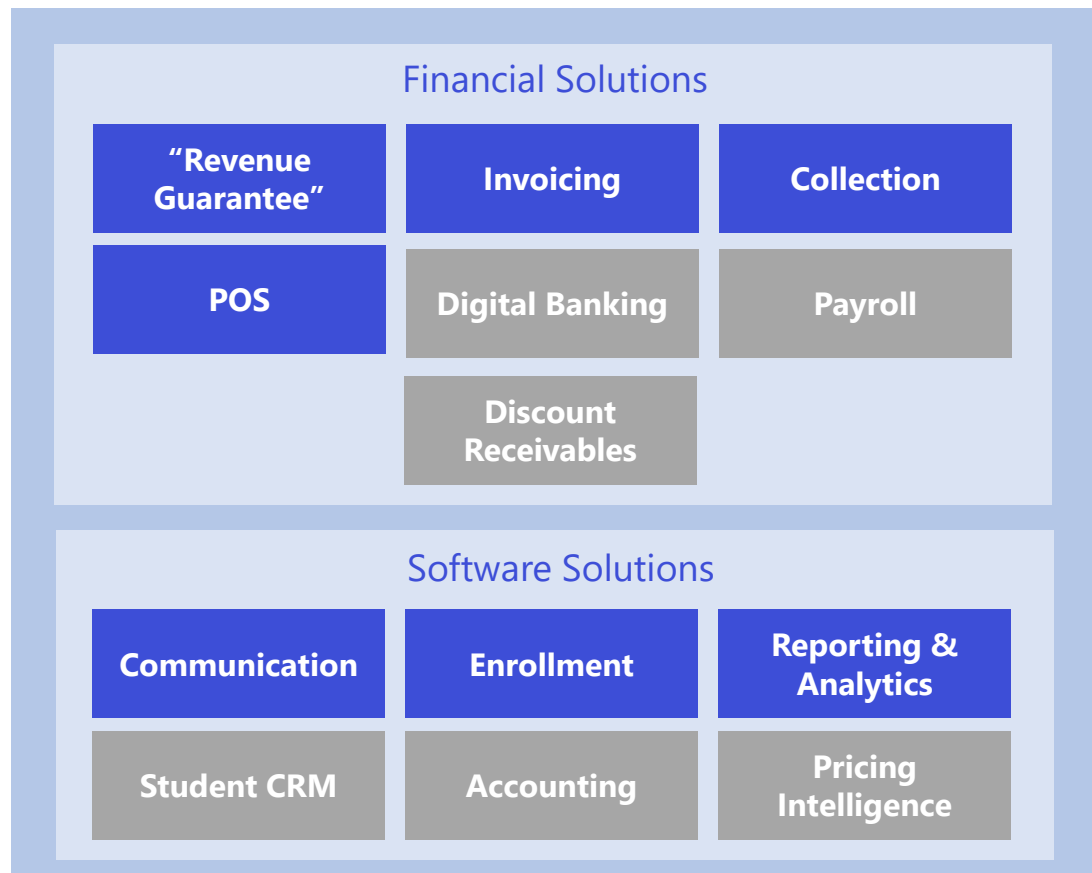
with isaac



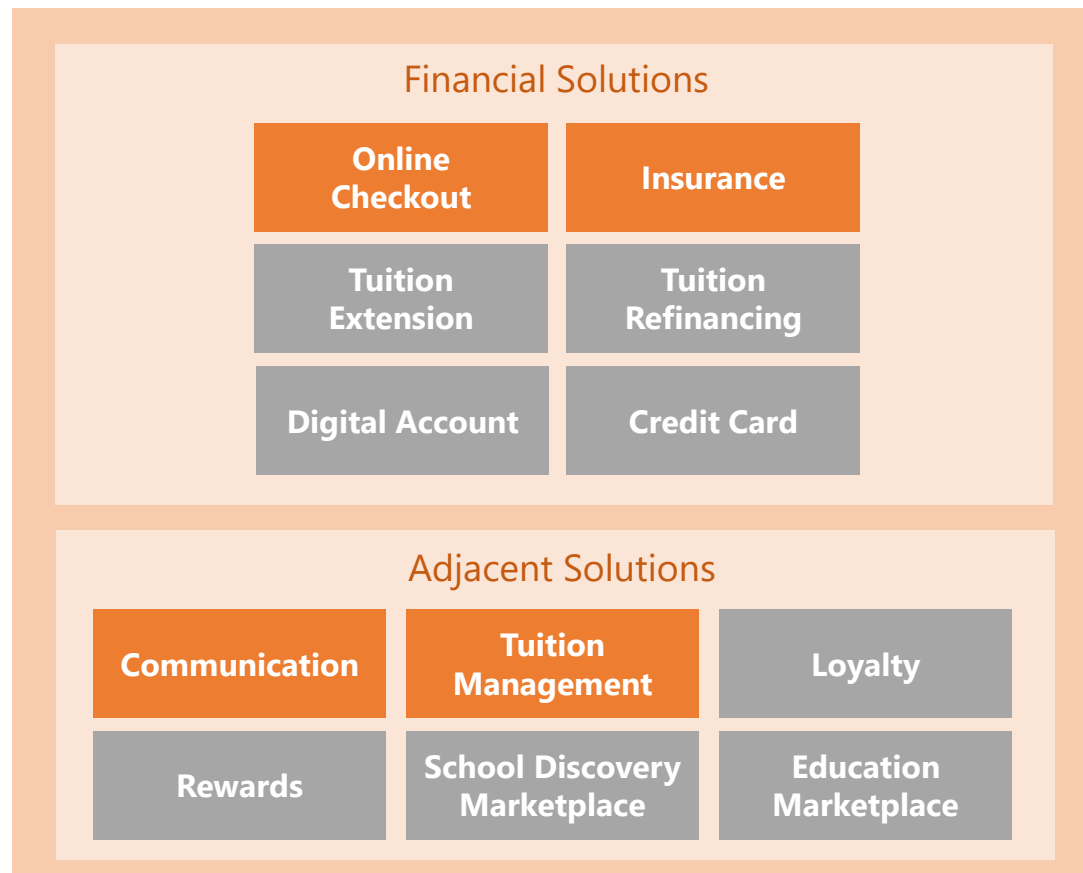
- + Guaranteed monthly payment
- + Cashflow predictability
- + Saves time
- + Reduces costs

Building a comprehensive platform to power financial and software solutions within the education ecosystem

SCHOOLS



FAMILIES



Common Platforms + API Ecosystem

■ Solutions under pilot operations or to be launched

isaac has attractive economics underpinned by great business fundamentals

Take rate model & mandatory for all students

isaac takes up a percentage of schools' total revenue. Being mandatory for all students drives large contracts compared to traditional SMB SaaS businesses

Recurring revenues & structurally low delinquency

Schools in Brazil are paid in monthly installments & basic education consists of a 12-year long cycle. Parents that eventually delay monthly tuitions during the year tend to not default as schools have the right to block next year reenrollments from delinquent students

Highly scalable platform business

Technology investments are diluted as client base grows with little incremental costs

Efficient value creation motion

+15x LTV / CAC

Low capital commitment

+90% Contribution IRR¹

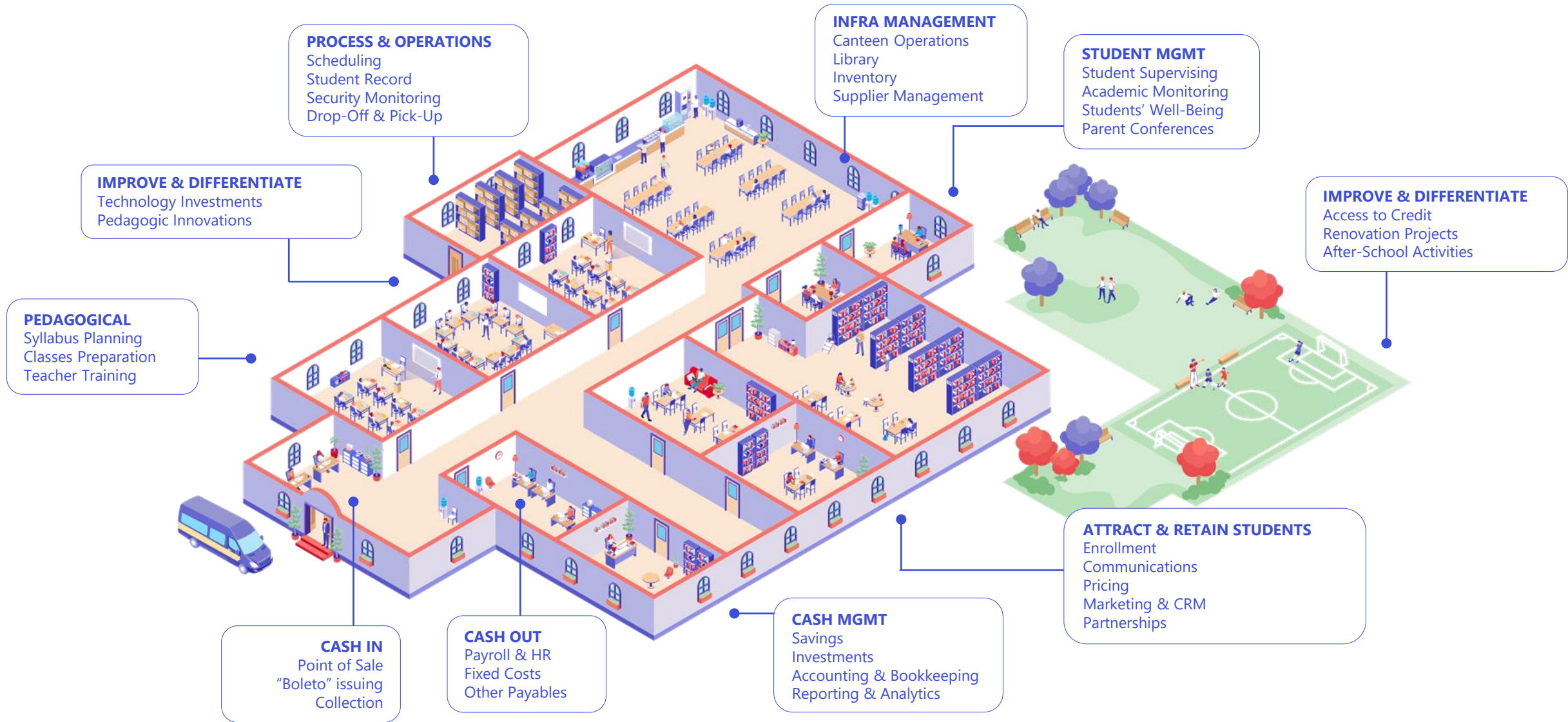
Grow with schools

107% Net Revenue Retention

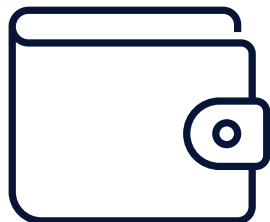
arco & isaac

The creation of the world's
largest operating system for
schools

The complexity of running a school goes beyond content



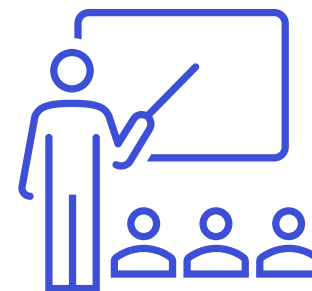
Quality schools are made of a combination of **education** and **management**



“If treated only as a business, Education may lose its essence”¹



Arco offers a wide portfolio of products, mostly pedagogical-related



“If treated only as a mission to educate, there is a risk it will not be sustainable over time”¹



isaac makes administration easy for schools of all sizes

isaac's acquisition was the natural path for Arco: Arco and isaac share similar mission, background, and trajectory

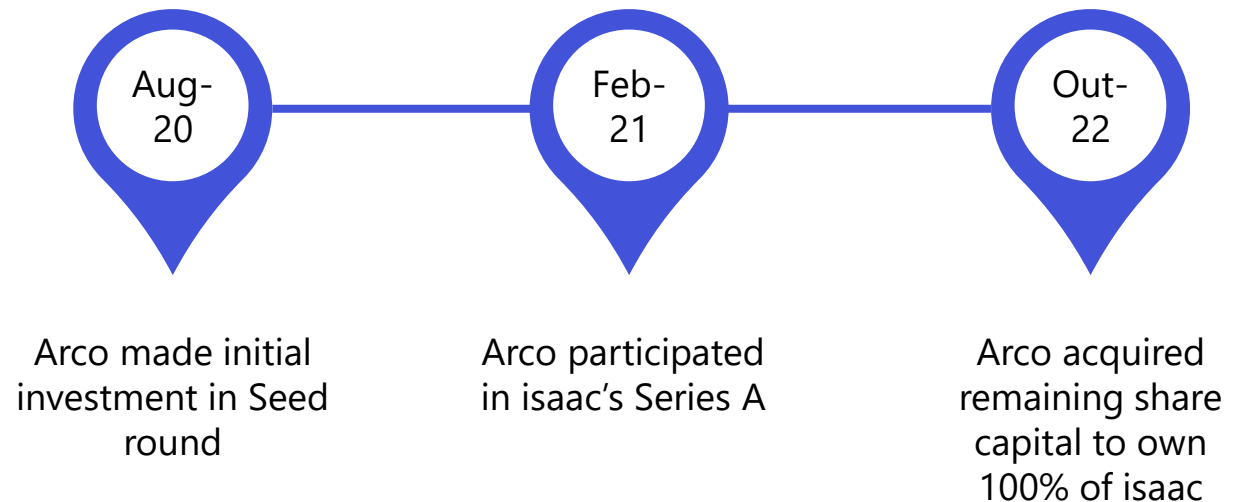
Similar background

Founder-led, **entrepreneurial** management teams with aligned vision and passion for education

Common purpose

Shared focus on empowering **students** and **schools**

Arco and isaac relationship trajectory



Arco & isaac strategic rationale

Expands Arco's portfolio in the financial and managerial solutions space

Massively increases TAM for Arco (+R\$8B with further room to grow)

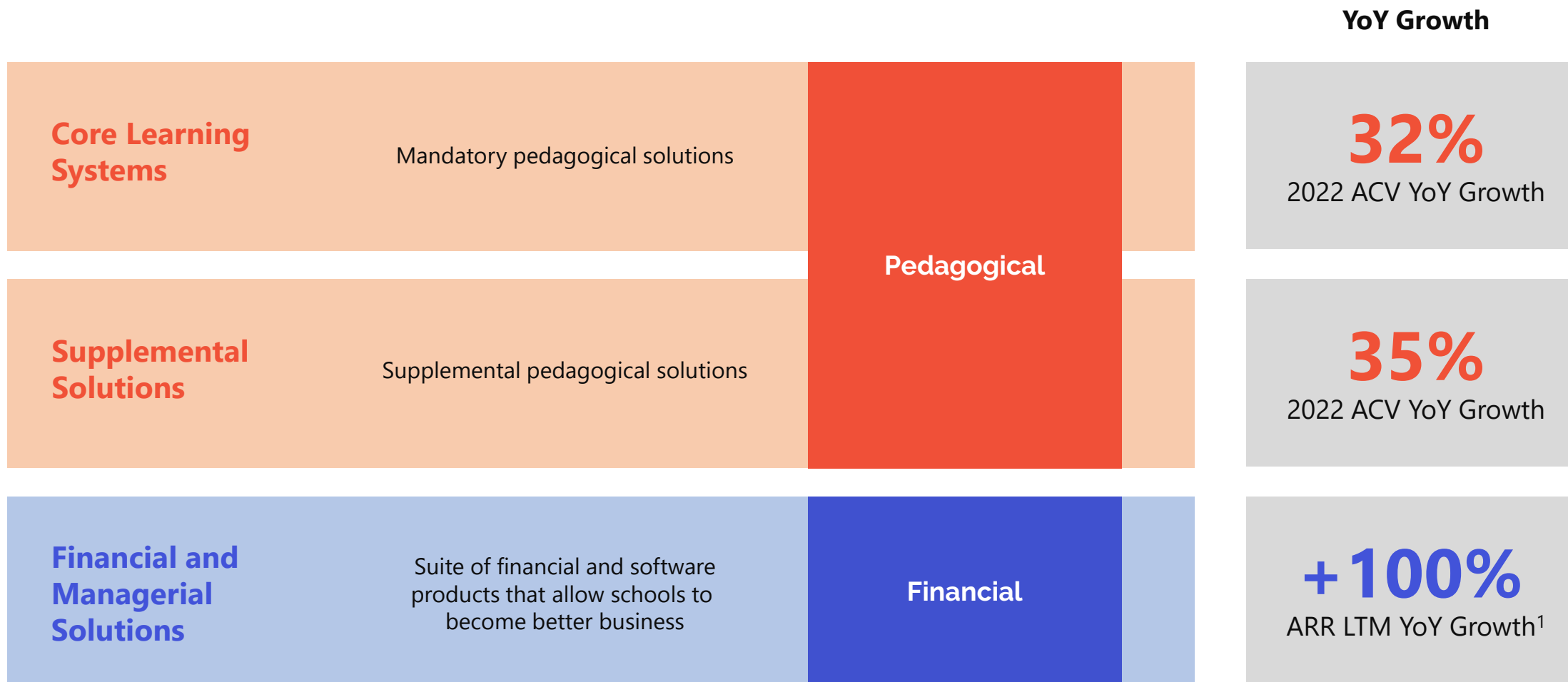
Accelerates growth through cross-sell (R\$1.7B in potential revenues only inside Arco's client base)

Accelerates isaac's path to profitability (EBITDA break-even by early 2024 with no need for additional capital)

Strengthens important capabilities for Arco (tech, product & design, risk & data science)

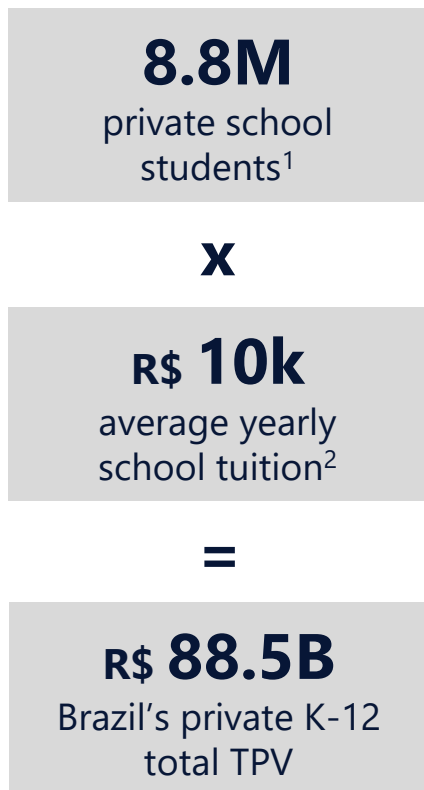
Increases school lock-in as Arco becomes a full operating system solution for K-12 schools

isaac adds third B.U. to Arco, expanding its product portfolio and further increasing potential for growth

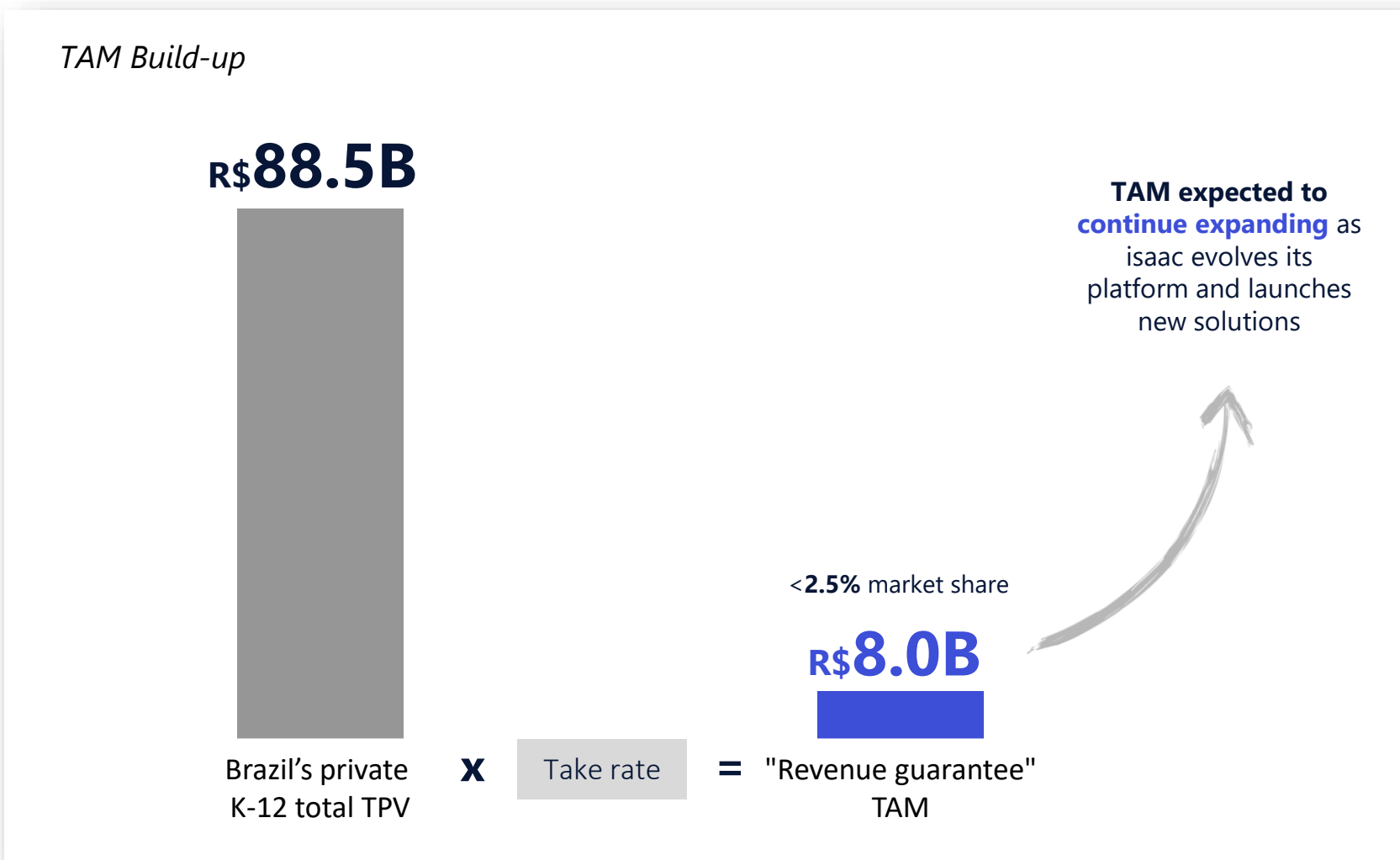


Acquisition adds R\$8.0B TAM for Arco considering only solutions already offered by isaac

Market TPV Build-up



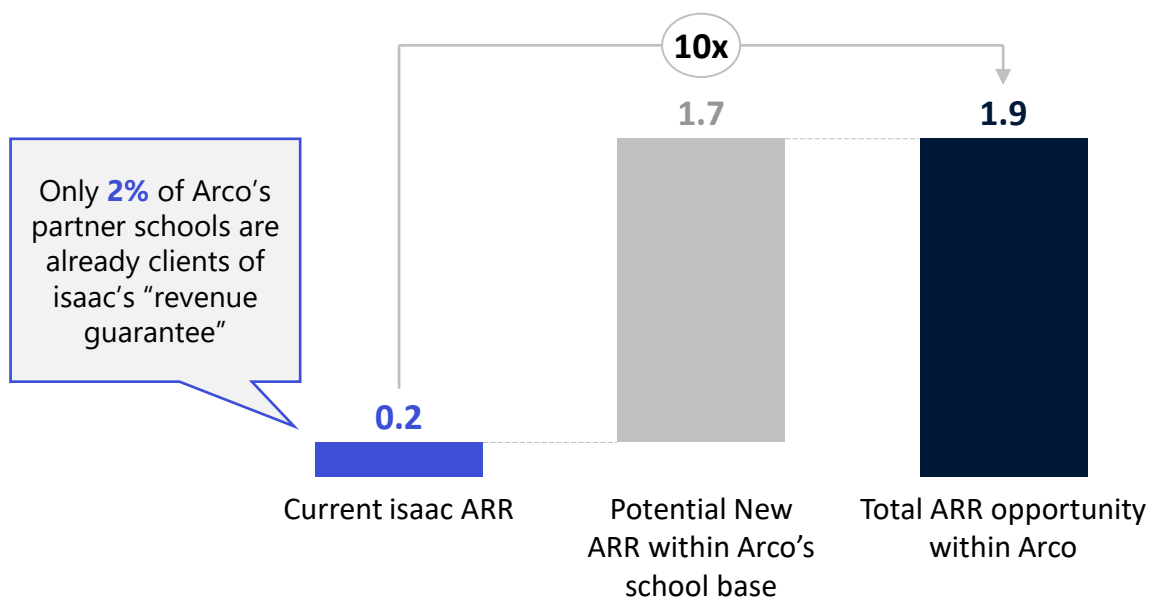
TAM Build-up



Arco can lever its cross-sell expertise to grow isaac 10x within its ecosystem of partner schools, unlocking up to R\$1.7B of revenues

Growth acceleration: low school base overlap presents enormous cross-sell potential

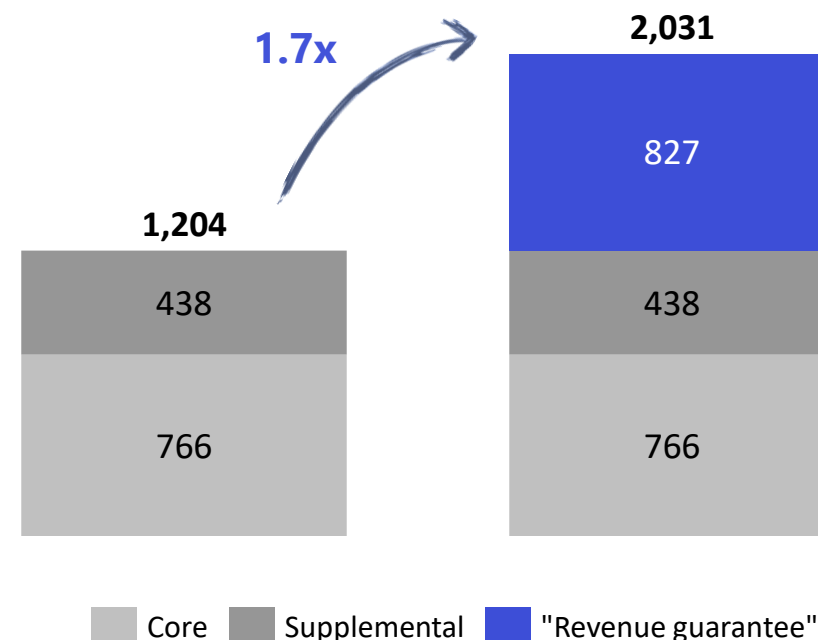
ARR Potential inside Arco's partner school base (R\$ B)



There also is cross-sell potential the other way around: Arco's pedagogical solutions are being used in **only 21%** of isaac partner schools

isaac's revenue per student¹ is larger than Arco's core solutions average ticket

Average revenue per student² (R\$)



isaac's attractive unit economics translate into strong profitability as the company gains scale

	"Hypergrowth"	"Strong growth"	"Long Term"
	Estimated FY 2022	Expected FY 2023	<50% TPV Growth
Revenue	~ R\$160M	~ R\$300-350M	~ R\$1,000-1,500M
Revenue Growth (%)	> 250%	80-90%	30-50%
EBITDA Margin (%)	-	~(10)%	30-40%
Cash Conversion ¹ (%)	N/A	N/A	>60%

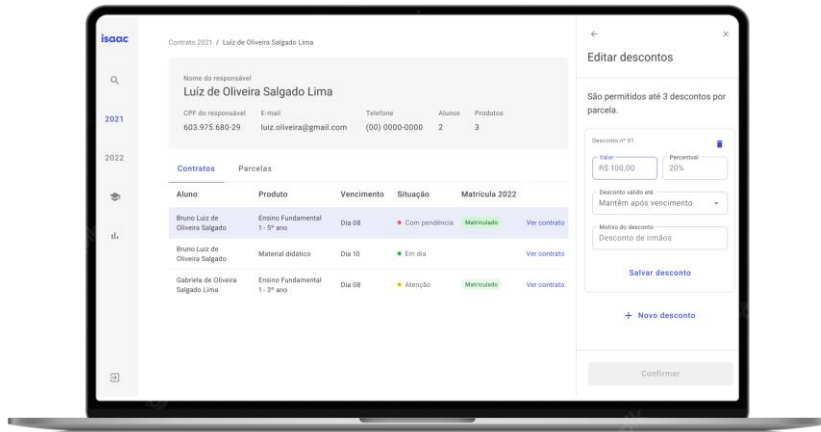
BUSINESS COMBINATION ACCELERATES ISAAC'S PATH TO PROFITABILITY; **EBITDA BREAK-EVEN EXPECTED BY EARLY 2024**

CURRENT CASH POSITION OF R\$245.5M ENOUGH TO FUND ISAAC'S OPERATIONS, WITH **NO NEED FOR ADDITIONAL CAPITAL RAISES**

isaac increases Arco's talent density and strengthens important capabilities

Tech

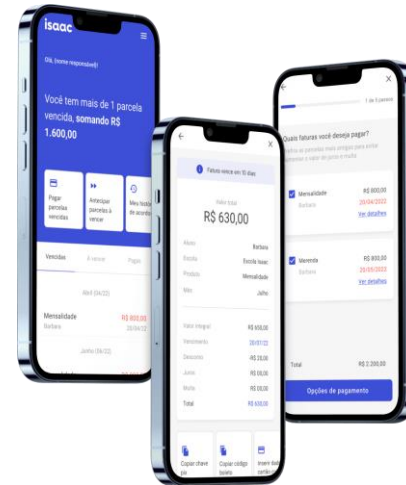
isaac built a **strong foundation** to their financial platform and payments infrastructure; the company has **best-in-class engineering talent** and works in short development lifecycles with **continuous delivery**



isaac platform to schools

Product & Design

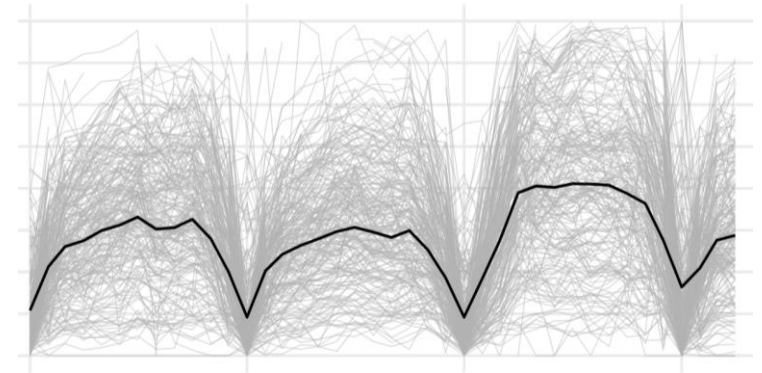
isaac had a **client-centered** approach to product development from the start, focused on providing true value to schools and parents through **simple and intuitive solutions**



isaac platform to families

Risk & Data Science

isaac combines **risk expertise** with strong **analytical skills**, leveraging historical payments behavior data with proprietary data record to continuously improve **data models** and make informed business decisions



Historical payment delays (d+30) per school

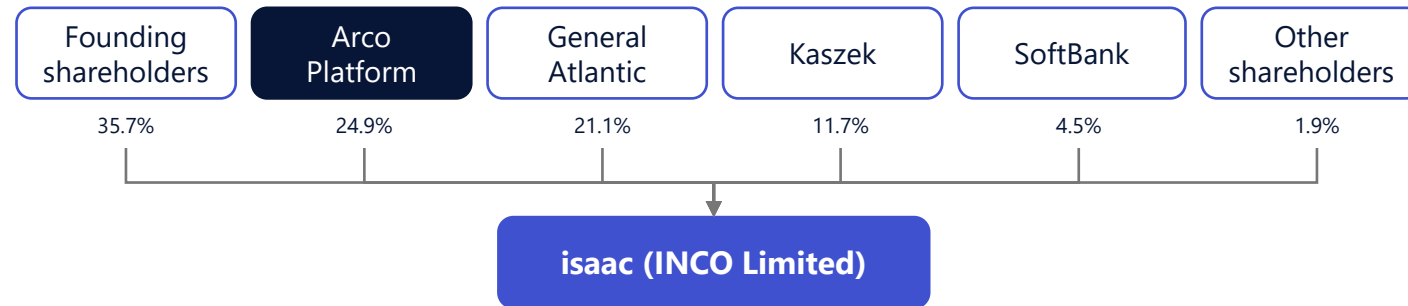
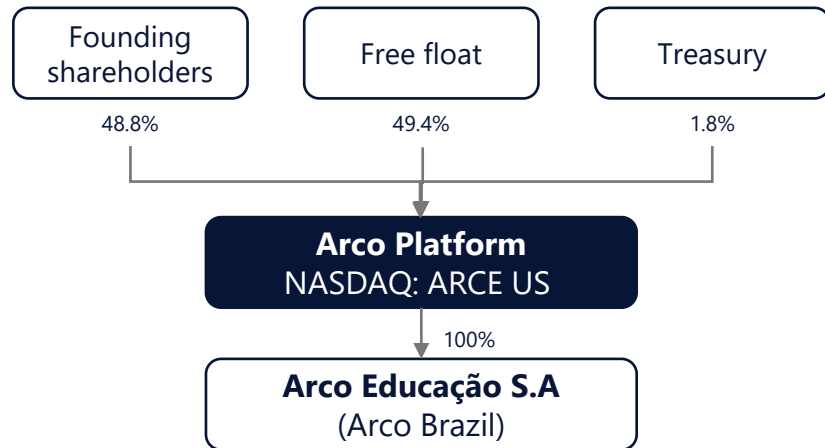
Combined, Arco and isaac deliver a full operating system solution that strengthens value perception and customer lock-in



Appendix

OWNERSHIP STRUCTURE

Pre-deal



Post deal



1) Includes isaac's founding shareholders, General Atlantic, Kaszek, SoftBank and isaac's other minority shareholders.



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