



# Company Presentation

January 2020



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# SECTION 1

## OVERVIEW



## Large Customer Base

**+1.2mm**

Students National Coverage<sup>1</sup>

**4.8k**

Partner Schools<sup>1</sup>

**3%**

ACV Market Share<sup>2</sup>

## Great Business Model

**95%**

Retention rate

**100%**

Subscription Revenue Model<sup>3</sup>

**Long Term**

Contracts (average 3-years term)

## Growth with Profitability

**~R\$ 1 billion**

2020 Consolidated ACV<sup>4</sup>

**32% to 34%**

2020 ACV growth, ex-Positivo<sup>4</sup>

**35.5 to 37.5%**

FY19 Adj. EBITDA Margin<sup>4</sup>

## High-Quality Educational Platform

**3 of Top 10**

Brazilian schools use Arco<sup>5</sup>

**490**

of the Arco schools are among the top 3 in ENEM in their respective cities<sup>5</sup>

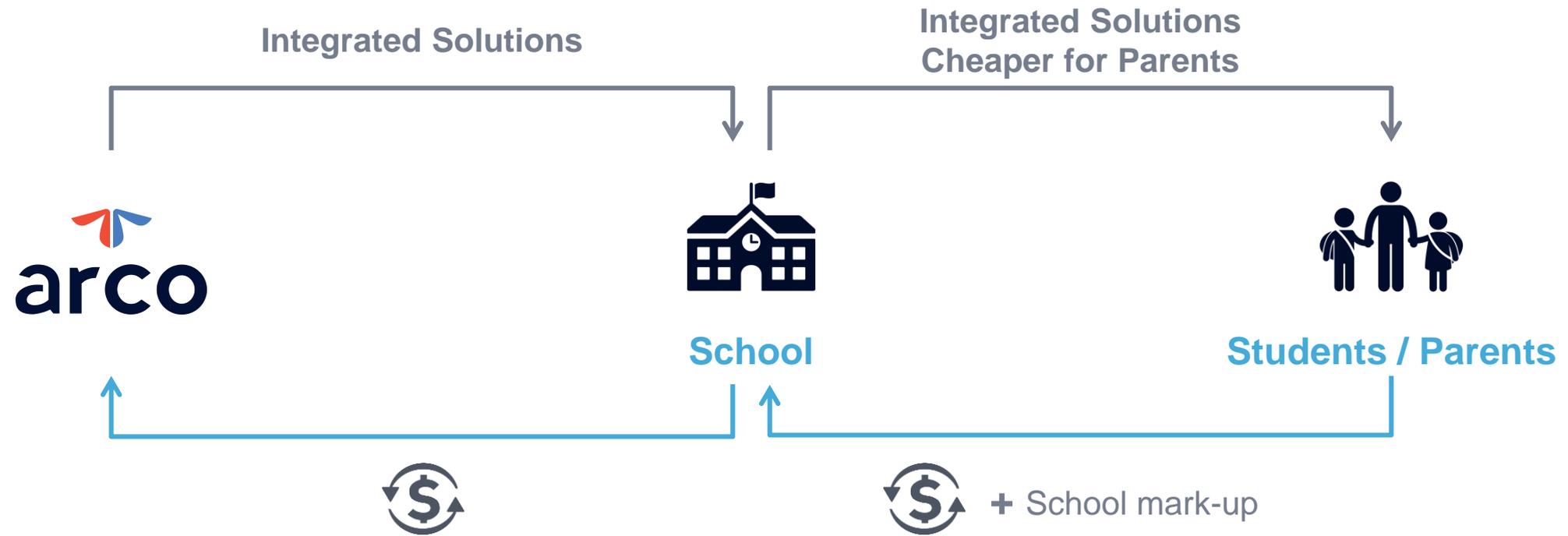
**83**

NPS in 2018

Notes:

- 1. Numbers pro-forma including Sistema Positivo's acquisition for 2019 school year
- 2. Pro-forma including Sistema Positivo's acquisition. Arco's ACV of R\$441mn and Positivo's ACV of R\$397mn in 2019. The Total Addressable Market includes after-school education, which has an addressable market of R\$18.7 billion, and the potential market for private K-12 learning systems and textbooks in Brazil, which has an addressable market of R\$6.5 billion. TAM for Total Market. Source: EY-Parthenon.
- 3. Considering that 100% of Arco's revenues are generate through subscription contracts
- 4. Guidance provided on the 3Q19 Earnings Release.
- 5. ENEM: Brazil's optional national standardized exam. Source: Company data, Ministry of Education. The mentioned number is a Pro forma for Positivo.

# B2B2C: A More Efficient Business Model



## B2B2C is the Best Business Model For Arco

Mandatory for  
all Students to  
Acquire from  
Schools

High LTV

Low CAC

High Revenue  
Predictability

# Win-Win-Win-Win Solution for K-12 Private Schools

Arco Provides All K-12 Content Through a Modern and Integrated Platform



## For Students

Personalized, engaging, omni-channel, learning experience

1



## For Teachers

Tools that facilitate teaching process and improve outcomes

2



## For Parents

Greater involvement in children's academic development; economic savings

3



## For Schools

Management support, additional consultancy services and monetization

4

Our solutions **benefit all stakeholders**

# Disrupting the Traditional Model



Traditional Model



## Revenue Model

100% Subscription<sup>1</sup>

One Time Sale



## Price Point

Cheaper for Parents  
Additional Source of Revenues for Schools

Expensive for Parents  
No Additional Revenues for Schools



## Cost Structure

No Royalties  
No Retailers

Expensive Royalties Fee  
Long and Inefficient Chain



## Better Customer Experience

Content + Tech  
Dynamic

Printed Books  
Static



## Relationship with Schools

Partners  
Service Oriented Business Model

Product Oriented Business Model /  
Distant Relationship with Clients

# Delivering on Our Commitments from One Year Ago



## Leadership in Quality

**High quality** solutions delivering academic results

- 🎯 3<sup>1</sup> of the Top 10 Brazilian schools use Arco
- 🎯 95% retention rate (negative churn in R\$)
- 🎯 490<sup>1</sup> of our schools are top 3 in ENEM<sup>2</sup> in their cities



## Successful M&A Strategy

**3** acquisitions covering all 3 pillars of our M&A strategy

- 🎯 Positivo: expand our network of schools
- 🎯 Nave à Vela: expand our product offering
- 🎯 Escola em Movimento: add tech features



## Financial Outperformance

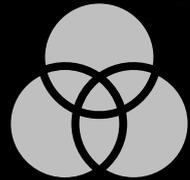
**Strong** Guidance for 2020 ACV

- 🎯 Expect consolidated Arco's ACV at ~R\$ 1 billion
- 🎯 R\$446 million Revenue in the LTM, above 2019 ACV Guidance
- 🎯 On track to deliver FY2019 EBITDA margin between 35.5% and 37.5%

**Notes:**

1. Source: Company data, Ministry of Education. The mentioned number is a Pro forma for Positivo.
2. ENEM: Brazil's optional national standardized exam.
3. 85% of ACV already realized from Q4 2018 to Q2 2019.
4. LTM 2Q19 margins are derived by dividing LTM 2Q19 figures by LTM 2Q19 Net Revenues. Arco recorded LTM 2Q19 Net Revenues of R\$440.5 million. LTM 2Q19 figures are derived by adding FY2018 and 6M19 results and subtracting 6M18 results.

## Positivo Integration



- ✓ Accelerate growth while maintaining the B2B2C model
- ✓ Adds two different brands with complementary business profiles
- ✓ Increases scale and capacity to invest in high-quality technology

## Organic Growth



- ✓ Significant Upsell potential
- ✓ Cross-sell boosted by recent M&A
- ✓ Addition of new schools – Arco's Virtuous Cycle
- ✓ New Arco with Only 11% ACV Market-share of Core Solutions<sup>1</sup>

## New Ventures



- ✓ Scratching the surface
  - ✓ Supplemental Solutions: R\$18.7bn TAM<sup>1</sup>
- ✓ Unexplored segments:
  - ✓ STEAM
  - ✓ Online preparatory courses
  - ✓ Tutoring; others

# Positivo's Acquisition: The Strategic Rationale

Opportunity to Bring Arco Next Generation Technology to 698k New Students and Enhance Their Education and Outcomes



## Accelerates Expansion With The Same Business Model

Arco's student base will increase more than 2x, to **over 1 million students**

With the same **B2B2C model**, asset-light, predictable revenue, high operating leverage and cash flow conversion



## Adds Complementary Assets

**Complementary regional footprint**, strong in the south and southeast region of Brazil

Extend our current product offering solutions at **different pricing points**



## Value Add Opportunities Through Scale And Technology

Scale allows us to invest in the best **content and technology**

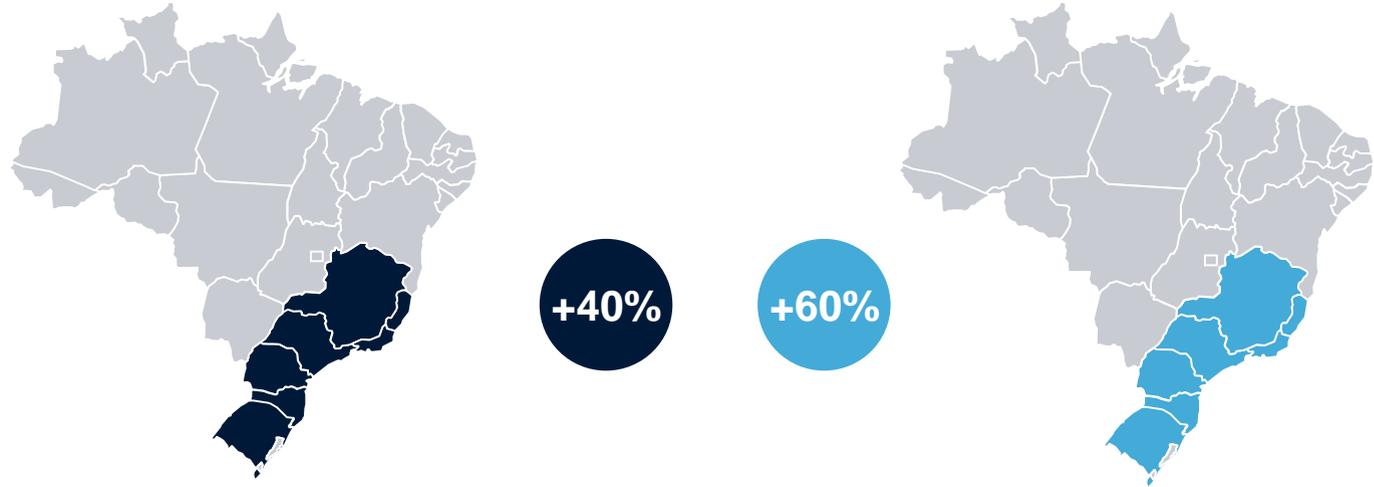
Opportunity to enhance **student experience** and outcomes through technology improvements

Combined companies should generate significant Operational and Fiscal synergies (**goodwill estimate of R\$1.5 billion**)

# Positivo Adds Scale And Complements Arco's Positioning

Solutions serving complementary price points, in new geographies

## FOOTPRINT



+40%

+60%

## PRICING



**Positivo adds to our positioning by enlarging our potential addressable market**

Our combined scale will allow for higher investment capabilities in content and technology

Opportunity to distribute ours and Positivo's **supplemental products** through an enormous network of partner schools

# We Plan A Tech-Enabled Transformation For Positivo's Platform

Rolling out our Tech Capabilities to Positivo



## Core Solutions

- Content for **all** school grades and **all** subjects

## Supplemental Solutions

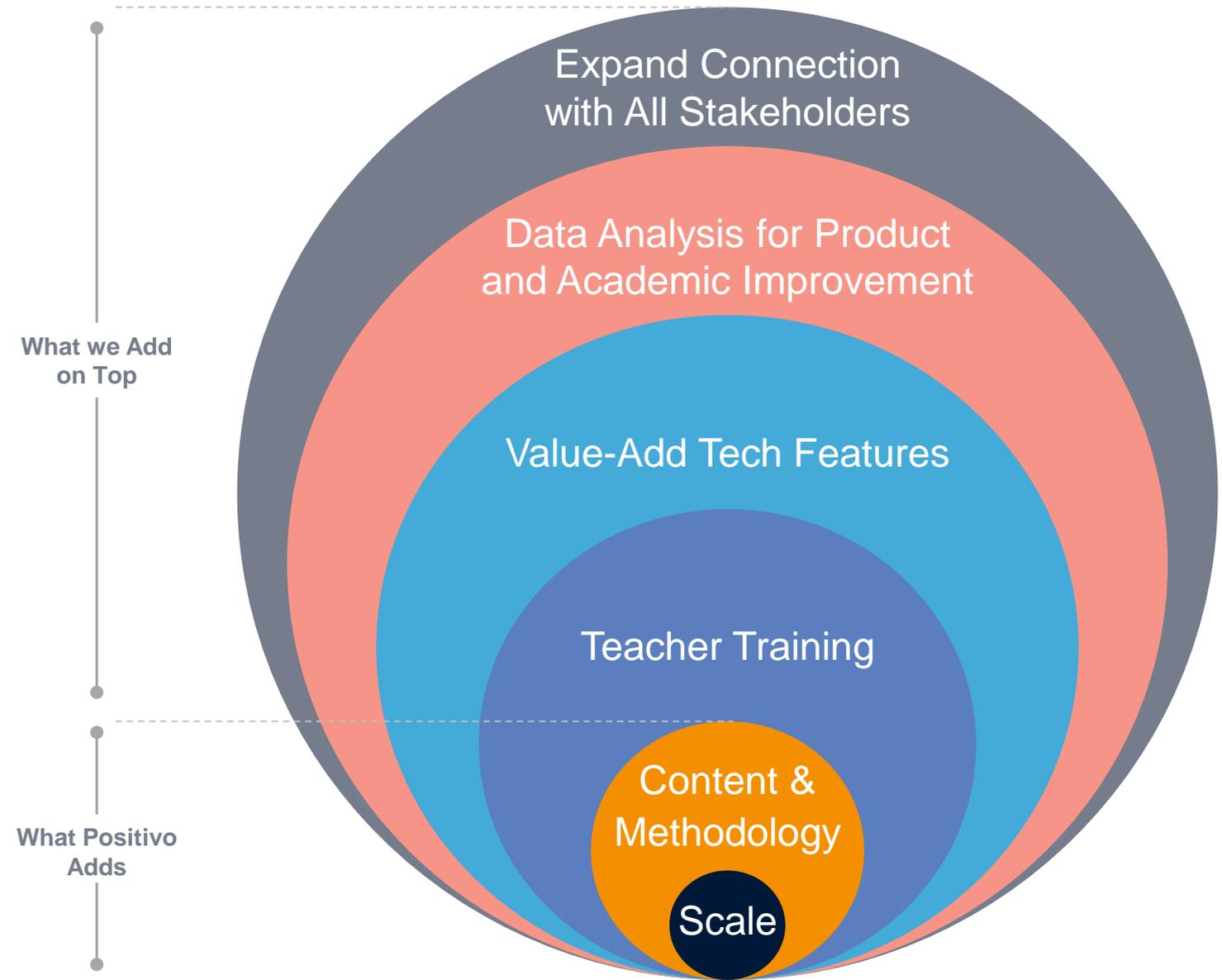
- **Helping** schools to include **extracurricular** activities in their curriculum

## Tech Features and Services

- Aimed to **impact** students experience and to **help** schools manage their pedagogical processes, **improving their academic performance**
- Best way to boost **value proposition** for schools



## The Arco Building Blocks



# We Continue to Deliver on Our M&A Strategy in Supplemental Solutions



## Competence-based Curriculum to Address 21<sup>st</sup> Century Skills

**Proprietary, high-quality** content and a methodology **fully integrated** with the K-12 curriculum

Help students develop **Critical and Creative Thinking**, and **Communication** skills

Enhances Arco's **Supplemental Solutions** offering and the **cross-selling** capacity of Core Curriculum

**+50 Partner Schools**

**+16K Students Impacted**



## Enhances Communication Between Schools and Parents

Provides **chat-based** interactions, **location-based** identifications, and **NPS tool** to assess parent's satisfaction

**Seamless integration** with Arco's current technology

Pilot project on **payments**

**+1,000 Connected Schools**

**+1.2 Million Unique Users<sup>1</sup>**

**+600K Students Using the App**

# SECTION 2

## COMPETITIVE ADVANTAGES



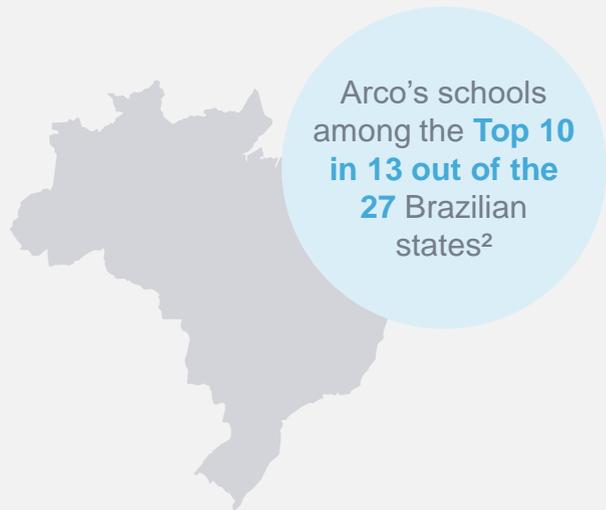
# Why We Win this Game

## Why we continuously gain market-share

### Brand Recognition

**+50 years** of education experience

**5 years** among top 10 schools in Brazil according to ENEM<sup>1</sup>



### Quality

**Highest penetration** among ENEM 2018 top 10 performing schools

**3** of the **top 10** schools by performance in ENEM<sup>1</sup>

**490 schools** ranked as one of the **top 3** of their cities<sup>1,3</sup>

## Why we have industry-leading retention rate

### Customer Service

**White glove service** model anchored on robust and **effective sales machine**

Net Promoter Score



**+83 NPS**



**+55 NPS**



**+61 NPS**



**+50 NPS**

### Results

Improved **learning experience** and **academic results**

Additional revenues to schools

High **switching costs**

**+95% retention rate** in both 2017 and 2018

% of partner schools ranked as one of the top 3 of their respective cities



**15%**



**POSITIVO**

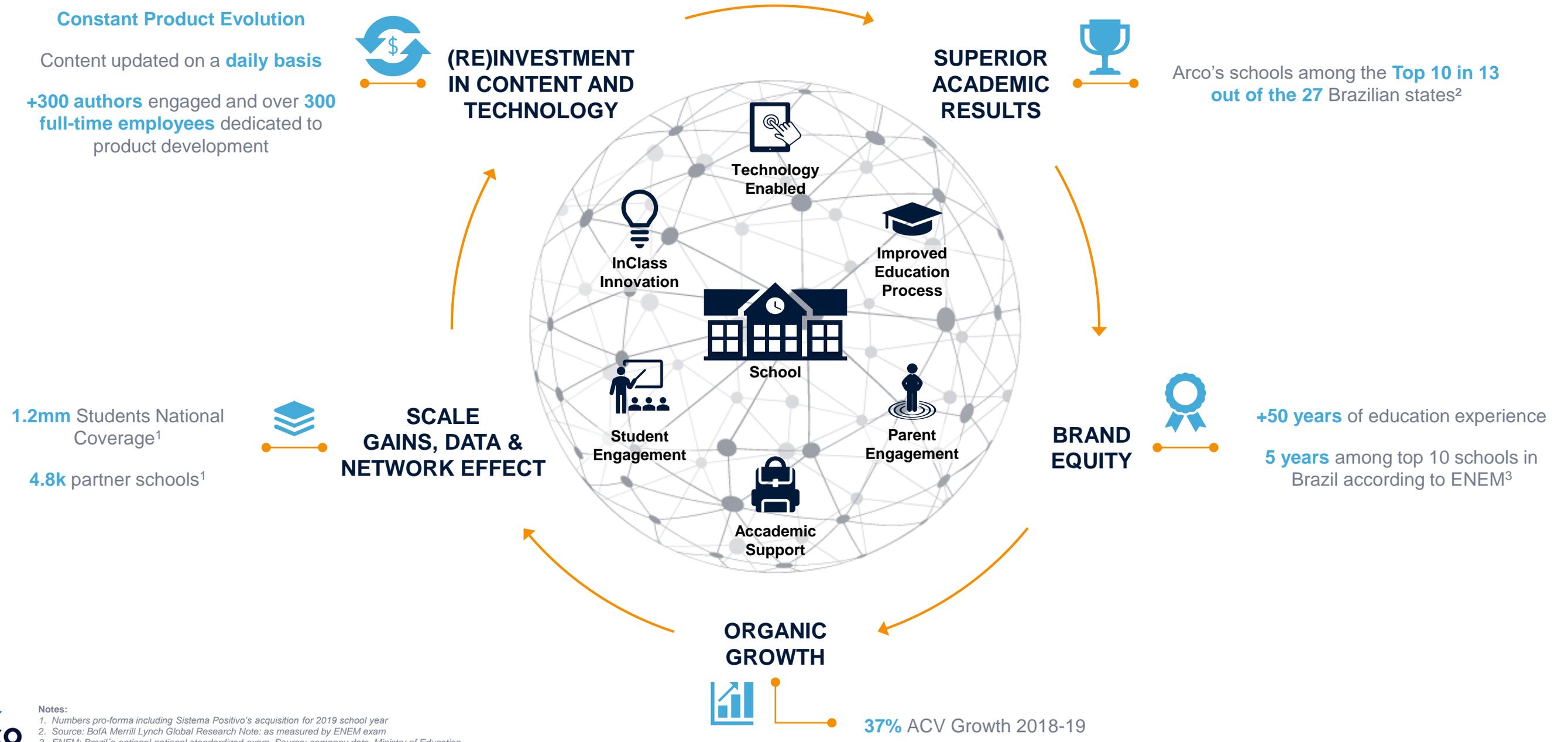
**~8%**

## All of that supported by Technology



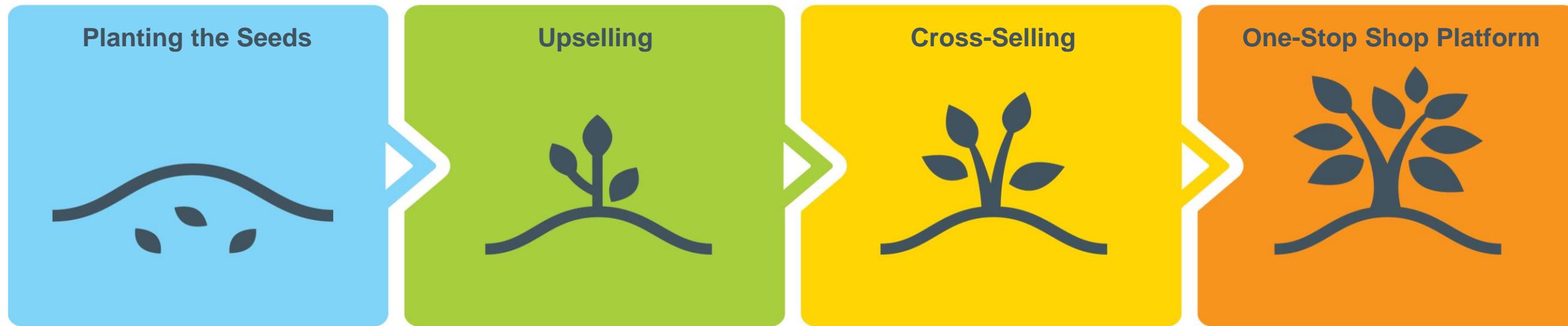
Notes:  
 1. ENEM: Brazil's optional national standardized exam. Source: company data, Ministry of Education  
 2. Source: BofA Merrill Lynch Global Research Note: as measured by ENEM exam  
 3. Pro forma for Positivo

# Powerful Network Effect Geared by a Virtuous Business Cycle



Notes:  
 1. Numbers pro-forma including Sistema Positivo's acquisition for 2019 school year  
 2. Source: BofA Merrill Lynch Global Research Note: as measured by ENEM exam  
 3. ENEM: Brazil's optional national standardized exam. Source: company data, Ministry of Education

# Addition of New Schools, Upsell and Cross-Sell



- ✓ Relationship built through a **sophisticated sales process**
- ✓ **Highly-skilled sales team**
- ✓ Arco plants seeds to **new features and products**

- ✓ At first, schools usually adopt our product to **selected grades** (high switching costs; mission critical factor)
- ✓ As we show our **superior methodology** to schools and parents, our **penetration increases** (experience leads to Upsell)

- ✓ **Close relationship** with partners schools allows us **to better understand their needs**
- ✓ This **expands our capabilities to offer supplemental products** more efficiently (= cross-sell)

- ✓ **Investment in content, technologies and new products** strengthen our stickiness and improves our value proposition
- ✓ We aim to become a **one-stop shop platform for content and tech-enabled features** for schools

# Resulting in Compelling Cohort Economics

## Land and Expand Model

Retention

Price Readjustment

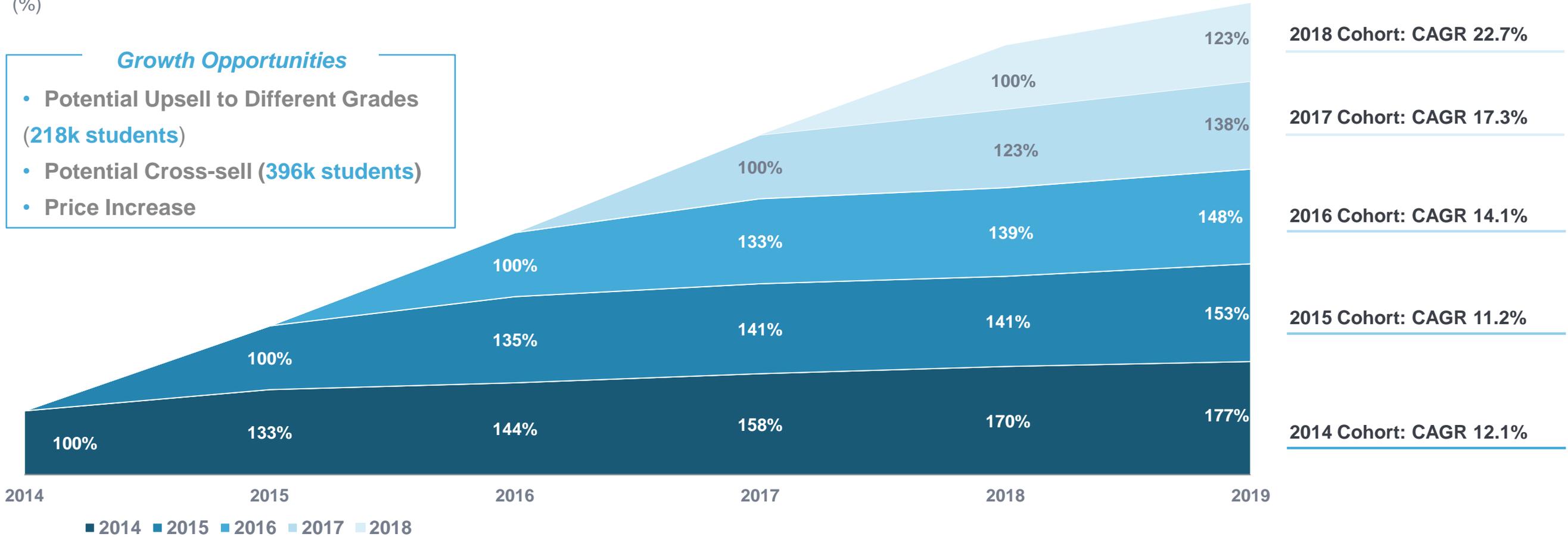
Upsell

Cross-sell  
(not included)

Annual Spend by Cohort Growth (%)

### Growth Opportunities

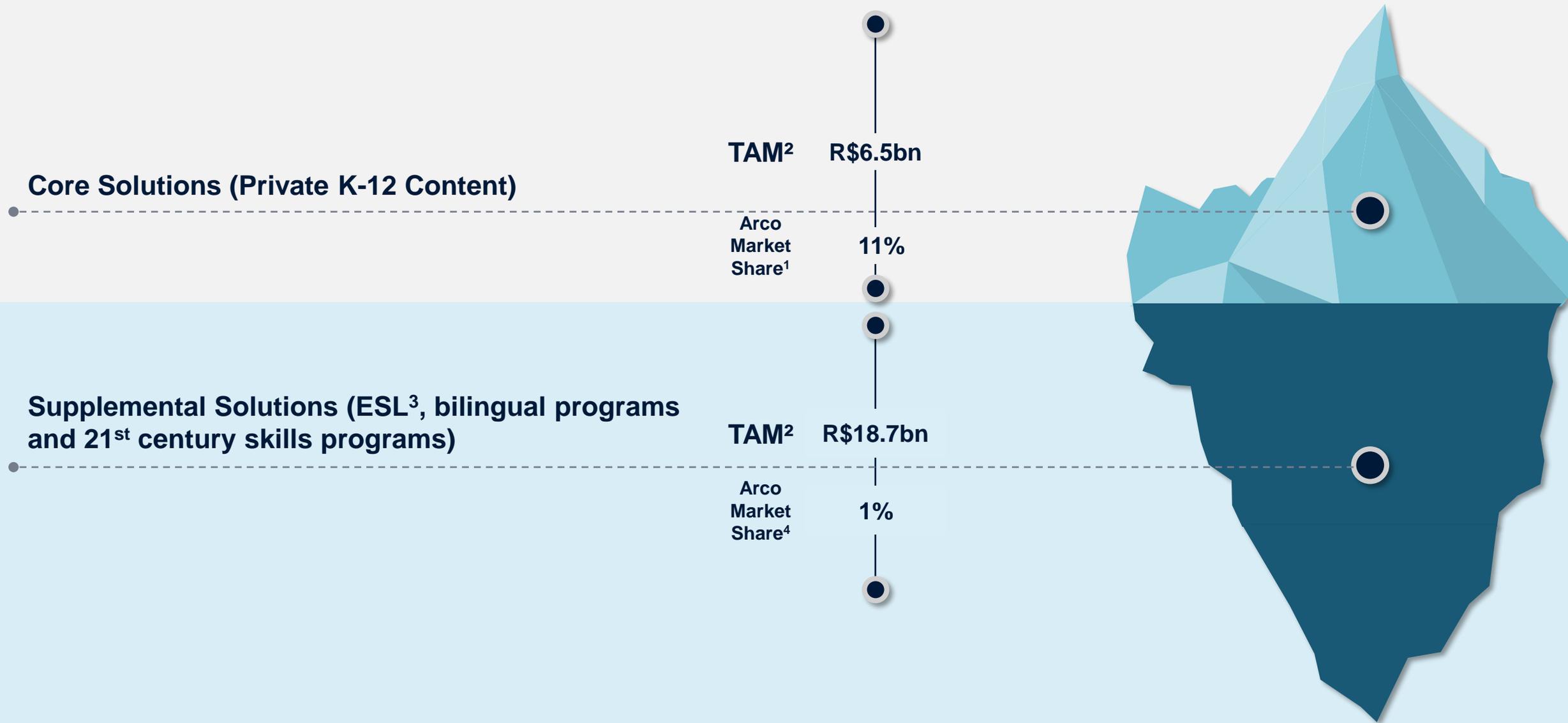
- Potential Upsell to Different Grades (218k students)
- Potential Cross-sell (396k students)
- Price Increase



Notes:  
 1. We define a cohort as the amount to be paid under contract by all of the partner schools on our platform over a 12-month period in that year. We calculate the total contractual fees payable by our partner schools in each cohort as of the end of each academic year, or the yearly contract fee amount. These amounts increase as a result of (i) increases in the total number of enrolled students at our partner schools served by our platform, and (ii) annual adjustments of our contract fees. These amounts decrease when partner schools terminate their contracts, downgrade their contracts to a lower price point, or if there is a decrease in the number of enrolled students at our partner schools.  
 2. This cohort analysis comprises Arco standalone numbers only.



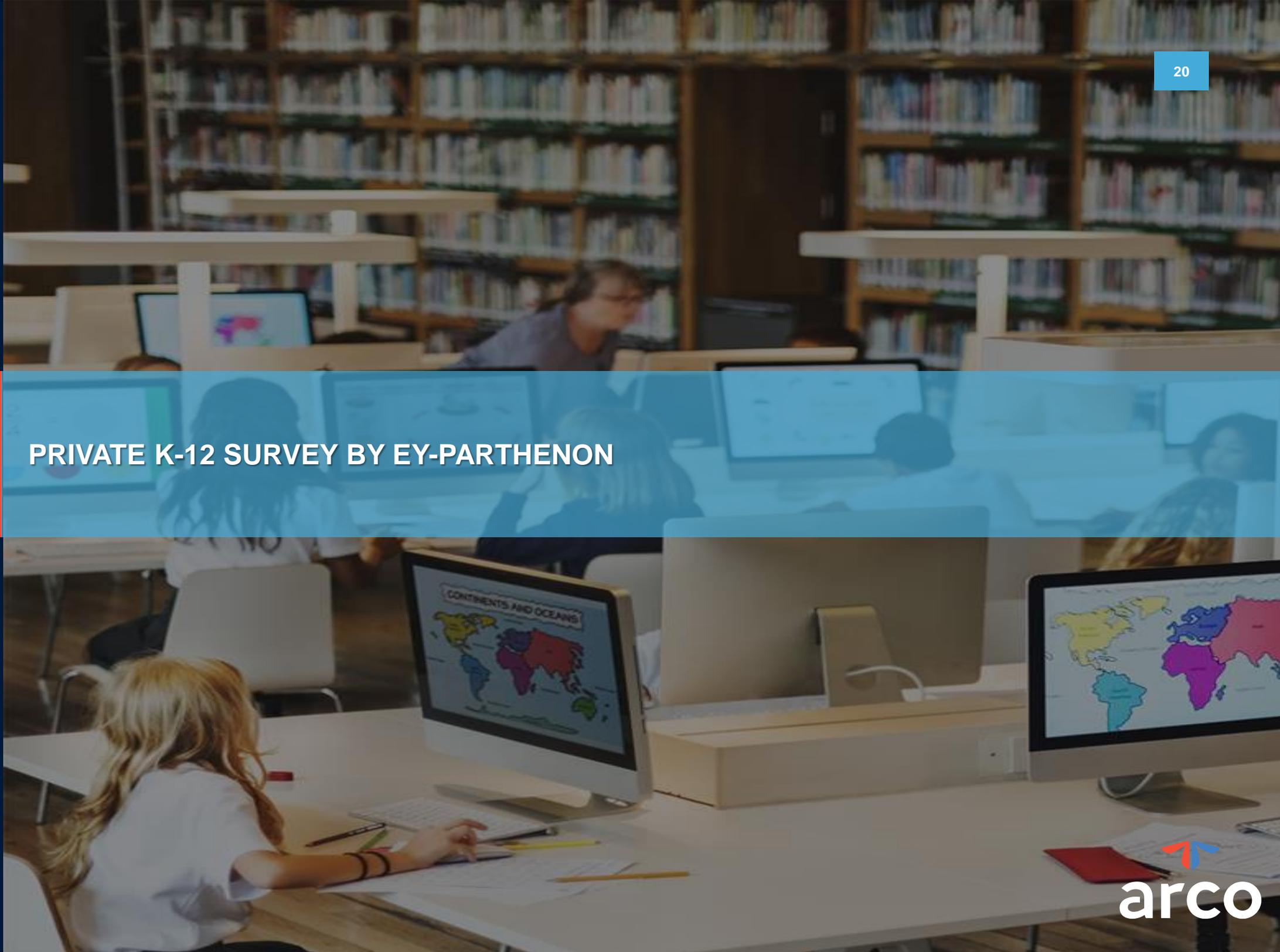
# Where Do We Go From Here? Focus on TAM Expansion



Arco holds ~3% market-share in the estimated Total Addressable Market

# SECTION 3

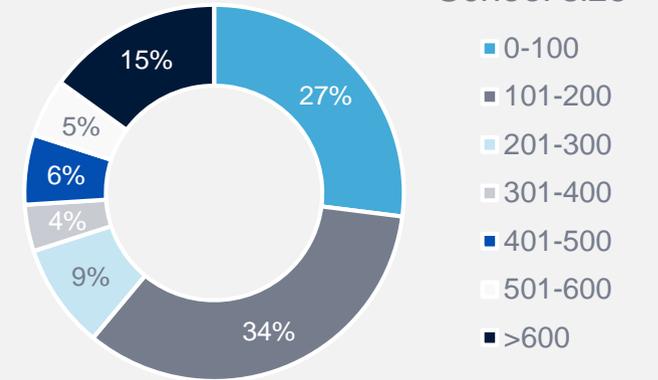
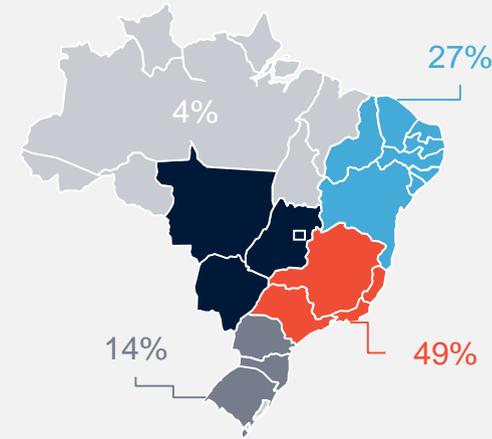
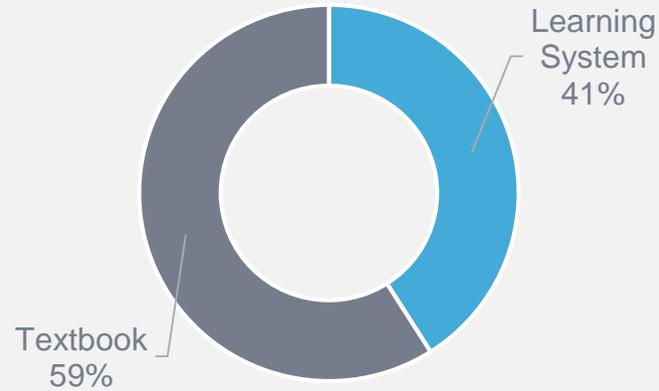
## PRIVATE K-12 SURVEY BY EY-PARTHENON



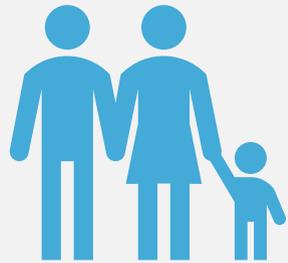
## PRINCIPALS DEMOGRAPHICS



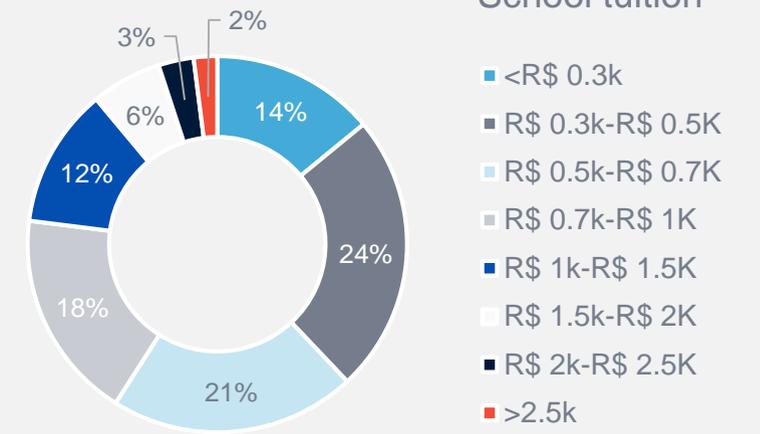
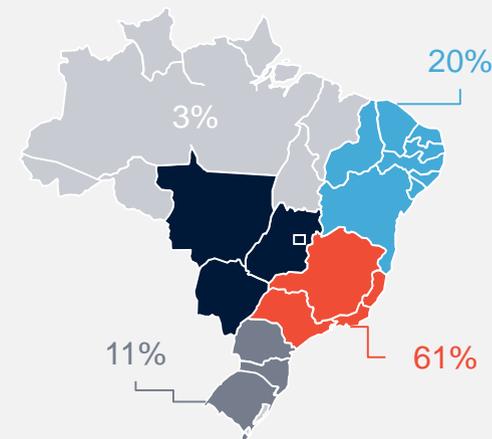
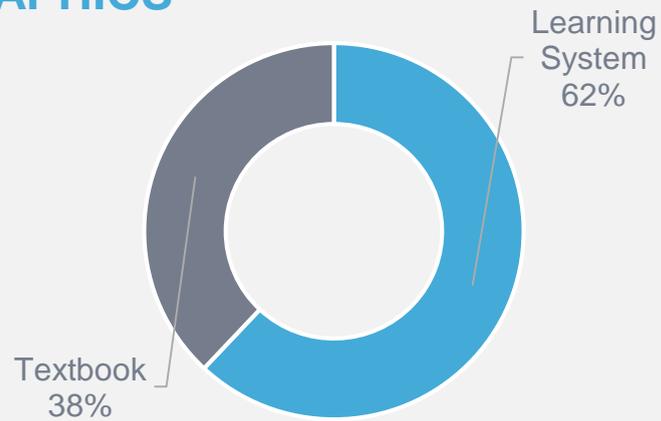
n = 500



## PARENTS DEMOGRAPHICS



n = 709



# Arco's Brand Equity and Proven Academic Results

## BRAND EQUITY



Top 3 most well-known brands among principals, with a very good reputation



Most well-known brand among principals and parents across all LS brands, with a very good reputation



Perception of parents users (NPS) is strong



## IMPACT ON ENEM SCORES

- Competitors present lower growth in ENEM scores compared to Arco's brands, considering objective questions

### Average growth in ENEM scores

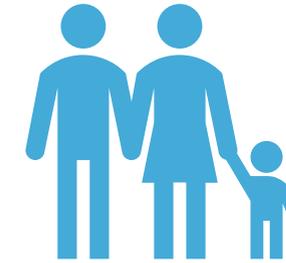
—●— SAS    —●— SAE    -●- Competitors





## PRINCIPALS

- Misread the level of their schools' difficulties, but understand that the **pain points are competition and retention**
- Recognize the relevance of Learning System (LS) to **support** their needs and **teacher needs**
- Preference for **integrated solutions**
- **Limited visibility** of their schools' performance compared to competitors



## PARENTS

- **53%** of parents **prefer schools with LS**
- **85%** of parents that have experienced both non-LS and LS environments, believe that **LS had a positive impact** on their children's **engagement**
- **40%** of non-LS parents, who believe **LS schools perform better academically**, are planning on changing school in the next 3 years
- **61%** of parents that experienced both non-LS and LS environments, recognize the **benefit of technological tools** on children's engagement

# Market Dynamics

Price increase power

The likelihood for future price increases of LS is strengthened by:

- Principals' current expectations, influenced by **inflation** and **content's quality improvement**
- More than 60%** of LS increased their price between 6% and 10%

## Average tuition readjustment in Brazil

(in % YoY)

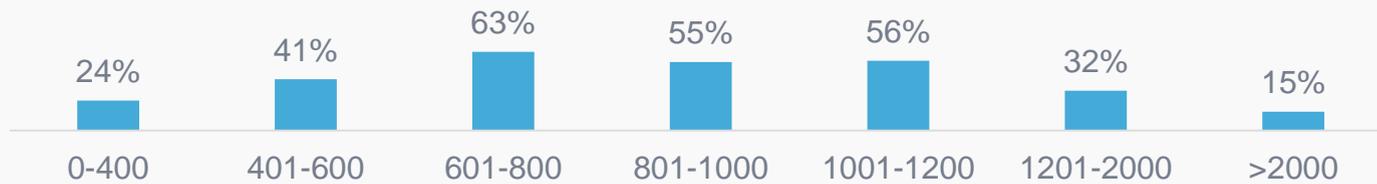


Schools have been **increasing tuition at higher rates** than price increase of LS and Collective Labor Agreements (CLA), combined

Learning system

## Elementary/Middle Schools' Learning System adoption by tuition

(% of LS adoption)



**76%**

of parents in non-LS schools believe that **LS schools perform better academically**

- 40%** consider changing their children's school in the next 3 years
- 54%** have a household income of at least R\$5.000

Supplemental activities

**R\$18.7bn**

Supplemental Solutions TAM

Why in school Supplemental Solution is expected to grow:

**48%**

of schools offer less than 4 supplemental activities and are **willing to increase** their current offering in the next 3 years

**29%**

of parents want to **allocate** their children spare time **to in-school supplemental activities**

**Parents' misconception:**

believe their children are attending more supplemental activities than they really are