



# GNAM Investment Competition

## **FGV - EAESP Top Investment Idea**



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**EAESP**

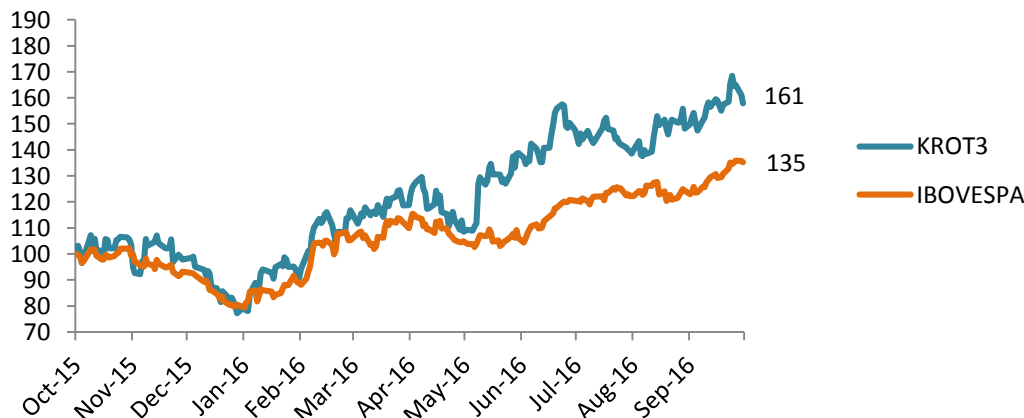


# Executive Summary – Why to buy Kroton



- **A rising giant in the education market**  
Grew 11x students’s enrollments and 9x revenue in 6 years (most by acquisitions)
- **Strongly positioned**  
Top undergraduate mkt share (23%) and high geographic distribution
- **In a promising market**  
Steady growth rhythm of ~4%/yr enrollment in undergraduate courses
- **Prepared for current and future economical challenges**  
Investing in credit lines and distance learning technologies

12 month change in price (Base 100 = 10/20/2015)

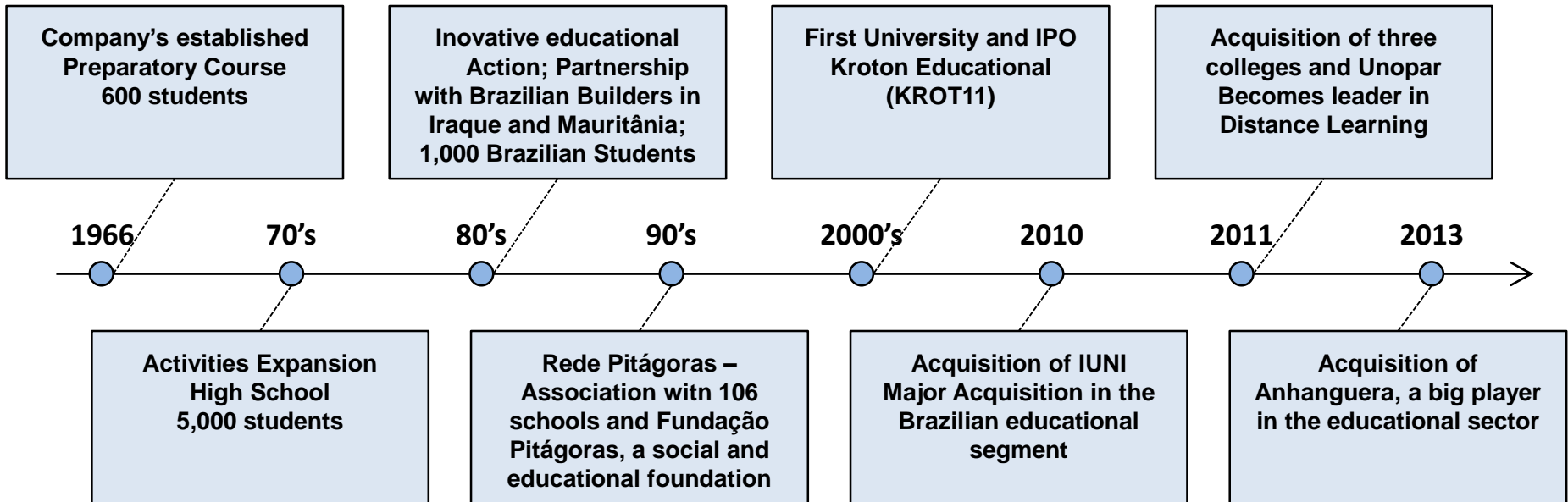


Target Price (BRL M) and upside	
Standalone NPV (BRL M)	25,880
(+) Net Present Value by new Acquisition	3,900
Equity Value	29,780
Number of Shares (bn)	1626
<b>Early 2017 Target Price:</b>	<b>18.31</b>
Current Price:	15.73
<b>Upside:</b>	<b>16%</b>

**BUY!**



# The rise of and education giant



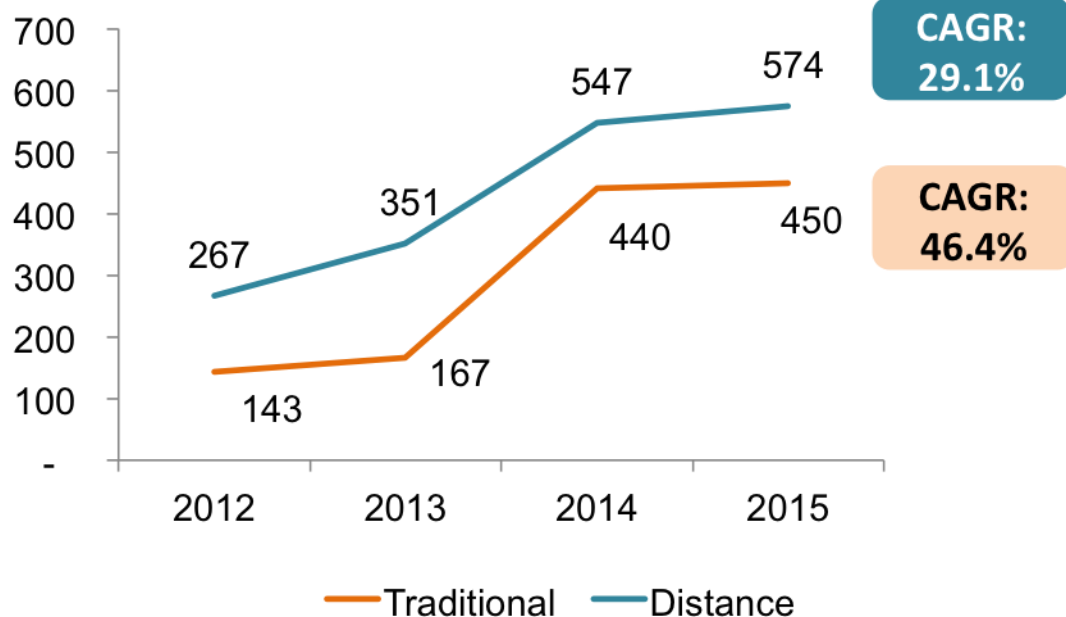
**Estácio**

Acquisition of its major competitor.  
Merger is expected to occur in 2017

# Kroton in Numbers

**Kroton's acquisition strategy allowed a substantial increase in number of students and a solid financial performance in the past years**

**Kroton student base by type (thousands)**



**Kroton's financial performance**

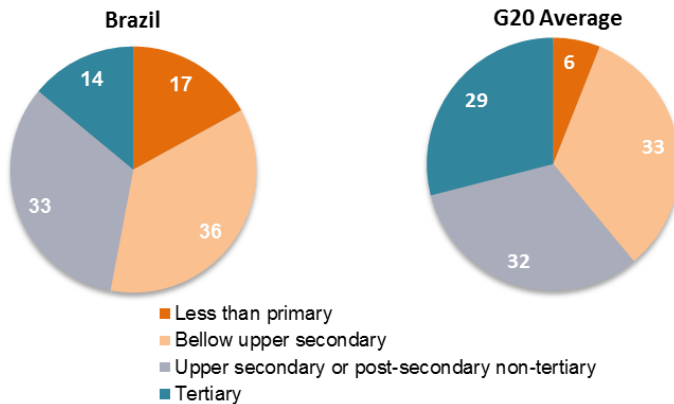
INCOME STATEMENT [R\$m]	2013	2014	2015
Net Revenues	3,829	4,822	5,290
(-) COGS	(1,850)	(1,855)	(1,685)
Gross Profit	1,979	2,967	3,605
EBIT	839	1,249	1,615
Adjusted EBITDA (BTG)	1,066	1,671	2,190
Net Financial Result	(167)	(121)	(139)
EBT	672	1,128	1,476
Income Taxes	(28)	(17)	(68)
Minority Interest	0	0	0
Net Income (Accounting)	644	1,110	1,408
EPS (Accounting)	0.40	0.69	0.87

SELECTIVE RATIOS	2013	2014	2015
Gross Margin	51.7%	61.5%	68.1%
Adjusted EBITDA Margin	27.8%	34.7%	41.4%
Adjusted Net Margin	18.5%	28.0%	34.0%
Net Debt	774	799	634
Net Debt / Adjusted EBITDA	-	0.5x	0.3x



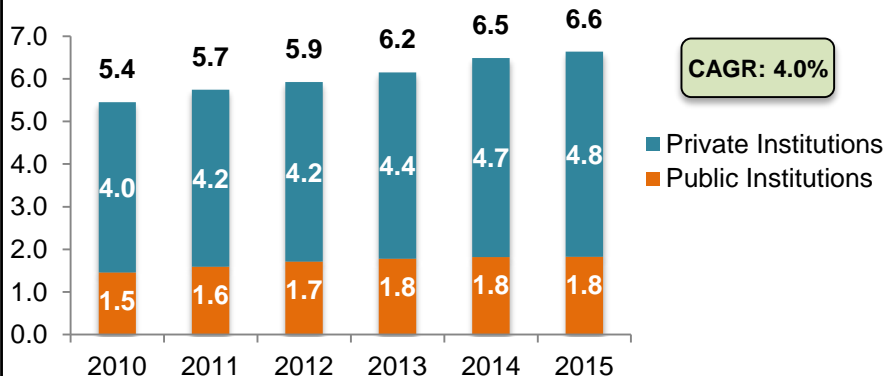
# Challenges and opportunities for education in Brazil

% Educational attainment of 25-64 year-olds (2015)



**Brazil has only 14% of its population between 25 and 64 years old with tertiary education degree (undergraduate or above), a very low index when compared to the average of G20 member...**

Number of enrollment in undergraduate courses (in millions)



**... this scenario, however, is gradually changing with an increasing number of enrollments in undergraduate courses – a big opportunity for private education institutions.**



## Kroton's regional and National Brands

To catch those opportunities, Kroton focuses its marketing and acquisition strategies in both regional and national brands – and it seems promising in a continental-scale country like Brazil

### Product

### Strong regional brands

### National brands

On-Campus Undergraduate  
On-Campus Graduate  
Vocational Programs



Distance Learning Undergraduate  
Distance Learning Graduate



Primary and Secondary Education



Preparatory Courses



## Investing in Kroton: Valuation

Student Base Projection	2015	2016E	2017E	2018E	2019E	2020E	2021E
Regular Learning Students	449,661.0	438,098	442,907	446,931	450,996	455,101	459,247
Distance Learning Students	573,955.0	541,575	563,166	569,202	575,299	581,457	587,676
<b>Total Student Base</b>	<b>1,023,616</b>	<b>979,673</b>	<b>1,006,073</b>	<b>1,016,134</b>	<b>1,026,295</b>	<b>1,036,558</b>	<b>1,046,924</b>

Kroton Valuation	2015	2016E	2017E	2018E	2019E	2020E	2012
Regular Learning Net Revenue	4,082.0	4,175.9	4,432.8	4,696.7	4,976.4	5,272.8	5,586.9
(+) Distance Learning Net Revenue	1,183.2	1,172.3	1,280.0	1,358.4	1,441.6	1,529.9	1,623.6
<b>Net Revenue</b>	<b>5,265.2</b>	<b>5,348.2</b>	<b>5,712.8</b>	<b>6,055.1</b>	<b>6,418.0</b>	<b>6,802.7</b>	<b>7,210.4</b>
(-) Regular Learning Costs	-1,433.4	-1,466.4	-1,556.6	-1,649.3	-1,747.5	-1,851.6	-1,961.9
(-) Distance Learning Costs	-251.8	-249.5	-272.4	-289.1	-306.8	-325.5	-345.5
<b>Gross Income</b>	<b>3,580.0</b>	<b>3,632.4</b>	<b>3,883.8</b>	<b>4,116.8</b>	<b>4,363.8</b>	<b>4,625.6</b>	<b>4,903.1</b>
(-) Operational Expenses	-1,401.2	-1,408.1	-1,518.4	-1,610.3	-1,707.7	-1,811.0	-1,920.6
<b>EBITDA</b>	<b>2,178.8</b>	<b>2,224.2</b>	<b>2,365.4</b>	<b>2,506.5</b>	<b>2,656.1</b>	<b>2,814.6</b>	<b>2,982.5</b>
(-) Depreciatio / Amortization	-379.8	-379.8	-381.7	-378.8	-370.3	-362.1	-354.2
<b>EBIT</b>	<b>1,799.0</b>	<b>1,844.4</b>	<b>1,983.7</b>	<b>2,127.7</b>	<b>2,285.8</b>	<b>2,452.5</b>	<b>2,628.4</b>
(-) Tax	-107.9	-110.7	-119.0	-127.7	-137.1	-147.1	-157.7
(+) Depreciatio / Amortization	379.8	379.8	381.7	378.8	370.3	362.1	354.2
<b>OCF</b>	<b>2,070.9</b>	<b>2,113.5</b>	<b>2,246.4</b>	<b>2,378.9</b>	<b>2,518.9</b>	<b>2,667.4</b>	<b>2,824.8</b>
(-) Change in Net Working Capital	-6.6	-7.4	-32.4	-30.4	-32.3	-34.2	-36.3
(-) CAPEX (growth / minor acq.)	-439.0	-439.0	-290	-111	-112	-113	-114
<b>FCFF</b>	<b>1,625.2</b>	<b>1,667.2</b>	<b>1,923.6</b>	<b>2,237.8</b>	<b>2,374.9</b>	<b>2,520.3</b>	<b>2,674.6</b>
<b>Terminal Value</b>							<b>33,473.6</b>
<b>FCFF + Terminal Value</b>	<b>1,625.2</b>	<b>1,667.2</b>	<b>1,923.6</b>	<b>2,237.8</b>	<b>2,374.9</b>	<b>2,520.3</b>	<b>36,148.2</b>

WACC:	11.99%
Standalone Net Present Value	25,880
(+) Net Present Value by Estacio Acquisition:	3,900
Equity Value	29,780
Number of Shares (Bi):	1626
<b>Early 2017 Target Price:</b>	<b>18.31</b>
Current Price:	15.73
<b>Upside:</b>	<b>16%</b>

**In our projections, this leading strategy will allow Kroton to provide a 16% upside to investors [ BUY ]**



# Investing in Kroton: Sensitivity Analysis

Sensitivity Analysis - Target Price						
		Perpetuity Growth (%) - Nominal BRL				
		3.0%	3.5%	4.0%	4.5%	5.0%
WACC (%) - Nominal BRL	10.99%	19.1	19.8	20.6	21.6	22.7
	11.49%	18.1	18.7	19.4	20.2	21.2
	11.99%	17.2	17.7	<b>18.3</b>	19.0	19.8
	12.49%	16.4	16.8	17.4	18.0	18.6
	12.99%	15.6	16.0	16.5	17.0	17.6

Sensitivity Analysis - Upside						
		Perpetuity Growth (%) - Nominal BRL				
		3.0%	3,5%	4,0%	4,5%	5,0%
WACC (%) - Nominal BRL	10.99%	21%	26%	31%	37%	45%
	11.49%	15%	19%	23%	29%	35%
	11.99%	9%	13%	<b>16%</b>	21%	26%
	12.49%	4%	7%	10%	14%	18%
	12.99%	-1%	2%	5%	8%	12%