Arco Reports Second Quarter 2021 Results

Operating results reflect revenue seasonality, product development and sales force increase, while cash flow improves as receivables are collected and the company resumes its cash generation profile

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SÃO PAULO--(BUSINESS WIRE)--**Arco Platform Limited, or Arco or Company (Nasdaq: ARCE),** today reported financial and operating results for the second quarter ended June 30, 2021.

“Operating results for the 2Q21 still reflect the challenges imposed by the COVID-19 in the sector and the schools' operations. Despite the revenue seasonality and the higher investments in product and sales force impacting our margins this quarter, we reaffirm our margin guidance for 2021. The sales cycle for the 2022 school year continues strong, with YTD organic growth pace for our core legacy solutions multiple times ahead of 2020 and in-line with 2019 levels and renewal rates following historical trends. As for the supplemental business, YTD data points to an acceleration versus last cycle but a two-step recovery to pre-pandemic growth pace, while renewal rates are, at this point, much stronger versus 2020. Finally, we are very proud of our first ESG report, released on August 10, in which we disclose material themes to the Company that will guide us in our path to further expand our impact on Brazilian Education. We are confident that the worst is behind us and as vaccination progresses in the country and we keep investing in evolving our solutions we will be able to reaccelerate growth and fulfill our mission to transform the way students learn by delivering high-quality education at scale,” said Ari de Sá Neto, CEO and founder of Arco.

Second Quarter 2021 Results

- Net revenue of R$256.3 million;
- Gross profit of R$188.2 million;
- Adjusted EBITDA of R$72.3 million; and
- Adjusted net income of R$36.4 million.

First Half 2021 Results

- Net Revenue of R$588.0 million;
- Gross Profit of R$432.7 million;
- Adjusted EBITDA of R$190.6 million; and
- Adjusted Net Income of R$97.5 million.

Key Messages

- Net revenues for the quarter increased 9% year-over-year to R$256.3 million, representing a 21.9% revenue recognition of the ACV bookings, above revenue recognition guidance provided in 1Q21 but below historical levels. Core solutions presented a 14% drop versus 2Q20 to R$200.2 million as part of the revenue recognition was anticipated to 1Q21, while Supplemental solutions increased to R$56.1 million (versus R$1.8 million in 2Q20), impacted by the acquisition of Escola da Inteligência concluded in December 2020. For the 6 months of 2021, net revenues increased 18% year-over-year to R$588.0 million, with Core solutions increasing 2% to R$464.8 million and Supplemental solutions increasing 188% to R$ 123.2 million.

- Adjusted EBITDA was R$72.3 million in 2Q21, a 28% drop versus 2Q20, impacted by lower revenue recognition due to the impact of COVID-19’s second wave, product development and investments in sales & marketing as Arco paves the way for future growth. As a result, adjusted EBITDA margin was 28.2% in the quarter versus 42.8% in 2Q20. For the 6 months of 2021, adjusted EBITDA was R$190.6 million, resulting in a margin of 32.4% versus 39.8% for 6M20. When excluding M&As concluded this year, and therefore not incorporated in the guidance, margin was 28.8% for 2Q21 and 32.8% for 6M21. We are maintaining our 2021 adjusted EBITDA margin guidance unchanged at 35.5%-37.5%.

- Free cash flow presented an 8% year-over-year increase to R$ 63.7 million in 2Q21 and a significant improvement versus 1Q21, mainly due to the collection of trade receivables generated in previous quarters when the Company opted to assist its partner schools by extending payment terms. As a result, free cash flow/adjusted EBITDA ratio reached 88.2% (versus 58.7% in 2Q20 and -1.7% in 1Q21).

Free cash flow (R$ MM)	**2Q21**	**2Q20**	**YoY**	**1Q21**	**QoQ**
Cash generated from operations	113,157	89,878	26 %	89,228	27 %
(-) Income tax paid	(4,529)	(6,477)	-30 %	(46,988)	-90 %
(-) Interest paid on lease liabilities	(743)	(285)	161 %	(860)	-14 %
(-) Interest paid on investment acquisition	(70)	-	n/a	(4,153)	-98 %
(-) Interest paid on loans and financing	(4,378)	-	n/a	(3,567)	23 %
(-) Payments for contingent consideration	(332)	-	n/a	-	n/a
Cash Flow from Operating Activities	103,105	83,116	24 %	33,660	206 %
(-) Acquisition of property, plant and equipment	(2,534)	(1,665)	52 %	(2,998)	-15 %

(-) Acquisition of intangible assets	(36,842)	(22,421)	64%	(32,701)	13%
Free cash flow	**63,729**	**59,030**	**8%**	**(2,039)**	**n/a**

- The 19% QoQ reduction in trade receivables reflects Arco's business resilience and its capacity to collect from partner schools to whom we provided support through more flexible payment terms.

Trade Receivables - Aging (R$ MM)	**2Q21**	**2Q20**	**YoY**	**1Q21**	**QoQ**
Neither past due nor impaired	357.2	247.4	44%	481.9	-26%
1 to 60 days	36.9	38.0	-3%	20.5	80%
61 to 90 days	9.3	12.7	-27%	6.9	35%
91 to 120 days	7.1	10.3	-31%	4.5	58%
121 to 180 days	7.9	8.0	-2%	11.0	-28%
More than 180 days	59.3	23.9	148%	65.1	-9%
Trade receivables	**477.7**	**340.5**	**40%**	**589.8**	**-19%**

Days of sales outstanding	**2Q21**	**2Q20**	**YoY**	**1Q21**	**QoQ**
Trade receivables (R$ MM)	477.7	340.5	40%	589.8	-19%
(-) Allowance for doubtful accounts	(71.3)	(42.0)	70%	(67.3)	6%
Trade receivables, net (R$ MM)	406.4	298.4	36%	522.5	-22%
Net revenue LTM *pro-forma*[1]	1,118.6	911.8	23%	1,130.2	-1%
Adjusted DSO	**133**	**119**	**11%**	**169**	**-21%**

1) *Calculated as net revenues for the last twelve months added to the pro forma revenues from businesses acquired in the period to accurately reflect the Company's operations.*

- No significant change in the allowance for doubtful accounts, reflecting solid receivables profile and a strong collection process following our strategy to assist our partner schools by providing more flexible payment terms during the pandemic.

Allowance for doubtful accounts (R$ MM)	**2Q21**	**2Q20**	**YoY**	**1Q21**	**QoQ**
Allowance for doubtful accounts	**(6.6)**	**(6.4)**	**3%**	**(3.8)**	**74%**
% of Revenues	*-2.6%*	*-2.7%*	*0.1 p.p.*	*-1.2%*	*-1.4 p.p.*
Allowance for doubtful accounts adjusted for COVID impact[1]	**(6.6)**	**(5.5)**	**20%**	**(3.8)**	**74%**
% of Revenues	*-2.6%*	*-2.3%*	*-0.3 p.p.*	*-1.1%*	*-1.5 p.p.*

1) *Calculated excluding COVID-19 impact on allowance for doubtful accounts to better reflect a normalized level of this line.*

- The increase in CAPEX observed in the 2Q21, reaching R$39.4 million or 15.4% of the net revenues, is mainly explained by an increase in investments in software as Arco concludes Positivo's operational system integration. The integration of other businesses acquired in recent years will continue in upcoming quarters but should be less complex and therefore demand less investment.

CAPEX (R$ MM)[1]	**2Q21**	**2Q20**	**YoY**	**1Q21**	**QoQ**
Acquisition of intangible assets	**36.8**	**22.4**	**64%**	**32.7**	**13%**
Educational platform - content development	8.1	9.7	-16%	8.7	-7%
Educational platform - platforms and educational technology	13.0	3.6	261%	15.6	17%
Software	13.6	7.2	89%	5.8	134%
Copyrights and others	2.1	1.9	11%	2.6	-19%
Acquisition of property, plant and equipment	**2.5**	**1.7**	**47%**	**3.0**	**-17%**
TOTAL	**39.4**	**24.1**	**63%**	**35.7**	**10%**

1) *Excluding the effect of business combinations.*

- Arco's corporate restructuring continues to take place. On July 1st, we concluded the incorporation of SAS subsidiaries, that will result in annual tax savings of approximately R$ 30 million. We expect to incorporate Nave a Vela in 2021, followed by Escola em Movimento (2022), Pleno (2022) and Studos (2022). As we keep incorporating other businesses into CBE (*Companhia Brasileira de Educação e*

Sistemas de Ensino S.A., entity incorporating acquired businesses) we will be able to capture additional tax benefits and therefore further reduce our effective tax rate, currently at 19.4% for 6M21 (versus 29.2% for 6M20).

Intangible assets - net balances (R$ MM)	2Q21	2Q20	YoY	1Q21	QoQ
Business Combination	**2,374.1**	**1,683.7**	**41%**	**2,398.6**	**-1%**
Trademarks	443.0	337.8	31%	449.5	-1%
Customer relationships	266.8	181.2	47%	275.3	-3%
Educational system	216.4	215.9	0%	224.5	-4%
Software	7.3	2.8	156%	7.9	-8%
Educational platform	6.0	13.4	-56%	6.1	-3%
Others[1]	15.9	15.8	0%	16.8	-6%
Goodwill	1,418.7	916.8	55%	1,418.4	0%
Operational	**193.0**	**109.9**	**76%**	**177.0**	**9%**
Educational platform[2]	136.0	79.4	71%	130.2	4%
Software	45.3	20.5	121%	34.8	30%
Copyrights	11.7	9.9	19%	11.8	-1%
Customer relationships	0.1	0.2	-34%	0.1	-12%
TOTAL	**2,567.1**	**1,793.7**	**43%**	**2,575.6**	**0%**

Amortization of intangible assets (R$ MM)	2Q21	2Q20	YoY	1Q21	QoQ
Business Combination	**(55.0)**	**(17.6)**	**212 %**	**(55.0)**	**0 %**
Trademarks	(6.4)	(4.6)	38 %	(6.4)	-1 %
Customer relationships	(8.5)	(5.9)	44 %	(8.5)	0 %
Educational system	(8.1)	(6.5)	24 %	(8.0)	1 %
Software	(0.6)	(0.3)	119 %	(0.6)	-4 %
Educational platform	(0.2)	0.2	-180 %	(0.2)	0 %
Others[1]	(1.2)	(0.5)	118 %	(1.1)	4 %
Goodwill	(30.1)	-	NA	(30.1)	0 %
Operational	**(20.6)**	**(8.3)**	**149 %**	**(18.6)**	**11 %**
Educational platform[2]	(15.2)	(5.5)	175 %	(13.6)	11 %
Software	(3.4)	(1.2)	177 %	(2.9)	16 %
Copyrights	(2.1)	(1.5)	36 %	(2.0)	2 %
Customer relationships	(0.0)	(0.0)	0 %	(0.0)	0 %
TOTAL	**(75.7)**	**(25.9)**	**192 %**	**(73.6)**	**3 %**

1) *Non-compete agreements and rights on contracts.*
2) *Includes content development in progress.*

			Amortizations with tax benefit in 2Q21		
Amortization of intangible assets (R$ MM)	**Impacts P&L**	**Originates tax benefit**	**Amortization**	**Tax benefit**	**Impact on net income**
Business Combination			**(46.3)**	**15.8**	**(30.6)**
Trademarks	Yes	Yes[2]	(4.3)	1.5	(2.8)
Customer relationships	Yes	Yes[2]	(5.3)	1.8	(3.5)
Educational system	Yes	Yes[2]	(5.9)	2.0	(3.9)
Educational platform	Yes	Yes[2]	(0.2)	0.1	(0.1)
Others[1]	Yes	Yes[2]	(0.5)	0.2	(0.3)
Goodwill	No	Yes[2]	(30.1)	10.2	(19.9)
Operational	**Yes**	**Yes**	**(20.6)**	**7.0**	**(13.6)**
TOTAL			**(66.9)**	**22.8**	**(44.2)**

1) *Non-compete agreements and rights on contracts.*
2) *Amortizations are tax deductible only after the incorporation of the acquired business. In 2Q21, 22% of the balance of the intangible assets from business combinations generates tax benefits.*

Amortization of intangible assets from business combination that generate tax benefit - schedule (R$ MM)	Businesses with current tax benefit (already incorporated)					Undefined[1]
	2021	**2022**	**2023**	**2024**	**2025 +**	
Trademarks	16.9	16.9	16.9	16.9	244.0	132.0
Customer relationships	21.6	20.5	20.5	20.5	74.4	121.7
Educational system	23.0	21.9	21.0	21.0	101.7	33.9
Software	-	-	-	-	-	8.5
Educational platform	0.7	0.7	0.7	0.7	3.5	0.0
Others	1.3	1.2	1.1	0.9	- 0.0	9.1
Goodwill	120.5	120.5	120.5	114.6	341.2	631.4
Total	**184.1**	**181.8**	**180.8**	**174.7**	**764.9**	**936.7**
Maximum tax benefit	**62.6**	**61.8**	**61.5**	**59.4**	**260.1**	**318.5**

1) Businesses with future tax benefit (to be incorporated).

- Arco's cash and cash equivalent position (Sum of cash and cash equivalents and short-term financial investment) of R$866 million is enough to meet the obligations for the year of R$633 million in debt and accounts payable to selling shareholders (Accounts payable to selling shareholders do not include acquisitions announced still pending anti-trust approval or acquisitions closed after June 30, 2021). Additionally, we are currently working on a credit line of approximately R$900 million at attractive conditions to finance the previously announced acquisition of COC and Dom Bosco Core learning systems from Pearson and refinance existing debt.

- Despite early in the commercial cycle, we see a clear acceleration in the pace of organic growth versus 2020. Cross-sell initiatives continue to play an important role in our commercial strategy, representing at this point 85% of the supplemental intake for the 2022 school year. Additionally, cross-sell initiatives are now powered by the creation of a centralized supplemental business unit, ArcoPlus, which will enable synergies among solutions.

- In 2021 Arco launched SAS Adapt, a version of our legacy brand SAS that allows for higher customization, provides more detailed information on students' engagement and pedagogical gaps, creates higher connectivity among all content available in the platform, and enables more personalized tracks and flexible curriculum. Such product evolution increases our reach to schools that demand more customization possibilities, especially the premium segment, as it allows them to adapt their curriculum and plan pedagogical interventions to fulfill their students' needs. The access to the premium segment will also be a great opportunity to further improve our solutions as we gather feedback from the best schools in the country. SAS Adapt was created using the best technology available, relying on features from Studos, the adaptive learning solution acquired in September 2020, and Eduqo, a LMS provider acquired in July 2021.

- Aligned with our commitment to continuously evolve our solutions, Arco is in the process of creating a single technology backbone for all our solutions. A dedicated area was created to lead this project, ArcoTech, that will consolidate Arco's features and services such as WPensar, Escola em Movimento, Studos and Eduqo, while gathering the best technological features of the platforms of each of our brands, allowing us to simplify our structure and become an even more agile and responsive company, enhancing our solutions, and delivering a better experience to our clients. Eduqo, acquired in July 2021, further improves the backbone of our platform as its solutions fit into every school routine, with the mission of providing a personalized learning experience and helping schools to acquire more students based on data intelligence.

- On August 10, Arco released its first ESG report, an important step towards disclosure improvement and commitment to increase our impact in the Brazilian Education sector. Our materiality assessment confirmed the three main themes to be addresses in this first report: impact on education, the focus on people and strong and sustainable structure. The report can be downloaded at https://investor.arcoplatform.com/esg/.

Conference Call Information

Arco will discuss its second quarter 2021 results today, August 19, 2021, via a conference call at 5 p.m. Eastern Time (6 p.m. Brasilia Time). To access the call, please dial: +1 (412) 717-9627, +1 (844) 204-8942 or +55 (11) 3181-8565. An audio replay of the call will be available through August 25, 2021, by dialing +55 (11) 3193-1012 and entering access code 1608874#. A live and archived webcast of the call will be available on the Investor Relations section of the Company's website at https://investor.arcoplatform.com/.

Information related to COVID-19 pandemic

As of June 30, 2021, there was a total net impact of R$937 thousand on the Company's condensed consolidated financial statements related to the COVID-19 pandemic mainly related to: (i) additional expenses of R$ 1,102 thousand related to health care in food and emotional health programs to the Company's employees, and (iv) savings on rent concessions, regarding leased buildings, that occurred as a direct consequence of the COVID-19 pandemic, amounting R$165 thousand.

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 future impact of the COVID-19 pandemic on an ongoing basis is still uncertain, and the Company's management team will continue to closely monitor and assess the potential impacts it may have on the Company's business, its financial performance and position.

For full disclosure regarding the COVID-19 discussion, please refer to the June 30, 2021 condensed consolidated financial statements submitted to the Securities and Exchange Commission on Form 6-K.

About Arco Platform Limited (Nasdaq: ARCE)

Arco has empowered hundreds of thousands of students to rewrite their futures through education. Our data-driven learning methodology, proprietary adaptable curriculum, interactive hybrid content, and high-quality pedagogical services allow students to personalize their learning experience while enabling schools to thrive.

Forward-Looking Statements

This press release contains forward-looking statements as pertains to Arco Platform Limited (the "Company") within the meaning of the Private Securities Litigation Reform Act of 1995, including, but not limited to, the Company's expectations or predictions of future financial or business performance conditions. The achievement or success of the matters covered by statements herein involves substantial known and unknown risks, uncertainties, and assumptions, including with respect to the COVID-19 pandemic. If any such risks or uncertainties materialize or if any of the assumptions prove incorrect, the Company's results could differ materially from the results expressed or implied by the statements we make. You should not rely upon forward-looking statements as predictions of future events. Forward looking statements are made based on the Company's current expectations and projections relating to its financial conditions, result of operations, plans, objectives, future performance and business, and these statements are not guarantees of future performance.

Statements which herein address activities, events, conditions or developments that the Company expects, believes or anticipates will or may occur in the future are forward-looking statements. You can generally identify forward-looking statements by the use of forward-looking terminology such as "anticipate," "believe," "can," "continue," "could," "estimate," "evaluate," "expect," "explore," "forecast," "guidance," "intend," "likely," "may," "might," "outlook," "plan," "potential," "predict," "probable," "project," "seek," "should," "view," or "will," or the negative thereof or other variations thereon or comparable terminology. All statements other than statements of historical fact could be deemed forward looking, including risks and uncertainties related to statements about our competition; our ability to attract, upsell and retain customers; our ability to increase the price of our solutions; our ability to expand our sales and marketing capabilities; general market, political, economic, and business conditions in Brazil or abroad; and our financial targets which include revenue, share count and other IFRS measures, as well as non-IFRS financial measures including Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Net Income, Adjusted Net Income Margin, Taxable Income Reconciliation and Free Cash Flow.

Forward-looking statements represent the Company management's beliefs and assumptions only as of the date such statements are made, and the Company undertakes no obligation to update any forward-looking statements made in this presentation to reflect events or circumstances after the date of this press release or to reflect new information or the occurrence of unanticipated events, except as required by law.

Further information on these and other factors that could affect the Company's financial results is included in filings the Company makes with the Securities and Exchange Commission from time to time, including the section titled "Risk Factors" in the Company's most recent Forms 20-F and 6-K. These documents are available on the SEC Filings section of the Investor Relations section of the Company's website at: https://investor.arcoplatform.com/

Key Business Metrics

ACV Bookings: we define ACV Bookings as the revenue we would contractually expect to recognize from a partner school in each school year pursuant to the terms of our contract with such partner school, assuming no further additions or reductions in the number of enrolled students that will access our content at such partner school in such school year (we define "school year" for purposes of calculation of ACV Bookings as the twelve-month period starting in October of the previous year to September of the mentioned current year). We calculate ACV Bookings by multiplying the number of enrolled students at each partner school with the average ticket per student per year; the related number of enrolled students and average ticket per student per year are each calculated in accordance with the terms of each contract with the related partner school.

Non-GAAP Financial Measures

To supplement the Company's condensed consolidated financial statements, which are prepared and presented in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board—IASB, we use Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Net Income, Adjusted Net Income Margin, Free Cash Flow and Taxable Income Reconciliation which are non-GAAP financial measures.

We calculate Adjusted EBITDA as profit (loss) for the year (or period) plus/minus income taxes, plus/minus finance result, plus depreciation and amortization, plus/minus share of (profit) loss of equity-accounted investees, plus share-based compensation plan, restricted stock units and provision for payroll taxes (restricted stock units), plus M&A expenses, plus non-recurring expenses and plus effects related to COVID-19 pandemic. We calculate Adjusted EBITDA Margin as Adjusted EBITDA divided by Net Revenue.

We calculate Adjusted Net Income as profit (loss) for the year (or period), plus share-based compensation plan, restricted stock units and provision for payroll taxes (restricted stock units), plus amortization of intangible assets from business combinations (which refers to the amortization of the following intangible assets from business combinations: (i) rights on contracts, (ii) customer relationships, (iii) educational system, (iv) trademarks, (v) non-compete agreement (vi) software and (vii) educational platform resulting from acquisitions), plus/minus changes in fair value of derivative instruments (which refers to (i) changes in fair value of derivative instruments—finance income, and plus (ii) changes in fair value of derivative instruments—finance costs), plus/minus changes in accounts payable to selling shareholders, plus/minus share of (profit) loss of equity-accounted investees, plus/minus changes in current and deferred tax recognized in statements of income applied to all adjustments to net income, plus/minus foreign exchange gains/loss on cash and cash equivalents, plus interest expenses, net, plus M&A expenses, plus non-recurring expenses and plus effects related to COVID-19 pandemic. We calculate Adjusted Net Income Margin as Adjusted Net Income divided by Net Revenue.

We calculate Free Cash Flow as Net Cash Flows from Operating activities, less acquisition of property and equipment, less acquisition of intangible assets. We consider Free Cash Flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by operating activities and cash used for investments in property and equipment required to maintain and grow our business.

We calculate Taxable Income Reconciliation as profit (loss) for the period adjusted for permanent and temporary additions and exclusions (for example, adjustments to provisions and amortizations in the period) and for all tax benefits that Arco is entitled to (for example, goodwill). The effective tax rate will be the current taxes for the period divided by the taxable income. In Brazil, taxes are charged based on the taxable income, not the accounting income, which means companies can have an accounting loss and a taxable profit. Additionally, Arco owns several companies and taxes are calculated individually.

We understand that, although Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Net Income, Adjusted Net Income Margin, Free Cash Flow and Taxable Income Reconciliation are used by investors and securities analysts in their evaluation of companies, these measures have limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our results of operations as reported under IFRS. Additionally, our calculations of Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Net Income, Adjusted Net Income Margin Free Cash Flow and Taxable Income Reconciliation may be different from the calculation used by other companies, including our competitors in the education services industry, and therefore, our measures may not be comparable to those of other companies.