UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2019

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______________to _____________.

OR

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report _________________

Commission file number: 001-38673

Arco Platform Limited

(Exact name of Registrant as specified in its charter)

Not applicable
(Translation of Registrant's name into English)

Cayman Islands
(Jurisdiction of incorporation or organization)

Rua Augusta 2840, 9th floor, suite 91
Consolação, São Paulo – SP
01412-100, Brazil
+55 (11) 3047-2699
(Address of principal executive offices)

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Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common shares, par value US$0.00005 per share	ARCE	The NASDAQ Global Select Market

Securities registered or to be registered pursuant to Section 12(g) of the Act:
None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

The number of outstanding shares as of December 31, 2019 was 27,538,240 Class A common shares and 27,400,848 Class B common shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☐ No ☒

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
Yes ☐ No ☒

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☐ Accelerated Filer ☒ Non-accelerated Filer ☐ Emerging growth company ☒

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act. ☐

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether an internal control over financial reporting auditor attestation is included in the filing:

Yes ☒ No ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this annual report:

☐ U.S. GAAP
☒ International Financial Reporting Standards as issued by the International Accounting Standards Board
☐ Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

☐ Item 17 ☐ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes ☐ No ☐

ARCO PLATFORM LIMITED

TABLE OF CONTENTS

		Page
Presentation of Financial and other Information		1
Forward-Looking Statements		5
PART I		
ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS		7
A.	Directors and senior management	7
B.	Advisers	7
C.	Auditors	7
ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE		7
A.	Offer statistics	7
B.	Method and expected timetable	7
ITEM 3. KEY INFORMATION		7
A.	Selected financial data	7
B.	Capitalization and indebtedness	13
C.	Reasons for the offer and use of proceeds	13
D.	Risk factors	13
ITEM 4. INFORMATION ON THE COMPANY		38
A.	History and development of the company	38
B.	Business overview	42
C.	Organizational structure	60
D.	Property, plant and equipment	61
ITEM 4A. UNRESOLVED STAFF COMMENTS		61
ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS		62
A.	Operating results	62
B.	Liquidity and capital resources	77
C.	Research and development, patents and licenses, etc.	79
D.	Trend information	79
E.	Off-balance sheet arrangements	79
F.	Tabular disclosure of contractual obligations	79
G.	Safe harbor	79
ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES		80
A.	Directors and senior management	80
B.	Compensation	82
C.	Board practices	83
D.	Employees	84
E.	Share ownership	85
ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS		86
A.	Major shareholders	86
B.	Related party transactions	87
C.	Interests of experts and counsel	89
ITEM 8. FINANCIAL INFORMATION		90
A.	Consolidated statements and other financial information	90
B.	Significant changes	92
ITEM 9. THE OFFER AND LISTING		93
A.	Offering and listing details	93
B.	Plan of distribution	92
C.	Markets	93
D.	Selling shareholders	93
E.	Dilution	93
F.	Expenses of the issue	93
ITEM 10. ADDITIONAL INFORMATION		94
A.	Share capital	94
B.	Memorandum and articles of association	94

C.	Material contracts	102
D.	Exchange controls	102
E.	Taxation	102
F.	Dividends and paying agents	105
G.	Statement by experts	105
H.	Documents on display	106
I.	Subsidiary information	106
ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK		106
ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES		107
A.	Debt securities	107
B.	Warrants and rights	107
C.	Other securities	107
D.	American depositary shares	107
PART II		
ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES		108
A.	Defaults	108
B.	Arrears and delinquencies	108
ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS		108
A.	Material modifications to instruments	108
B.	Material modifications to rights	108
C.	Withdrawal or substitution of assets	108
D.	Change in trustees or paying agents	108
E.	Use of proceeds	108
ITEM 15. CONTROLS AND PROCEDURES		108
A.	Disclosure controls and procedures	108
B.	Management's annual report on internal control over financial reporting	109
C.	Attestation report of the registered public accounting firm	109
D.	Changes in internal control over financial reporting	109
ITEM 16. RESERVED		110
ITEM 16A. Audit committee financial expert		110
ITEM 16B. Code of ethics		110
ITEM 16C. Principal accountant fees and services		110
ITEM 16D. Exemptions from the listing standards for audit committees		110
ITEM 16E. Purchases of equity securities by the issuer and affiliated purchasers		111
ITEM 16F. Change in registrant's certifying accountant		111
ITEM 16G. Corporate governance		111
ITEM 16H. Mine safety disclosure		116
PART III		
ITEM 17. FINANCIAL STATEMENTS		117
ITEM 18. FINANCIAL STATEMENTS		117
ITEM 19. EXHIBITS		117
Index To Consolidated Financial Statements		F-1

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Unless otherwise indicated or the context otherwise requires, all references in this annual report to "Arco" or the "Company," "we," "our," "ours," "us" or similar terms refer to Arco Platform Limited, together with its subsidiaries.

The term "Brazil" refers to the Federative Republic of Brazil and the phrase "Brazilian government" refers to the federal government of Brazil. "Central Bank" refers to the Brazilian Central Bank (*Banco Central do Brasil*). References in the annual report to "*real*," "*reais*" or "R$" refer to the Brazilian *real*, the official currency of Brazil and references to "U.S. dollar," "U.S. dollars" or "US$" refer to U.S. dollars, the official currency of the United States.

All references to "IFRS" are to International Financial Reporting Standards, as issued by the IASB.

Financial Statements

Arco was incorporated on April 12, 2018, as a Cayman Islands exempted company with limited liability, duly registered with the Cayman Islands Registrar of Companies. Arco became the parent company of Arco Educação S.A., or Arco Brazil, through the completion of the initial public offering and the corporate reorganization described in note 1 of our consolidated financial statements.

We present in this annual report our audited consolidated financial statements as of December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017. Our financial statements are prepared in accordance with IFRS, as issued by the IASB.

We maintain our books and records in Brazilian *reais*, the presentation currency for our financial statements and also the functional currency of our operations in Brazil. Unless otherwise noted, our financial information presented herein as of December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017 is stated in Brazilian *reais*, our reporting currency. The consolidated financial information contained in this annual report is derived from our audited consolidated financial statements as of December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017, together with the notes thereto. All references herein to "our financial statements," "our audited consolidated financial information," and "our audited consolidated financial statements" are to our consolidated financial statements included elsewhere in this annual report.

This financial information should be read in conjunction with "Item 5. Operating and Financial Review and Prospects" and our consolidated financial statements, including the notes thereto, included elsewhere in this annual report.

Our fiscal year ends on December 31. References in this annual report to a fiscal year, such as "fiscal year 2019," relate to our fiscal year ended on December 31 of that calendar year.

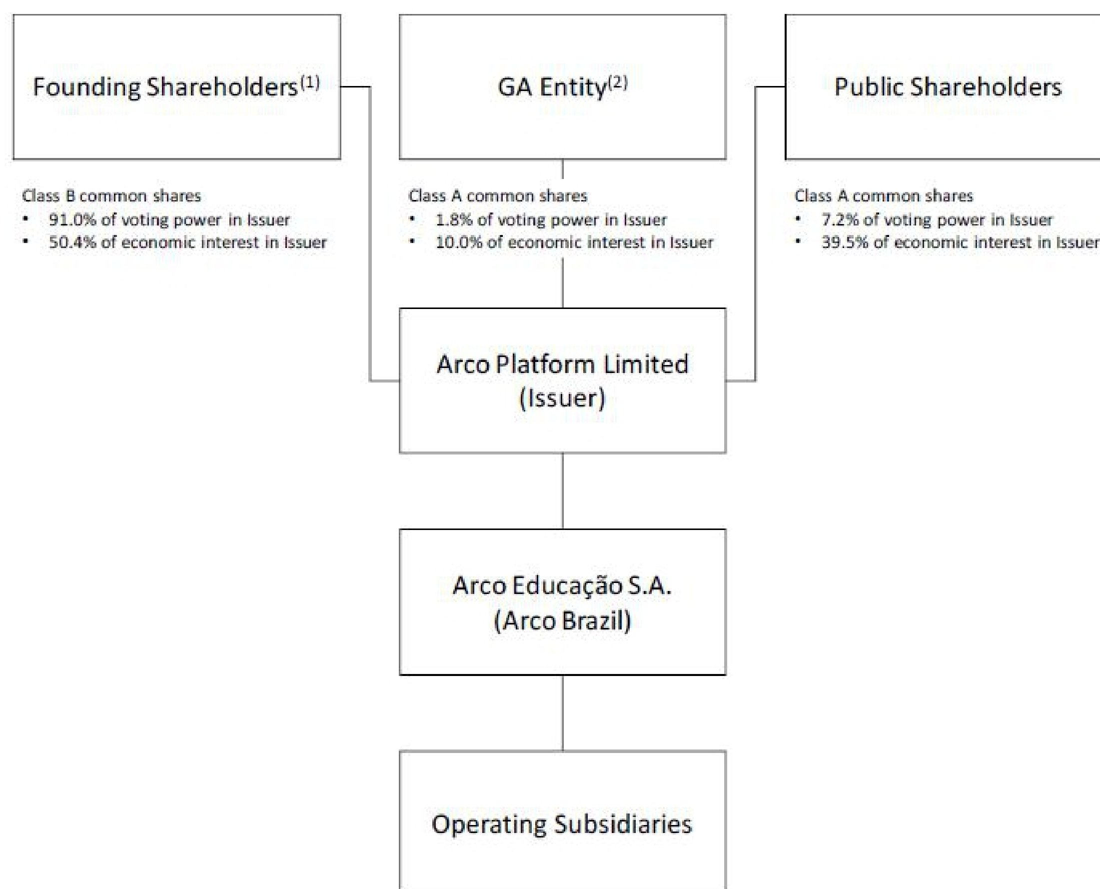
Corporate Events

We are a Cayman Islands exempted company incorporated with limited liability on April 12, 2018. On October 29, 2019, we completed a follow-on public offering, consisting of 3,450,656 Class A common shares issued and sold by us, and 4,268,847 Class A common shares sold by certain selling shareholders. The public offering price was US$43.00 per Class A common share. We received net proceeds of US$143.9 million, after deducting US$3.7 million in underwriting discounts and commissions. On November 26, 2019, an additional 661,112 Class A common shares were sold by General Atlantic Arco (Bermuda), L.P. following the exercise by the underwriters of their option to purchase additional shares.

Furthermore, we are currently implementing certain additional changes to the organizational structure of certain of our operating subsidiaries in Brazil. This reorganization will be an internal corporate reorganization and is not expected to affect us on a consolidated basis.

Organizational Structure

The diagram below depicts our organizational structure as of the date of this annual report:



(1) Includes Class B common shares beneficially owned by our Founding Shareholders.

(2) Includes Class A common shares beneficially owned by the GA Entity. See "Item 7. Major Shareholders and Related Party Transactions—A. Major Shareholders."

Financial Information in U.S. Dollars

Solely for the convenience of the reader, we have translated some of the *real* amounts included in this annual report from *reais* into U.S. dollars. You should not construe these translations as representations by us that the amounts actually represent these U.S. dollar amounts or could be converted into U.S. dollars at the rates indicated. Unless otherwise indicated, we have translated *real* amounts into U.S. dollars using a rate of R$4.031 to US$1.00, the commercial selling rate for U.S. dollars as of December 31, 2019 as reported by the Central Bank. See "Item 3. Key Information—A. Selected financial data—Exchange Rates" for more detailed information regarding translation of *reais* into U.S. dollars and for historical exchange rates for the Brazilian *real*.

Special Note Regarding Non-GAAP Financial Measures

This annual report presents our Adjusted EBITDA, Adjusted Net Income and Free Cash Flow information for the convenience of investors. Adjusted EBITDA, Adjusted Net Income and Free Cash Flow are the key performance indicators used by us to measure financial operating performance. Our management believes that these Non-GAAP financial measures provide useful information to investors and shareholders. We also use these measures internally to establish budgets and operational goals to manage and monitor our business, evaluate our underlying historical performance and business strategies and to report our results to the board of directors.

We calculate Adjusted EBITDA as profit (loss) for the year plus income taxes plus/minus finance result plus depreciation and amortization plus share of loss of equity-accounted investees plus share-based compensation plan, restricted stock units and related payroll taxes (restricted stock units), plus M&A expenses and plus non-recurring expenses.

We calculate Adjusted Net Income as profit (loss) for the year (or period) plus share-based compensation plan, restricted stock units and related 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 and (vi) software resulting from acquisitions) less/plus 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), less/plus changes in accounts payable to selling shareholders plus share of loss of equity-accounted investees plus interest expenses 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 M&A expenses and plus non-recurring expenses.

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 understand that, although Adjusted EBITDA, Adjusted Net Income and Free Cash Flow 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 Net Income and Free Cash Flow may be different from the calculations 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.

For a reconciliation of our non-GAAP measures, see "Item 3. Key Information—A. Selected Financial and Other Information—Reconciliations for Non-GAAP Financial Measures."

Special Note Regarding ACV Bookings

This annual report presents our Annual Contract Value bookings, or ACV Bookings, for the convenience of investors. ACV Bookings represents our partner schools' commitments to pay for our solutions offerings. We believe it is a meaningful indicator of demand for our platform and the market's response to it. In particular, we believe ACV Bookings is a helpful metric because it is designed to show amounts that we expect to be recognized as revenue for the 12-month period between October of one fiscal year through September of the following fiscal year. We deliver our educational materials to our partner schools for their convenience in the last calendar quarter of each year, so that our partner schools can prepare their classes in advance prior to the start of the following school year in January. As a result, our results of operations for the last quarter of a given fiscal year contain revenues relating to the following school year, which reflects the content that has been delivered prior to the start of the new fiscal year. Therefore, ACV Bookings conveys information that has predictive value for subsequent months, and which may not be as clearly conveyed or understood by simply analyzing our revenues in our income (loss), especially in view of our recent growth.

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. ACV Booking is a non-accounting managerial operating metric and is not prepared in accordance with IFRS. 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. Although our contracts with our partner schools are typically for three-year terms, we record one year of revenue under such contracts as ACV Bookings. For example, if a school enters into a three-year contract with us to provide our Core Curriculum solution to 100 students for a contractual fee of $100 per student per year, we record $10,000 as ACV Bookings, not $30,000.

We measure our ACV Bookings on a monthly basis throughout the school year, starting in November of the preceding fiscal year. Pursuant to the terms of our contracts with our partner schools, they are required, by the end of November of each year, to provide us with an estimate of the number of enrolled students that will access our platform in the next school year. Since we allow our partner schools to make small adjustments to their estimates to account for late admissions and dropouts, this number may fluctuate slightly until March 31, when it becomes more accurate. Accordingly, we believe this metric is most accurately reflected as of March 31 of each year. Average ticket per student per year reflects the average price per student for the relevant school year, and is presented in order to link this average price with the number of enrolled students in our partner schools, resulting in the ACV Bookings metric.

We understand that, although ACV Bookings may be used by investors and securities analysts in their evaluation of companies, it has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results of operations as reported under IFRS.

Market Share and Other Information

This annual report contains data related to economic conditions in the market in which we operate. The information contained in this annual report concerning economic conditions is based on publicly available information from third-party sources that we believe to be reasonable. Market data and certain industry forecast data used in this annual report were obtained from internal reports and studies, where appropriate, as well as estimates, market research, publicly available information (including information available from the United States Securities and Exchange Commission website) and industry publications. We obtained the information included in this annual report relating to the industry in which we operate, as well as the estimates concerning market shares, through internal research, public information and publications on the industry prepared by official public sources, such as the Central Bank, the Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*), or IBGE, the Brazilian Education Ministry (*Ministério da Educação*), or MEC, the National High School Exam (*Exame Nacional do Ensino Médio*), or ENEM, the National Exam for the Assessment of Student Performance (*Exame Nacional de Desempenho de Estudantes*), or ENADE, the National Index for Basic Education (*Índice de Desenvolvimento da Educação Básica*), or IDEB, the Brazilian National Institute for Educational Studies and Research (*Instituto Nacional de Estudos e Pesquisas Educacionais Anísio Teixeira*), or INEP, as well as private sources, such as Hoper Consultoria and Gismarket, consulting and research companies in the Brazilian education industry, and Getulio Vargas Foundation (*Fundação Getúlio Vargas*), or FGV, among others.

Industry publications, governmental publications and other market sources, including those referred to above, generally state that the information they include has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Except as disclosed in this annual report, none of the publications, reports or other published industry sources referred to in this annual report were commissioned by us or prepared at our request. Except as disclosed in this annual report, we have not sought or obtained the consent of any of these sources to include such market data in this annual report.

Rounding

We have made rounding adjustments to some of the figures included in this annual report. Accordingly, numerical figures shown as totals in some tables may not be an arithmetic aggregation of the figures that preceded them.

FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains statements that constitute forward-looking statements. Many of the forward-looking statements contained in this annual report can be identified by the use of forward-looking words such as “anticipate,” “believe,” “could,” “expect,” “should,” “plan,” “intend,” “may,” “predict,” “continue,” “estimate” and “potential,” among others.

Forward-looking statements appear in a number of places in this annual report and include, but are not limited to, statements regarding our intent, belief or current expectations. Forward-looking statements are based on our management’s beliefs and assumptions and on information currently available to our management. Such statements are subject to risks and uncertainties, and actual results may differ materially from those expressed or implied in the forward-looking statements due to various factors, including, but not limited to, those identified under the section entitled “Risk Factors” in this annual report. These risks and uncertainties include factors relating to:

- general economic, financial, political, demographic and business conditions in Brazil, as well as any other countries we may serve in the future and their impact on our business;
- fluctuations in interest, inflation and exchange rates in Brazil and any other countries we may serve in the future;
- our ability to implement our business strategy;
- our ability to integrate and realize the anticipated benefits and synergies from mergers and acquisitions;
- our ability to adapt to technological changes in the educational sector;
- our ability to enhance our brands;
- our ability to obtain government authorizations on terms and conditions and within periods acceptable to us;
- our ability to continue attracting and retaining partner schools;
- our ability to maintain the academic quality of our programs;
- the availability of qualified personnel and the ability to retain such personnel;
- changes in the financial condition of the students enrolling in our partner schools or private schools in general and in the competitive conditions in the education industry, or changes in the financial condition of our partner schools in the primary and secondary education sector;
- our capitalization and level of indebtedness;
- the interests of our controlling shareholder;
- changes in government regulations applicable to the primary and secondary education industry in Brazil;
- government interventions in the primary or secondary education industry that affect the economic or tax regime, the collection of tuition fees or the regulatory framework applicable to primary and/or secondary educational institutions;
- a decline in the number of our partner schools or the amount of fees we can charge for our educational platform;
- our ability to compete and conduct our business in the future and adapt to changes in circumstances;
- the success of our marketing initiatives, including advertising and promotional efforts;
- our ability to develop new educational products, services and concepts;

- changes in consumer demands and preferences and technological advances, and our ability to innovate to respond to such changes;
- changes in labor, distribution and other operating costs;
- our compliance with, and changes to, government laws, regulations and tax matters that currently apply to us;
- other factors that may affect our financial condition, liquidity and results of operations; and
- other risk factors discussed under "Risk Factors."

Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to update them in light of new information or future developments or to release publicly any revisions to these statements in order to reflect later events or circumstances or to reflect the occurrence of unanticipated events.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

A. Directors and senior management

Not applicable.

B. Advisers

Not applicable.

C. Auditors

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

A. Offer statistics

Not applicable.

B. Method and expected timetable

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected financial data

You should read the following selected financial data together with "Item 5. Operating and Financial Review and Prospects" and our Consolidated Financial Statements and the related notes appearing elsewhere in this annual report.

The summary balance sheet as of December 31, 2019 and 2018 and statement of operations for the years ended December 31, 2019, 2018 and 2017 have been derived from our audited consolidated financial statements included elsewhere in this annual report, prepared in accordance with IFRS, as issued by the IASB.

	For the Year Ended December 31,					
	2019	2019	2018	2017	2016	2015
	US$ millions(1)	R$ millions				
Statement of Operations Data						
Net revenue	142.1	572.8	381.0	244.4	159.3	116.5
Cost of sales	(29.1)	(117.3)	(80.7)	(58.5)	(41.3)	(28.0)
Gross profit	**113.0**	**455.5**	**300.2**	**185.9**	**117.9**	**88.5**
Selling expenses	(49.6)	(199.8)	(113.3)	(65.3)	(40.3)	(20.3)
General and administrative expenses	(47.5)	(191.4)	(129.8)	(48.9)	(32.7)	(24.6)
Other income (expenses), net	(1.6)	(6.2)	4.9	3.3	3.6	(2.0)
Operating profit	**14.4**	**58.1**	**62.1**	**74.9**	**48.6**	**41.6**
Finance income	17.9	72.0	36.6	12.5	47.2	14.4
Finance costs	(42.4)	(170.8)	(198.8)	(20.4)	(1.8)	(3.1)
Finance result	**(24.5)**	**(98.8)**	**(162.2)**	**(7.9)**	**45.4**	**11.3**
Share of loss of equity-accounted investees	(0.4)	(1.8)	(0.8)	(0.7)	(1.1)	(0.6)
Profit (loss) before income taxes	**(10.5)**	**(42.5)**	**(100.9)**	**66.4**	**92.8**	**52.3**
Income taxes—income (expense)	**8.2**	**33.1**	**18.0**	**(22.7)**	**(18.4)**	**(8.3)**
Current	(11.6)	(46.9)	(26.5)	(31.0)	(13.0)	(11.3)
Deferred	19.8	80.0	44.5	8.3	(5.5)	3.0
Profit (loss) for the year	**(2.3)**	**(9.4)**	**(82.9)**	**43.6**	**74.4**	**43.9**
Profit (loss) attributable to:						

	For the Year Ended December 31,					
	2019	2019	2018	2017	2016	2015
	US$ millions(1)	R$ millions				
Equity holders of the parent	(2.3)	(9.4)	(82.4)	44.3	75.1	43.9
Noncontrolling interests	—	—	(0.5)	(0.6)	(0.7)	—
Basic earnings per share—R$ (unless otherwise indicated)(2)						
Class A Common Shares	(0.04)	(0.18)	(1.64)	0.88	1.49	1.05
Class B Common Shares	(0.04)	(0.18)	(1.64)	0.88	1.49	1.05
Diluted earnings per share—R$ (unless otherwise indicated)(3)						
Class A Common Shares	(0.04)	(0.18)	(1.64)	0.85	1.49	1.05
Class B Common Shares	(0.04)	(0.18)	(1.64)	0.85	1.49	1.05

(1) For convenience purposes only, amounts in *reais* as of December 31, 2019 have been translated to U.S. dollars using an exchange rate of R$4.031 to US$1.00, the commercial selling rate for U.S. dollars as of December 31, 2019 as reported by the Central Bank. These translations should not be considered representations that any such amounts have been, could have been or could be converted at that or any other exchange rate. See "—Exchange Rates" for further information about recent fluctuations in exchange rates.

(2) Calculated by dividing the profit (loss) attributable to the shareholders by the weighted average number of common shares outstanding during the year.

(3) Calculated by dividing the profit (loss) attributable to the shareholders by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on conversion of all potential common shares with dilutive effects.

	As of December 31,				
	2019	2019	2018	2017	2016
	US$ millions(1)	R$ millions			
Balance Sheet Data:					
Assets					
Current assets					
Cash and cash equivalents	12.1	48.9	12.3	0.8	4.4
Financial investments	142.6	574.8	806.8	83.0	65.6
Trade receivables	81.7	329.4	136.6	94.9	65.2
Inventories	9.9	40.1	15.1	18.8	12.6
Recoverable taxes	3.9	15.6	11.2	5.1	3.2
Financial instruments from acquisition of interests	0.9	3.8	—	—	4.5
Related parties	0.3	1.3	—	—	2.5
Other assets	3.6	14.7	6.1	7.3	4.1
Total current assets	**255.0**	**1,028.6**	**988.1**	**210.0**	**162.0**
Non-current assets					
Financial instruments from acquisition of interests	8.0	32.2	26.6	12.5	16.1
Deferred income tax	38.9	156.7	99.5	5.9	3.7
Recoverable taxes	1.6	6.6	1.0	3.3	2.3
Financial investments	1.2	4.7	4.4	0.2	0.2
Related parties	3.7	14.8	1.2	1.3	0.8
Other assets	3.6	14.4	1.1	—	—
Investments and interests in other entities	12.1	48.6	11.9	12.7	45.8
Property and equipment	5.3	21.3	13.3	9.1	5.7
Right-of-use assets	5.4	21.6	—	—	—
Intangible assets	449.5	1,811.9	187.7	175.5	86.3
Total non-current assets	**529.3**	**2,132.8**	**346.7**	**220.4**	**160.8**
Total assets	**784.4**	**3,161.4**	**1,334.9**	**430.4**	**322.9**
Liabilities					
Current liabilities					

	As of December 31,				
	2019	2019	2018	2017	2016
	US$ millions(1)	R$ millions			
Trade payables	8.6	34.5	14.8	3.9	3.1
Labor and social obligations	17.0	68.5	15.9	8.7	4.9
Taxes and contributions payable	1.9	7.5	2.6	1.1	0.4
Income taxes payable	12.9	52.0	17.3	17.4	2.6
Dividends payable	—	—	—	10.5	17.8
Advances from customers	6.4	25.6	6.0	5.9	1.9
Lease liabilities(2)	1.7	6.8	—	—	—
Loans and financing	24.5	98.6	—	—	—
Financial instruments from acquisition of interests	—	—	—	1.8	4.7
Accounts payable to selling shareholders	29.3	118.0	0.8	14.9	8.1
Other liabilities	0.1	0.6	0.4	5.5	6.4
Total current liabilities	**102.4**	**412.1**	**57.9**	**69.7**	**50.1**
Non-current liabilities					
Labor and social obligations	0.7	2.8	—	—	—
Lease liabilities(2)	4.7	19.0	—	—	—
Financial instruments from acquisition of interests	8.4	33.9	25.0	11.9	25.4
Provision for legal proceedings	0.1	0.3	0.1	—	—
Deferred income tax	—	—	1.4	0.1	6.2
Accounts payable to selling shareholders	272.5	1,098.3	180.6	43.1	—
Other liabilities	—	0.2	—	—	—
Total non-current liabilities	**286.4**	**1,154.5**	**207.1**	**55.0**	**31.6**
Total liabilities	**388.8**	**1,566.6**	**265.0**	**124.7**	**81.7**
Equity					
Share capital	—	—	—	55.9	48.5
Capital reserve	398.8	1,607.7	1,089.5	160.7	81.9
Earnings reserves	—	—	—	82.0	105.5
Share-based compensation reserve	21.0	84.5	67.4	7.1	5.2
Accumulated losses	(24.2)	(97.4)	(86.7)	—	—
Equity attributable to equity holders of the parent	**395.6**	**1,594.8**	**1,070.2**	**305.6**	**241.1**
Non-controlling interests	—	—	(0.3)	0.1	0.1
Total equity	**395.6**	**1,594.8**	**1,069.9**	**305.7**	**241.2**
Total liabilities and equity	**784.4**	**3,161.4**	**1,334.9**	**430.4**	**322.9**

(1) For convenience purposes only, amounts in *reais* as of December 31, 2019 have been translated to U.S. dollars using an exchange rate of R$4.031 to US$1.00, the commercial selling rate for U.S. dollars as of December 31, 2019 as reported by the Central Bank. These translations should not be considered representations that any such amounts have been, could have been or could be converted at that or any other exchange rate. See "—Exchange Rates" for further information about recent fluctuations in exchange rates.

(2) On January 1, 2019 the Company adopted the new pronouncement of IRFS 16, see note 2.5 to our audited consolidated financial statements.

Non-GAAP Financial Measures

Adjusted EBITDA, Adjusted Net Income and Free Cash Flow

	For the Year Ended December 31,				
	2019	2019	2018	2017	2016
	US$ millions(1)	R$ millions			
Adjusted EBITDA(2)	52.0	209.4	142.0	91.1	56.4
Adjusted Net Income(3)	42.1	169.6	112.3	66.6	60.3
Free Cash Flow(4)	(15.3)	(61.7)	55.9	51.3	34.1

(1) For convenience purposes only, amounts in *reais* as of December 31, 2019 have been translated to U.S. dollars using an exchange rate of R$4.031 to US$1.00, the commercial selling rate for U.S. dollars as of December 31, 2019 as reported by the Central Bank. These translations should not be considered representations that any such amounts have been, could have been or could be converted at that or any other exchange rate. See "—Exchange Rates" for further information about recent fluctuations in exchange rates.

(2) For a reconciliation between our Adjusted EBITDA and our profit for the year, see "—Reconciliations for Non-GAAP Financial Measures—Reconciliation between Adjusted EBITDA and Profit for the Year."

(3) For a reconciliation of our Adjusted Net Income, see "—Reconciliations for Non-GAAP Financial Measures—Reconciliation of Adjusted Net Income from Profit (Loss) for the Year."

(4) For a reconciliation of our Free Cash Flow, see "—Reconciliations for Non-GAAP Financial Measures—Reconciliation of Free Cash Flow from Net Cash Flows from Operating Activities."

Operating Data

ACV Bookings

	2020(1)	2020(2)	2019(3)	2018(4)	2017(5)
	As of March 31,				
	US$ (except number of enrolled students)(1)	R$ (except number of enrolled students)	R$ (except number of enrolled students)		
Number of enrolled students	n/a	1,362,141	498,553	405,814	322,031
Average ticket per student per year	183.2	738.4	884.3	793.8	711.9
ACV Bookings (in millions)(6)	**249.5**	**1,005.8**	**440.9**	**322.1**	**229.3**

(1) For convenience purposes only, amounts in *reais* as of March 31, 2020 have been translated to U.S. dollars using an exchange rate of R$4.031 to US$1.00, the commercial selling rate for U.S. dollars as of December 31, 2019 as reported by the Central Bank. These translations should not be considered representations that any such amounts have been, could have been or could be converted at that or any other exchange rate. See "Item 3. Key Information—A. Selected financial data—Exchange Rates" for further information about recent fluctuations in exchange rates.

(2) For the 2020 school year (which we define for purposes of ACV Bookings as the period starting in October 2019 and ending in September 2020). Includes the ACV Bookings of Positivo, which we acquired in November 2019.

(3) For the 2019 school year (which we define for purposes of ACV Bookings as the period starting in October 2018 and ending in September 2019).

(4) For the 2018 school year (which we define for purposes of ACV Bookings as the period starting in October 2017 and ending in September 2018).

(5) For the 2017 school year (which we define for purposes of ACV Bookings as the period starting in October 2016 and ending in September 2017).

(6) 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 additional or reductions in the number of enrolled students that will access our content at such partner school in such school year. ACV Bookings is a non-accounting managerial operating metric and is not prepared in accordance with IFRS. For more information about ACV Bookings, see "Presentation of Financial and Other Information—Special Note Regarding ACV Bookings."

As of March 31, 2020, our total number of students enrolled was 1,362,141, our average ticket per student per year was R$738.4 and our total ACV Bookings were R$1,005.8 million.

Reconciliations for Non-GAAP Financial Measures

The following tables set forth reconciliations of Adjusted EBITDA and Adjusted Net Income to our profit (loss) for the years ended December 31, 2019, 2018, 2017 and 2016, our most recent directly comparable financial measures calculated and presented in accordance with IFRS, as well as reconciliations between Free Cash Flow and net cash flows from operating activities for the years ended December 31, 2019, 2018, 2017 and 2016, our most recent directly comparable financial measures calculated and presented in accordance with IFRS. For further information on why our management chooses to use these non-GAAP financial measures, and on the limits of using these non-GAAP financial measures, please see "Presentation of Financial and Other Information—Special Note Regarding Non-GAAP Financial Measures."

Reconciliation between Adjusted EBITDA and Profit for the Year

Adjusted EBITDA reconciliation	For the Year Ended December 31,				
	2019	2019	2018	2017	2016
	US$ millions(1)	R$ millions			
Profit (loss) for the year	(2.3)	(9.4)	(82.9)	43.6	74.4
(+/-) Income taxes	(8.2)	(33.1)	(18.0)	22.7	18.4
(+/-) Finance result	24.5	98.8	162.2	7.9	(45.4)
(+) Depreciation and amortization	12.0	48.3	19.6	14.3	5.8
(+) Share of loss of equity-accounted investees	0.4	1.8	0.8	0.7	1.1
(+) Share-based compensation plan	16.6	67.0	60.3	1.9	2.0
(+) M&A expenses(2)	7.2	28.9	—	—	—
(+) Non-recurring expenses(3)	1.8	7.1	—	—	—
Adjusted EBITDA	**52.0**	**209.4**	**142.0**	**91.1**	**56.4**

(1) For convenience purposes only, amounts in *reais* for the year ended December 31, 2019 have been translated to U.S. dollars using an exchange rate of R$4.031 to US$1.00, the commercial selling rate for U.S. dollars as of December 31, 2019 as reported by the Central Bank. These translations should not be considered representations that any such amounts have been, could have been or could be converted at that or any other exchange rate. See "—Exchange Rates" for further information about recent fluctuations in exchange rates.

(2) M&A expenses corresponds to the non-recurring expenses related to the acquisitions of the year, which was recorded in the statement of operations by Arco of R$28.9 million.

(3) Non-recurring expenses are related to consulting and legal services for the implementation of SOX.

Reconciliation of Adjusted Net Income from Profit (Loss) for the Year

Reconciliation of Adjusted Net Income	For the Year Ended December 31,				
	2019	2019	2018	2017	2016
	US$ millions(1)	R$ millions			
Profit (loss) for the year	(2.3)	(9.4)	(82.9)	43.6	74.4
(+) Share-based compensation plan restricted stock units and related payroll taxes (restricted stock units)	16.6	67.0	60.3	1.9	2.0
(+) Amortization of intangible assets from business combinations(2)	5.7	23.1	11.8	9.6	4.4
(+/-) Changes in fair value of derivative instruments(3)	(0.1)	(0.5)	(0.7)	6.7	(31.7)
(+/-) Changes in accounts payable to selling shareholders(4)	22.2	89.4	130.4	—	—
(+) Share of loss of equity-accounted investees	0.4	1.8	0.8	0.7	1.1
(+) Foreign exchange on cash and cash equivalents	0.1	0.6	34.4	—	—
(+) Interest expenses (income), net(5)	10.2	41.2	9.8	11.2	0.1
(+/-) Tax effects(6)	(19.8)	(79.6)	(51.5)	(7.1)	9.9
(+) M&A expenses(7)	7.2	28.9	—	—	—
(+) Non-recurring expenses(8)	1.8	7.1	—	—	—
Adjusted Net Income	**42.1**	**169.6**	**112.3**	**66.6**	**60.3**

(1) For convenience purposes only, amounts in *reais* for the year ended December 31, 2019 have been translated to U.S. dollars using an exchange rate of R$4.031 to US$1.00, the commercial selling rate for U.S. dollars as of December 31, 2019 as reported by the Central Bank. These translations should not be considered representations that any such amounts have been, could have been or could be converted at that or any other exchange rate. See "—Exchange Rates" for further information about recent fluctuations in exchange rates.

(2) 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, and (vi) software. For further information, see note 14 to our audited consolidated financial statements.

(3) Refers to (i) changes in fair value of derivative instruments—finance income, plus (ii) changes in fair value of derivative instruments—finance costs. For further information, see note 23 to our audited consolidated financial statements.

(4) Refers to changes in fair value of contingent consideration and accounts payable to selling shareholders—finance costs. For further information, see note 17 to our audited consolidated financial statements.

(5) Refers to interest expenses related to accounts payable to selling shareholders from business combinations and investments in associates, net of interest income related to receivables from sale of subsidiary and loans to related parties.

(6) Refers to tax effects of changes in deferred tax assets and liabilities recognized in profit or loss corresponding to financial instruments from acquisition of interests, tax benefit from tax deductible goodwill, share-based compensation and amortization of intangible assets. For further information, see note 24 to our audited consolidated financial statements.

(7) M&A expenses corresponds to the non-recurring expenses related to the acquisitions of the year, which was recorded in the statement of operations by Arco of R$28.9 million.

(8) Non-recurring expenses are related to consulting and legal services for the implementation of SOX.

Reconciliation of Free Cash Flow from Net Cash Flows from Operating Activities

	For the Year Ended December 31,				
Reconciliation of Free Cash Flow	**2019**	**2019**	**2018**	**2017**	**2016**
	US$ millions(1)	**R$ millions**			
Net cash flows from operating activities	(1.9)	(7.6)	92.1	62.7	41.2
Acquisition of property and equipment	(2.7)	(11.0)	(6.9)	(5.3)	(1.6)
Acquisition of intangible assets	(10.7)	(43.1)	(29.4)	(6.0)	(5.6)
Free Cash Flow	**(15.3)**	**(61.7)**	**55.9**	**51.3**	**34.1**

(1) For convenience purposes only, amounts in *reais* for the year ended December 31, 2019 have been translated to U.S. dollars using an exchange rate of R$4.031 to US$1.00, the commercial selling rate for U.S. dollars as of December 31, 2019 as reported by the Central Bank. These translations should not be considered representations that any such amounts have been, could have been or could be converted at that or any other exchange rate. See "—Exchange Rates" for further information about recent fluctuations in exchange rates.

Exchange Rates

The Brazilian foreign exchange system allows the purchase and sale of foreign currency and the international transfer of *reais* by any person or legal entity, regardless of the amount, subject to certain regulatory procedures.

The *real* depreciated against the U.S. dollar from mid-2011 to early 2016. In particular, during 2015, due to the poor economic conditions in Brazil, including as a result of political instability, the *real* depreciated at a rate that was much higher than in previous years. On September 24, 2015, the *real* fell to its lowest level since the introduction of the currency, at R$4.1945 per US$1.00. Overall in 2015, the *real* depreciated 47.0%, reaching R$3.9048 per US$1.00 on December 31, 2015. In 2016, the *real* fluctuated significantly, primarily as a result of Brazil's political instability, appreciating 16.5% to R$3.2591 per US$1.00 on December 31, 2016. In 2017, the *real* depreciated 1.5% against the U.S. dollar, ending the year at an exchange rate of R$3.308 per U.S.$1.00. The *real*/U.S. dollar exchange rate reported by the Central Bank was R$3.8748 per U.S.$1.00 on December 31, 2018, which reflected a 17.1% depreciation in the *real* against the U.S. dollar during 2018, primarily as a result of lower interest rates in Brazil, which reduced the volume of foreign currency deposited in Brazil in the "carry trade," as well as uncertainty regarding the results of the Brazilian presidential elections held in October 2018. On December 31, 2019, the period-end real/U.S. dollar exchange rate was R$4.031 per U.S.$1.00. There can be no assurance that the *real* will not depreciate or appreciate further against the U.S. dollar.

The Central Bank has intervened occasionally in the foreign exchange market to attempt to control instability in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to allow the *real* to float freely or will intervene in the exchange rate market by re-implementing a currency band system or otherwise. The *real* may depreciate or appreciate substantially against the U.S. dollar in the future. Furthermore, Brazilian law provides that, whenever there is a serious imbalance in Brazil's balance of payments or there are serious reasons to foresee a serious imbalance, temporary restrictions may be imposed on remittances of foreign capital abroad. We cannot assure you that the Brazilian government will not place restrictions on remittances of foreign capital abroad in the future.

The following table sets forth, for the periods indicated, the high, low, average and period-end exchange rates for the purchase of U.S. dollars expressed in Brazilian *reais* per U.S. dollar. The average rate is calculated by using the average of reported exchange rates by the Central Bank on each day during a monthly period and on the last day of each month during an annual period. As of March 30, 2020, the exchange rate for the selling *real*/dollar exchange rate was R$5.159 to U.S.$1.00, as reported by the Central Bank. The *real*/dollar exchange rate fluctuates and, therefore, the selling rate at March 31, 2020 may not be indicative of future exchange rates.

Year	Period-End	Average(1)	Low	High
2015	3.905	3.339	2.575	4.195
2016	3.259	3.483	3.119	4.156
2017	3.308	3.193	3.051	3.381
2018	3.875	3.656	3.139	4.188
2019	4.031	3.946	3.652	4.260

Month	Period-End	Average(2)	Low	High
October 2019	4.004	4.087	3.979	4.174
November 2019	4.224	4.155	3.979	4.260
December 2019	4.031	4.110	4.031	4.226
January 2020	4.269	4.149	4.021	4.269
February 2020	4.499	4.341	4.238	4.499
March 2020 (through March 30, 2020)	5.159	4.869	4.488	5.159

Source: Central Bank.

(1) Represents the average of the exchange rates on the closing of each business day during the year.

(2) Represents the average of the exchange rates on the closing of each business day during the month.

B. Capitalization and indebtedness

Not applicable.

C. Reasons for the offer and use of proceeds

Not applicable.

D. Risk factors

Our business, results of operations, financial condition or prospects could be adversely affected if any of these risks occurs, and as a result, the trading price of our common shares could decline. The risks described below are those known to us and those that we currently believe may materially affect us.

Certain Factors Relating to Our Business and Industry

We face significant competition in each program we offer and each geographic region in which we operate. If we experience increasing consolidation in the K-12 school industry in Brazil or if we fail to compete efficiently, we may lose market share and our profitability may be adversely affected.

We compete directly with private education platform providers and indirectly with certain traditional educational content providers. Our competitors may begin to offer educational solutions similar to or better than those offered by us, have access to more funds, be more prestigious or well-regarded within the academic community, or charge lower fees. To compete effectively, we may be required to reduce our fees that we charge partner schools or increase our operating expenses in order to retain partner schools or attract new schools or to pursue new market opportunities. As a result, our revenues and profitability may decrease. We cannot assure you that a migration from traditional education content providers to education platform providers will be successful in the future, or that we will be able to compete successfully against our current or future competitors. Moreover, at present, there have been certain isolated cases of market consolidation in the private primary and secondary, or K-12, industry in Brazil. In the event that such industry consolidation intensifies, a trend that has been and is currently taking place in the post-secondary education industry in the country, we may face increasing levels of competition in the markets in which we operate. If we are unable to maintain our competitive position or otherwise respond to competitive pressures effectively, we may lose our market share, our profits may decrease and we may be adversely affected.

We may not be able to update, improve or offer the content of our existing educational platform on a cost-effective basis.

Our educational platform is designed to offer a complete suite of turnkey curriculum solutions intended to prepare the primary and secondary education students at our partner schools to sit the ENADE, which is used by the MEC to evaluate and grade our partner schools and their students, and the ENEM (which is equivalent to the Gaokao in China), for entry into post-secondary educational institutions. To differentiate ourselves and remain competitive, we must continually update our content and develop new educational solutions, including through the adoption of new technological tools to deliver our content. Updates to our current content and the development of new educational solutions may not be readily accepted by our partner schools, their students or by the market. Also, we may not be able to introduce new educational solutions at the same pace as our competitors or at the pace required by the labor market. If we do not adequately modify our educational platform in response to market demand, whether due to financial restrictions, technological changes or otherwise, our ability to attract new schools and retain partner schools may be impaired and we may be materially adversely affected.

Our business depends on the continued success of our brands, and if we fail to maintain and enhance the recognition of our brands, we may face difficulty increasing our network of partner schools, and our reputation and operating results may be harmed.

We believe that market awareness of our brands, SAS Plataforma de Educação, or SAS, SAE Digital S.A., or SAE, and International School Serviços de Ensino, Treinamento, Editoração e Franqueadora S.A., or International School, among others, has contributed significantly to the success of our business. Maintaining and enhancing our brands is critical to our efforts to increase our network of partner schools, which is in turn critical to our business. We rely heavily on the efforts of our sales force and our marketing channels, including online advertising, search engine marketing, social media and word-of-mouth. Failure to maintain and enhance the recognition of our brands could have a material and adverse effect on our business, operating results and financial condition. We have devoted significant resources to our brand promotion efforts and the training of our sales force in recent years, but we cannot assure you that these efforts will be successful. Our ability to attract new partner schools depends not only on investment in our brand, our marketing efforts and the success of our sales force, but also on the perceived value of our services versus competing alternatives among our client base. In addition, a failure by our clients to distinguish between our brands and the different content that they provide may result in a reduction in sales volume and revenue, margins or market share of one of our brands at the expense of the others. If our marketing initiatives are not successful or become less effective, if we are unable to further enhance our brand recognition, or if we incur excessive marketing and promotion expenses, or if our brand image is negatively impacted by any negative publicity, we may not be able to attract new partner schools successfully or efficiently, and our business and results of operations may be materially and adversely affected.

In addition, if any partner school using our educational platforms engages in unlawful activities or uses our educational platforms in an unauthorized manner, the general public may associate such school's behavior with our brand, generating negative publicity that may adversely affect our reputation.

If we continue to grow, we may not be able to appropriately manage the expansion of our business and staff, the increased complexity of our software and platforms, or grow in our addressable market.

We are currently experiencing a period of significant expansion and are facing a number of expansion-related issues, such as the acquisition and retention of experienced and talented personnel, cash flow management, corporate culture and internal controls, among others. These issues and the significant amount of time spent on addressing them may result in the diversion of our management's attention from other business issues and opportunities. In addition, we believe that our corporate culture and values are critical to our success, and we have invested a significant amount of time and resources building them. If we fail to preserve our corporate culture and values, our ability to recruit, retain and develop personnel and to effectively implement our strategic plans may be harmed.

We must constantly update our software and platform, enhance and improve our billing and transaction and other business systems, and add and train new software designers and engineers, as well as other personnel to accommodate the increased use of our platform and the new solutions and features we regularly introduce. This process is time intensive and expensive, and may lead to higher costs in the future. Furthermore, we may need to enter into relationships with various strategic partners other online service providers and other third parties necessary to our business. The increased complexity of managing multiple commercial relationships could lead to execution problems that can affect current and future revenues, and operating margins.

We cannot assure you that our current and planned platform and systems, procedures and controls, personnel and third-party relationships will be adequate to support our future operations. In addition, our current expansion has placed a significant strain on management and on our operational and financial resources, and this strain is expected to continue. Our failure to manage growth effectively could seriously harm our business, results of operations and financial condition.

An increase in delays and/or defaults in the payment of amounts owed to us by partner schools may adversely affect our income and cash flow.

We depend on the full and timely payment of the amounts owed to us by partner schools. Our partner schools may face financial difficulties, and in certain cases, insolvency or bankruptcy. An increase in payment delinquency or default by partner schools may have a material adverse effect on our cash flows and our business, including our ability to meet our obligations, and in certain circumstances, we may, at no cost to us, decide to terminate our contracts with such partner schools, increasing our attrition rates. Our allowance for doubtful accounts expenses as a percentage of our net revenue was 3.0%, 2.5% and 2.1% for the years ended December 31, 2019, 2018 and 2017, respectively.

Our business is subject to seasonal fluctuations, which may cause our operating results to fluctuate from quarter-to-quarter and adversely impact our working capital and liquidity throughout the year, adversely affecting our business, financial condition and results of operations.

Our revenues and operating results normally fluctuate as a result of seasonal variations in our business, principally due to the number of months in a fiscal quarter that our partner schools are fully operational and serving students. Our main deliveries are shipped to partner schools in the last quarter of each year (typically in November and December), and in the first quarter of each subsequent year (typically in February and March). Furthermore, the materials we deliver in the fourth quarter are used by our partner schools for the following school year, and as such, our fourth quarter results reflect the growth in the number of our students from one school year to another, leading to generally higher revenues in our fourth quarter compared to the preceding quarters in each fiscal year. Consequently, in aggregate, the seasonality of our revenues has generally produced higher revenues in the first and fourth quarters of our fiscal year. In addition, we bill partner schools and collect the sales we charge them in the first half of each academic collections year, generally resulting in a higher cash position in the first half of each fiscal year relative to the second half of each fiscal year.

A significant portion of our expenses are also seasonal. Due to the nature of our business cycle, we require significant working capital, typically in September or October of each year, to cover costs related to production and accumulation of inventory, selling and marketing expenses, and delivery of our teaching materials at the end of each fiscal year in preparation for the beginning of each school year. Therefore, such operating expenses are generally incurred in the period between September and December of each year.

Accordingly, we expect quarterly fluctuations in our revenues and operating results to continue. These fluctuations could result in volatility and adversely affect our liquidity and cash flows. As our business grows, these seasonal fluctuations may become more pronounced. As a result, we believe that sequential quarterly comparisons of our financial results may not provide an accurate assessment of our financial position.

Our working capital needs have increased, and may continue to increase for the near future. We have historically relied on our cash flow generation to satisfy our working capital needs. If we do not increase our cash flow generation or gain access to additional capital, whether through a line or credit or other sources of capital, which may not be available on satisfactory terms or in adequate amounts, then our cash and cash equivalents may decline, which will have an adverse impact upon our liquidity and capital resources. We expect our working capital needs to increase as our business expands. If we do not have sufficient working capital, we may not be able to pursue our growth strategy, respond to competitive pressures or fund key strategic initiatives, which may harm our business, financial condition and results of operations.

The sales cycle of our business may cause our operating results to fluctuate from quarter-to-quarter and adversely impact our working capital and liquidity from year to year, adversely affecting our business, financial condition and results of operations.

Our platform has evolved into a complex solution. The adoption of our platform by partner schools requires us to first build a high level of trust and confidence in our solutions, which can only be achieved by demonstrating a proven track record of success and quality, while constantly monitoring client satisfaction and feedback.

We have a lead time (which we define as the period from the moment of first contact to the execution of a contract) for the acquisition of new partner schools, and we typically enter into contracts with new partner schools within one year from the moment of first contact, which requires a series of interactions and constant contact, including dedicated sessions for experimentation with our platform and testing, events aimed at target partner schools, product journeys and guided visits to our business units, and industry fair exhibits. Accordingly, we expect quarterly fluctuations in our cash flows. These fluctuations could result in annual volatility and adversely affect our liquidity. As our business grows or if our business stops growing and we lose clients, these fluctuations may become more pronounced.

We do not currently control some of our acquired technologies, which could adversely affect our ability to develop and commercialize our products.

We acquire interests in third parties for the expansion, development or commercialization of our products. To date, we have acquired a 25% interest in WPensar S.A., or WPensar, a company engaged in the development and licensing of school management systems software, and expect to acquire the remaining 75% of its outstanding share capital by September 2020. We have also acquired an 48.04% interest in Geekie Desenvolvimento de Softwares S.A., or Geekie, a company that provides adaptive assessment and learning products, as well as develop and license educational software, with an option to acquire the remaining 51.76% of its outstanding share capital in May 2022. We do not currently have a controlling interest in these companies and any disagreements or disputes with these or other companies where we have a minority interest could adversely affect our ability to develop and commercialize our products and in turn, our financial condition and results of operations. To date, we have not directly implemented the technologies related to these investments in our educational platform, but we may do so in the future. The failure to continue any investment arrangement or to resolve disagreements with current or future companies where we have a minority interest could materially and adversely affect our ability to transact the business that is the subject of such investment arrangement, which would in turn negatively affect our financial condition and results of operations.

We may pursue strategic acquisitions or investments. The failure of an acquisition or investment to produce the anticipated results, or the inability to integrate an acquired company fully, could harm our business.

We are currently evaluating possible acquisition opportunities, and we may from time to time submit non-binding proposals or acquire or invest in complementary companies or businesses, as part of our strategy to expand our operations, including through acquisitions or investments that may be material in size and/or of strategic relevance. The success of an acquisition or investment will depend on our ability to make accurate assumptions regarding the valuation, operations, growth potential, integration and other factors related to that business. We cannot assure you that our acquisitions or investments will produce the results that we expect at the time we enter into or complete a given transaction. Furthermore, acquisitions may result in difficulties integrating the acquired companies, and may result in the diversion of our capital and our management's attention from other business issues and opportunities. We may not be able to integrate successfully the operations that we acquire, including their personnel, financial systems, distribution or operating procedures. If we fail to integrate acquisitions successfully, our business could suffer. In addition, the expense of integrating any acquired business and their results of operations may harm our operating results. We may also require approval from Brazil's Administrative Council for Economic Defense (*Conselho Administrativo de Defesa Econômica*), or CADE, or other regulatory authorities, in order to conduct certain acquisitions or investments.

We may require additional funds to continue our expansion strategy. If we are unable to obtain adequate financing to complete any potential acquisition and implement our expansion plans, our growth strategy may be adversely affected.

If we lose key personnel our business, financial condition and results of operations may be adversely affected.

We are dependent upon the ability and experience of a number of our key personnel who have substantial experience with our operations. Many of our key personnel have worked for us for a significant amount of time or were recruited by us specifically due to their industry experience. It is possible that the loss of the services of one or a combination of our senior executives, certain members of our board of directors or key managers, including Ari de Sá Cavalcante Neto, our chief executive officer and founder, and Oto Brasil de Sá Cavalcante, our chairman, could have a material adverse effect on our business, financial condition and results of operations. Our business is particularly dependent on our chairman, who is also our controlling shareholder. We currently do not carry any key man insurance.

The ability to attract, recruit, retain and develop qualified employees is critical to our success and growth.

In order for us to successfully compete and grow and increase the number of partner schools, we must attract, recruit, retain and develop the necessary personnel who can provide the required expertise across the entire spectrum of our high quality educational content needs, including with respect to sales and marketing. While a number of our key personnel have substantial experience with our operations, we must also develop succession plans capable of maintaining continuity in the midst of the inevitable unpredictability of human capital. However, the market for qualified personnel is competitive, and we may not succeed in recruiting additional personnel or may fail to effectively replace current personnel who depart with qualified or effective successors. We must continue to hire additional personnel to execute our strategic plans. Our effort to retain and develop personnel may also result in significant additional expenses, which could adversely affect our profitability. We cannot assure that qualified employees will continue to be employed or that we will be able to attract and retain qualified personnel in the future. In particular, we may not achieve anticipated revenue growth from expanding our sales and marketing teams if we are unable to attract, develop and retain qualified sales and marketing personnel in the future.

Failure to retain or attract key personnel could have a material adverse effect on our business, financial condition and results of operations.

Any increase in the attrition rates of students in our partner schools may adversely affect our results of operations.

We believe that the attrition rates at our partner schools are primarily related to the personal motivation and financial situation of their current and potential students, as well as to socioeconomic conditions in Brazil. Significant changes in projected student attrition rates and/or failure to re-enroll may affect the enrollment numbers of our partner schools, as well as their ability to recruit and enroll new students, each of which may have a material adverse effect on our projected revenues and our results of operations.

We may face restrictions and penalties under the Brazilian Consumer Protection Code in the future.

Brazil has a series of strict consumer protection laws, referred to collectively as the Consumer Protection Code (*Código de Defesa do Consumidor*). These laws apply to all companies in Brazil that supply products or services to Brazilian consumers. They include protection against misleading and deceptive advertising, protection against coercive or unfair business practices and protection in the formation and interpretation of contracts, usually in the form of civil liabilities and administrative penalties for violations. Although we are a business-to-business-to-consumer, or B2B2C, business, some parents may allege that we are directly liable for any problems in our solution and try to assess us based upon the Consumer Protection Code.

These penalties are often levied by the Brazilian Consumer Protection Agencies (*Fundação de Proteção e Defesa do Consumidor*, or PROCONs), which oversee consumer issues on a district-by-district basis. Companies that operate across Brazil may face penalties from multiple PROCONs, as well as from the National Secretariat for Consumers (*Secretaria Nacional do Consumidor*, or SENACON). Companies may settle claims made by consumers via PROCONs by paying compensation for violations directly to consumers and through a mechanism that allows them to adjust their conduct, called a conduct adjustment agreement (*Termo de Ajustamento de Conduta*, or TAC).

Brazilian public prosecutors may also commence investigations of alleged violations of consumer rights and require companies to enter into TACs. Companies that violate TACs face potential enforcement proceedings and other potential penalties such as fines, as set forth in the relevant TAC. Brazilian public prosecutors may also file public civil actions against companies who violate consumer rights or competition rules, seeking strict adherence to the consumer protection laws and compensation for any damages to consumers. In certain cases, we may also face investigations and/or sanctions by the CADE, in the event our business practices are found to affect the competitiveness of the markets in which we operate or the consumers in such markets.

Our success depends on our ability to monitor and adapt to technological changes in the education sector and maintain a technological infrastructure that works adequately and without interruption.

Information technology is an essential factor of our growth given that we deliver content through an integrated online educational platform. Our information technology systems and tools may become obsolete or insufficient, or we may have difficulties in following and adapting to technological changes in the education sector. Moreover, our competitors may introduce better products or platforms. Our success depends on our ability to efficiently improve our platform while developing and introducing new features that are accepted by schools (including our partner schools) and their students.

Additionally, a failure to upgrade our technology, features, content, security infrastructure, network infrastructure, or other infrastructure associated with our platform could harm our business. Adverse consequences could include unanticipated disruptions, slower response times, bugs, degradation in levels of customer support, impaired quality of users' experiences of our educational platform and delays in reporting accurate financial information.

In addition, we face risks associated with unauthorized access to our systems, including by hackers and due to failures of our electronic security measures. These unauthorized entries into our systems can result in the theft of proprietary or sensitive information or cause interruptions in the operation of our systems. As a result, we may be forced to incur considerable expenses to protect our systems from electronic security breaches and to mitigate our exposure to technological problems and interruptions.

Our business depends on our information technology infrastructure functioning properly and without interruptions. Several problems regarding our information technology structure, such as viruses, hackers, system interruptions and other technical difficulties may have a material adverse effect on us and our business.

We recently engaged a third-party consultant to conduct a risk and vulnerability assessment of our cybersecurity infrastructure. The third-party report made the following key recommendations: (1) establish asset controls and create application lists to monitor and mitigate malware infection risk; (2) establish data-loss prevention measures for our hardware and servers; (3) develop a model to access and manage data through automation and controls of user profile information; (4) build an audit and event-log infrastructure throughout our software platforms to help us monitor potential cybersecurity breaches; (5) introduce scheduled routine infrastructure intrusion tests to verify the adequacy of our systems; (6) create background procedures to protect secure access to our video applications; and (7) establish a cybersecurity training and awareness program for our employees. We are currently implementing the recommendations and intend to conclude their implementation by the second half of 2020.

Our revenue derives from the contract fees per student that we generate from the sales of our educational content to our partner schools. Any disruption in our relationship with our partner schools may materially adversely affect us.

Our network of partner schools to which we make available our educational platform and to which we supply the related educational materials comprises 5,414 partner schools as of March 31, 2020. Our net revenue was R$572.8 million and R$381.0 million for the years ended December 31, 2019 and 2018. We typically enter into contracts with our partner schools for three-year terms, which contemplate penalties ranging between 20% and 100% of the remaining total value of the contract in the event of termination. In addition, we also rely in part on existing partner school referrals to attract new partner schools. Accordingly, maintaining a good relationship with our partner schools and developing new relationships and expanding our network of partner schools are essential to the success of our business. We may also not be able to renew our contracts with our partner schools, including as a result of new leadership in our partner schools deciding to discontinue the use or expansion of our educational platform in their curriculum. Any deterioration in our relationship with our partner schools, and any early termination of, or a failure to renew, our contracts with our partner schools may harm our image, impair our ability to pursue our growth strategy, and materially adversely affect our business, our operating and financial results and our cash flows.

To support our growth and to help us retain our clients, we have a dedicated sales support team that provides pedagogical assistance to partner schools and helps them train students and teachers to fully engage with the features of our platform, in order to maximize their results from using our solutions. Our pedagogical support team also make visits and perform field work for these purposes, building rapport and strengthening our ties with our partner schools. If we fail to provide efficient and effective customer support, or to maintain our customer support standards as our business grows, our ability to maintain and grow our operations may be harmed and we may need to hire additional support personnel, which could harm our results of operations.

Increases in the price of certain inputs used to produce our printed educational materials and increases in the fees of our third-party printer providers may materially affect us.

Increases in the price of the inputs used for editing and publishing the materials related to our educational platform, particularly the price of paper, the cost of printing services and publishing, as well as increases in the fees of our third-party printer providers, which produce our printed educational materials, could adversely affect our results, if we are not able to fully pass these cost increases onto our partner schools.

Paper and postage prices are difficult to predict and control. Paper is a commodity and its price may be impacted by fluctuations in foreign exchange rates and commodities prices, and can be subject to significant volatility. Our third-party printer providers have adjusted their fees to account for changes in prevailing market prices of their inputs, especially paper. Though we have historically been able to realize favorable pricing through volume discounts, particularly as a result of our significant recent growth, no assurance can be provided that we will be able to continue to realize favorable printing and publishing pricing. We cannot predict with certainty the magnitude of future price changes for paper, postage, and printing and publishing in general. Further, we may not be able to pass such increases on to our partner schools.

We may not be able to pass on increases in our costs by adjusting the contract fees we charge our partner schools.

Our primary source of income is the payments we receive from our partner schools in connection with the contract fees per student that we charge them to use our educational platform. For the year ended December 31, 2019, operation, sales and corporate personnel expenses represented 30.1% and third-party services expenses represented 8.5% of our total costs and expenses for the period. Personnel costs are adjusted periodically using indices that reflect changes in inflation levels. Personnel costs are also adjusted annually as a result of customary annual employee salary adjustments in line with inflation. If we are not able to transfer any increases in our costs to partner schools by increasing the contract fees per student that we charge them, our operating results may be adversely affected.

Any change or review of the tax treatment of our activities, or the loss or reduction in tax benefits on the sale of books (including digital content) may materially adversely affect us.

We benefit from tax Law No. 10,865/04, as amended by Law No. 11,033/04, which establishes a zero rate for the social integration program tax (*Programa de Integração Social*, or PIS) and the social contribution on revenues tax (*Contribuição para o Financiamento da Seguridade Social*, or COFINS) on the sale of books. The sale of books is also exempt by the Brazilian constitution from Brazilian municipal taxes, Brazilian services tax (*Imposto Sobre Serviços*, or ISS) and from the Brazilian tax on the circulation of goods, interstate and intercity transportation and communication services (*Imposto sobre Operações relativas à Circulação de Mercadorias e sobre Prestações de Serviços de Transporte Interestadual e Intermunicipal e de Comunicação*, or ICMS). If the Brazilian government or any Brazilian municipality or tax authority decides to change or review the tax treatment of our activities, or cancel or reduce the tax benefit applied on the sale of goods (including digital books and e-readers) and/or challenge it, and we are unable to pass any cost increase onto our partner schools, our results may be materially adversely affected.

If we are unable to maintain consistent educational quality throughout our partner schools network, including the education materials we provide to our partner schools, we may be adversely affected.

The quality of our academic curricula is a key element of the quality of the educational platform we provide. We cannot assure you that we will be able to develop academic curricula for our educational platform with the same levels of excellence as existing curricula and meeting the requirements of the *Base Nacional Comum Curricular*, or the BNCC (established by Law No. 9,394 dated December 20, 1996), to which we are currently subject, or meeting the requirements of our partner schools. Deficiencies in the quality of academic curricula for our educational platform and the requirements of the BNCC may have a material adverse effect on our business.

In addition, our partner schools and their students are regularly evaluated and graded by the MEC. If our partner schools' campuses, programs or students receive lower scores from the MEC than in previous years in any of their evaluations, including the IDEB and the ENEM, or if there is a decline in our partner schools students' acceptance rates at prestigious post-secondary schools, we may be adversely affected by perceptions of decreased educational quality of our educational platform, which may negatively affect our reputation and, consequently, our results of operations and financial condition.

We may become subject to various laws and regulations applicable to educational platform providers, and failure to meet such future laws and regulations could harm our business.

Currently, we are subject to the requirements of the BNCC, and we are not regulated by the MEC nor are we subject to any government regulations that are imposed by the CNE, or by the Primary and Secondary Education Board (*Câmara de Educação Básica*), or CEB. Should we become subject to the supervision and regulation of the MEC or any other authority or any government laws and regulations imposed by the CNE or the CEB or any other authority, we may be required to meet certain legal and regulatory requirements that may be imposed on our operations, including, but not limited to, MEC accreditation or re-accreditation requirements for our educational platform, which may adversely affect us. We may be adversely affected by changes in the laws and regulations applicable to educational platform providers, particularly by changes that impose accreditation and re-accreditation requirements on educational platforms and impose certain academic requirements for educational platform courses and curricula. In addition, we may be materially adversely affected if we are unable to obtain these authorizations and accreditations in a timely manner or if we cannot introduce new features to our educational platform as quickly as our competitors.

The quality of the pedagogical content we deliver to our clients is significantly dependent upon the quality of our editors, publishers and purchased content.

The educational materials we provide are a combination of content developed by our internal production team and content purchased from certain publishers in our market. Our editorial team is responsible for producing our materials, working in conjunction with our EdTech team to implement additional features and technology delivery. Our content production process requires significant coordination among different teams as well as qualified personnel with appropriate skill sets to ensure the quality of our pedagogical content is maintained. We may not be able to retain, recruit or train qualified employees or obtain pedagogical content that meets our standards. Delays in the delivery of content purchased from authors may have a severe impact on our annual content creation schedule. Additionally, a shortage of qualified editors, employees, publishers or suitable purchased content or a decrease in the quality of produced or purchased content, whether actual or perceived, or a significant increase in the cost to engage or retain qualified personnel or acquire content, would have a material adverse effect on our business, financial condition and results of operations.

We utilize third-party logistics service providers for the shipping of all of our collections of printed teaching materials. The successful delivery of our materials to our clients depends upon effective execution by our logistics team and such service providers. Any material failure to execute properly for any reason, including damage or disruption to any service providers' facilities, would have an adverse effect on our business, financial condition and results of operations.

The delivery of printed books to schools is a seasonal activity, with a cycle beginning with the creation and revision of content generally from April to July, the purchase of printing services from August to October, and delivery from November to January. We have expanded our operations rapidly since our inception. As our size increases, so does the size and complexity of our logistics operation.

There is a high volume of deliveries in November and December, requiring significant involvement in inventory/demand management and relationship and planning alongside the printers. In an industry where one of the most valued indicators by the schools is the timely delivery of printed materials, failure to meet deadlines, inadequate logistical planning, disruptions in distribution centers, deficient inventory management, and failure to meet client requirements may damage our reputation, increase returns of our materials or cause inventory losses and negatively impact our gross margins, results of operations and business.

Substantially all of the inventory for our printed teaching materials is located in warehouse facilities leased and operated by us and then delivered by a third-party shipping company that handles shipping of all physical learning materials. If our logistics service providers fail to meet their obligations to deliver teaching materials to partner schools in a timely manner, or if a material number of such deliveries are incomplete or contain assembly errors, our business and results of operations could be adversely affected. Furthermore, a natural disaster, fire, power interruption, work stoppage or other unanticipated catastrophic event, especially during the period from August through October when we are awaiting receipt of most of the curriculum materials for the school year and have not yet shipped such materials to partner schools, could significantly disrupt our ability to deliver our products and operate our business. If any of our material inventory items, warehouse facilities or distribution centers were to experience any significant damage, we would be unable to meet our contractual obligations and our business would suffer.

Failure to protect or enforce our intellectual property and other proprietary rights could adversely affect our business and financial condition and results of operations.

We rely and expect to continue to rely on a combination of trademark, copyright, patent and trade secret protection laws, as well as confidentiality and license agreements with our employees, consultants and third parties with whom we have relationships to protect our intellectual property and proprietary rights. As of December 31, 2019, we did not have issued patents or patent applications pending in or outside Brazil. We are party to approximately 1,984 agreements with third-party authors with respect to educational content, for indefinite terms. We own 148 trademark registrations in Brazil, 2 in Argentina, 2 in Bolivia, 1 in Chile, 2 in Ecuador, 2 in Paraguay, 1 in Peru and 1 in Uruguay. As of December 31, 2019, we owned 112 registered domain names in Brazil. We also have a number of pending trademark applications in Brazil, the U.S. and Venezuela (111 in Brazil, 3 in the U.S. and 2 in Venezuela, as of December 31, 2019) and unregistered trademarks that we use to promote our brand. From time to time, we expect to file additional patent, copyright and trademark applications in Brazil and abroad. Nevertheless, these applications may not be approved or otherwise provide the full protection we seek. Any dismissal of our "Arco Educação" trademark application may impact our business. Third parties may challenge any patents, copyrights, trademarks and other intellectual property and proprietary rights owned or held by us. Third parties may knowingly or unknowingly infringe, misappropriate or otherwise violate our patents, copyrights, trademarks and other proprietary rights and we may not be able to prevent infringement, misappropriation or other violation without substantial expense to us.

Furthermore, we cannot guarantee that:

- our intellectual property and proprietary rights will provide competitive advantages to us;
- our competitors or others will not design around our intellectual property or proprietary rights;
- our ability to assert our intellectual property or proprietary rights against potential competitors or to settle current or future disputes will not be limited by our agreements with third parties;
- our intellectual property and proprietary rights will be enforced in jurisdictions where competition may be intense or where legal protection may be weak;
- any of the patents, trademarks, copyrights, trade secrets or other intellectual property or proprietary rights that we presently employ in our business will not lapse or be invalidated, circumvented, challenged or abandoned; or
- we will not lose the ability to assert our intellectual property or proprietary rights against or to license our intellectual property or proprietary rights to others and collect royalties or other payments.

If we pursue litigation to assert our intellectual property or proprietary rights, an adverse decision in any of these legal actions could limit our ability to assert our intellectual property or proprietary rights, limit the value of our intellectual property or proprietary rights or otherwise negatively impact our business, financial condition and results of operations. If the protection of our intellectual property and proprietary rights is inadequate to prevent use or misappropriation by third parties, the value of our brand and other intangible assets may be diminished, competitors may be able to more effectively mimic our service and methods of operations, the perception of our business and service to customers and potential customers may become confused in the marketplace and our ability to attract customers may be adversely affected.

We may in the future be subject to intellectual property claims, which are costly to defend and could harm our business, financial condition and operating results.

Because of the large number of authors that participate in our publications, from time to time, third parties may allege in the future that we or our business infringes, misappropriates or otherwise violates their intellectual property or proprietary rights, including with respect to our publications. Many companies, including various "non-practicing entities" or "patent trolls," are devoting significant resources to developing or acquiring patents that could potentially affect many aspects of our business. There are numerous patents that broadly claim means and methods of conducting business on the internet. We have not exhaustively searched patents related to our technology. In addition, the publishing industry has been, and we expect in the future will continue to be, the target of counterfeiting and piracy. We may implement measures in an effort to protect against these potential liabilities that could require us to spend substantial resources. Any costs incurred as a result of liability or asserted liability relating to sales of unauthorized or counterfeit educational materials could harm our business, reputation and financial condition.

Third parties may initiate litigation against us without warning. Others may send us letters or other communications that make allegations without initiating litigation. We have in the past and may in the future receive such communications, which we assess on a case-by-case basis. We may elect not to respond to the communication if we believe it is without merit or we may attempt to resolve disputes out-of-court by electing to pay royalties or other fees for licenses. If we are forced to defend ourselves against intellectual property claims, whether they are with or without merit or are determined in our favor, we may face costly litigation, diversion of technical and management personnel, inability to use our current website or inability to market our service or merchandise our products. As a result of a dispute, we may have to develop non-infringing technology, including partially or fully revise any publication that infringes intellectual property rights, enter into licensing agreements, adjust our merchandising or marketing activities or take other action to resolve the claims. These actions, if required, may be unavailable on terms acceptable to us or may be costly or unavailable. If we are unable to obtain sufficient rights or develop non-infringing intellectual property or otherwise alter our business practices, as appropriate, on a timely basis, our reputation or brand, our business and our competitive position may be affected adversely and we may be subject to an injunction or be required to pay or incur substantial damages and/or fees and/or royalties.

Most of our services are provided using proprietary software and our software is mainly developed by our employees, who do not specifically assign to us their copyrights over the software. In this regard, though applicable law establishes that employers shall have full title over rights relating to software developed by their employees, we could be subject to lawsuits by former employees claiming ownership of such software. As a result, we may be required to obtain licenses of such software, incurring costs relating to payments of royalties and/or damages and we may be forced to cease the use of such software. If we are unable to use certain of our proprietary software as a result of any of the foregoing or otherwise, this could have a material adverse effect on our business, financial condition and results of operations.

In addition, we use open source software in connection with certain of our products and services. Companies that incorporate open source software into their products have, from time to time, faced claims challenging the ownership of open source software and/or compliance with open source license terms. As a result, we could be subject to suits by parties claiming ownership of what we believe to be open source software or noncompliance with open source licensing terms. Some open source software licenses require users who distribute or use open source software as part of their software to publicly disclose all or part of the source code to such software and/or make available any derivative works of the open source code on unfavorable terms or at no cost. Any requirement to disclose our proprietary source code or pay damages for breach of contract could have a material adverse effect on our business, financial condition and results of operations.

We will be subject to risks related to non-compliance with the Brazilian General Data Protection Law ("LGPD") and may be adversely affected by the application of penalties, including pecuniary sanctions.

On August 14, 2018, Law No. 13,709 of August 14, 2018 was enacted, as amended, or the General Personal Data Protection Law, which will come fully into effect in August 2020 and will bring major changes to the personal data protection system in Brazil.

The LGPD establishes a new legal framework to be observed by individuals and legal entities, detailing rules for the collection, production, reception, classification, use, access, reproduction, transmission, distribution, processing, filing, storage, elimination, evaluation or information control, modification, communication, transfer, dissemination, or extraction of personal data and provides, among others, for the rights of the holders of personal data, the legal bases applicable to the protection of personal data, the requirements for obtaining consent, the obligations and penalties.

If we do not comply with the LGPD, we will be subject, in sole or cumulatively, to the administrative sanctions applicable by the National Data Protection Authority – ANPD of warning, obligation of disclosure of incident, blocking and/or elimination of personal data, a fine of up to 2% of its revenues (or of its group or conglomerate in Brazil) calculated in the most recent fiscal year, excluding taxes, up to the global amount of R$50,000,000.00 per violation, and a daily fine, observing the global limit of R$50,000,000.00.

Failure to protect the personal data processed by us, as well as failure to comply with the applicable legislation, may result in high fines, disclosure of the incident to the market, temporary block and/or deletion of the personal data from our database, without eliminating the possibility of civil and criminal sanctions, which may adversely affect our reputation, financial condition and results of operations.

Cybersecurity incidents, including attacks on the infrastructure necessary to maintain the our IT systems, may result in financial losses and damage to our reputation.

Cybersecurity incidents may result in the misappropriation of our information and/or customer information or in ineffective time on its servers or operations, which may affect us materially and adversely. Any losses of intellectual property, trade secrets or other sensitive business information or the interruption of its operations could adversely affect the our financial results.

We are susceptible to illegal or improper uses of our educational platform, which could expose us to additional liability and harm our business.

Our educational platform is susceptible to unauthorized use, copyright violations and unauthorized copying and distribution (whether by students, schools or otherwise), theft, employee fraud, and other similar breaches and violations. These occurrences may potentially harm our business and consequently negatively impact our results of operations. Additionally, we may be required to employ a significant amount of resources to combat such occurrences and identify those responsible.

Unfavorable decisions in our legal, arbitration or administrative proceedings may adversely affect us.

We are, and may be in the future, party to legal, arbitration and administrative investigations, inspections and proceedings arising in the ordinary course of our business or from extraordinary corporate, tax or regulatory events, involving our suppliers, commercial practices, students, faculty members, as well as environmental, competition, government agencies and tax authorities, particularly with respect to civil, tax and labor claims. We cannot guarantee that the results of these proceedings will be favorable to us or that we have made sufficient provisions for liabilities that may arise as a result of these or other proceedings. Even if we adequately address issues raised by any inspection conducted by an agency or successfully defend our case in an administrative proceeding or court action, we may have to set aside significant financial and management resources to settle issues raised by such proceedings or to those lawsuits or claims. Adverse decisions in material legal, arbitrational or administrative proceedings, even if such proceedings are without merit, may adversely affect our reputation, results of operations and the price of our Class A common shares.

We depend on dividend distributions by our subsidiaries, and we may be adversely affected if the performance of our subsidiaries is not positive or if Brazil imposes legal restrictions on dividend distributions by subsidiaries.

We control a number of subsidiary companies in Brazil that carry out our business activities. Our ability to comply with our financial obligations and to pay future dividends, if any, to our shareholders depends on our ability to receive distributions from the companies we control, which in turn depends on the cash flow and profits of those companies. There is no guarantee that the cash flow and profits of our controlled companies will be sufficient for us to comply with our financial obligations and pay future dividends or interest on shareholders' equity, if any, to our shareholders, or that the Brazilian federal government will not impose legal restrictions or tax payments on dividend distributions by our subsidiaries.

We and our subsidiaries may be held directly or indirectly responsible for labor claims resulting from the actions of third parties, including independent contractors and service providers.

To meet the needs of our partner schools and offer greater comfort and quality in all areas and aspects of our activities, we depend on service providers and suppliers for a variety of services. We may be adversely affected if these third-party service providers and suppliers do not meet their obligations under Brazilian labor laws. In particular, according to Brazilian law we may be liable to the employees of these service providers and suppliers for labor obligations of these service providers and suppliers, and may also be fined by the relevant authorities. If we are held liable for such claims, we may be adversely affected.

We operate in markets that are dependent on Information Technology, or IT, systems and technological change. Failure to maintain and support customer facing services, systems, and platforms, including addressing quality issues and execution on time of new products and enhancements, could negatively impact our revenues and reputation.

We use complex IT systems and products to support our businesses activities, including customer-facing systems, back-office processing and infrastructure. We face several technological risks associated with online product service delivery, information technology security (including virus and cyber-attacks), e-commerce and enterprise resource planning system implementation and upgrades. Our plans and procedures to reduce risks of attacks on our system by unauthorized parties may not be successful. Thus, our businesses could be adversely affected if our systems and infrastructure experience a failure or interruption in the event of future attacks on our system by unauthorized parties.

We rely upon a third-party data center service provider to host certain aspects of our platform and content and any disruption to, or interference with, our use of such services, could impair our ability to deliver our platform, resulting in customer dissatisfaction, damaging our reputation and harming our business.

We utilize data center hosting facilities from a global third-party service provider to make certain content available in our platform. Our operations depend, in part, on our provider's ability to protect its facilities against damage or interruption from natural disasters, power or telecommunications failures, criminal acts and similar events. The occurrence of spikes in user volume, traffic, natural disasters, acts of terrorism, vandalism or sabotage, or a decision to close a facility without adequate notice, or other unanticipated problems at our provider's facilities could result in lengthy interruptions in the availability of our platform, which would adversely affect our business.

Failure to prevent or detect a malicious cyber-attack on our systems and databases could result in a misappropriation of confidential information or access to highly sensitive information.

Cyber-attacks are becoming more sophisticated and pervasive. Across our business we hold large volumes of personally identifiable information including that of employees, schools, customers, students and parents and legal guardians. Individuals may try to gain unauthorized access to our data in order to misappropriate such information for potentially fraudulent purposes, and our security measures may fail to prevent such unauthorized access. A breach could result in a devastating impact on our reputation, financial condition or student experience. In addition, if we were unable to prove that our systems are properly designed to detect an intrusion, we could be subject to severe penalties and loss of existing or future business.

Failure to comply with data privacy regulations could result in reputational damage to our brands and adversely affect our business, financial condition and results of operations.

Any perceived or actual unauthorized disclosure of personally identifiable information, whether through breach of our network by an unauthorized party, employee theft, misuse or error or otherwise, could harm our reputation, impair our ability to attract and retain our customers, or subject us to claims or litigation arising from damages suffered by individuals. Failure to adequately protect personally identifiable information could potentially lead to penalties, significant remediation costs, reputational damage, the cancellation of existing contracts and difficulty in competing for future business. In addition, we could incur significant costs in complying with relevant laws and regulations regarding the unauthorized disclosure of personal information, which may be affected by any changes to data privacy legislation at both the federal and state levels.

A material weakness in our internal control over financial reporting has been identified, and if we fail to establish and maintain proper and effective internal controls over financial reporting, our results of operations and our ability to operate our business may be harmed.

Prior to our initial public offering, we were a private company with limited accounting personnel and other resources to address our internal control over financial reporting and procedures. In connection with the audit of our consolidated financial statements, we and our independent registered public accounting firm identified two material weaknesses as of December 31, 2018, as described below. A material weakness is a deficiency, or combination of control deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected on a timely basis. The material weaknesses identified as of December 31, 2018 are related to (i) insufficient accounting resources and processes to fully comply with reporting and compliance requirements of IFRS and the SEC, and (ii) general IT controls that make us continue using of manual processes as a result of the implementation and monitoring of controls in our enterprise resource planning (ERP) system. Our management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2019 and has concluded that the Company did not maintain effective internal controls over general IT regarding their enterprise resource planning systems (ERP) as of December 31, 2019. This is the same material weakness previously identified in the Company's 2018 Annual Report on Form 20-F filed on April 17, 2019. The material weakness related to IFRS was fully remediated and is no longer identified as a material weakness for the year ended December 31, 2019.

With regards to the material weakness related to general IT controls, we have made changes and implemented enhanced controls over IT systems, hired experienced personnel to our IT team, effected policies and procedures through 2019 and expect to conclude the proposed remediation plan during 2020. Other additional measures are already being adopted, in connection with a project to prepare the company for the upcoming reporting under Section 404 of the Sarbanes-Oxley Act in 2020, and will be worked extensively through 2020. However, we cannot assure you that our efforts will be effective or prevent any future material weakness or significant deficiency in our internal controls over financial reporting.

We are subject to the Sarbanes-Oxley Act, which requires, among other things, that we establish and maintain effective internal controls over financial reporting and disclosure controls and procedures. Testing of our internal controls may reveal deficiencies that are deemed to be material weaknesses or significant deficiencies and render our internal controls over financial reporting ineffective. We expect to incur additional accounting and auditing expenses and to spend significant management time in complying with these requirements. If we are not able to comply with these requirements in a timely manner, or if we or our management identifies material weaknesses or significant deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, the market price of our Class A common shares may decline and we may be subject to investigations or sanctions by the SEC, the Financial Industry Regulatory Authority, Inc., or FINRA, or other regulatory authorities.

Our independent registered public accounting firm has not performed an evaluation of our internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act for purposes of identifying and reporting any weakness or significant deficiency in our internal control over financial reporting, as our independent registered public accounting firm will be required to do once we cease to be an emerging growth company. Had our independent registered public accounting firm performed an audit of our internal control over financial reporting, additional control weaknesses may have been identified.

In addition, these new obligations will also require substantial attention from our senior management and could divert their attention away from the day-to-day management of our business. These cost increases and the diversion of management's attention could materially and adversely affect our business, financial condition and operation results.

Our operations and results may be negatively impacted by the coronavirus (COVID-19) outbreak.

Since December 2019, a novel strain of coronavirus (COVID-19) has spread in over 150 countries, including China, Italy, U.S. and Brazil. Such events have adversely impacted regional economies and we expect that such events will cause disruption of regional or global economic activity, which could reduce the number of schools and students that use our products and materially and adversely affect our operations and financial results. In addition, such events are causing the closing of schools and could cause the closing or reduction in production of our materials provided by third parties and stoppage or closing of transportation companies for undetermined periods, which could also materially and adversely affect our operation and financial results.

The extent to which the coronavirus (COVID-19) impacts our financial results and operations will depend on future developments, which are uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions to contain the impact of the coronavirus (COVID-19) pandemic. Based on future developments of the coronavirus (COVID-19), it is possible the we may, in the future, be required to take actions or steps in relation to our business that could have a disruptive or a material and adverse effect on our business.

Certain Factors Relating to the Positivo Acquisition

We may not realize all the benefits and synergies anticipated from the Positivo Acquisition, which could adversely affect the price of our Class A common shares.

The Positivo Acquisition is our largest acquisition to date. The anticipated benefits and synergies from the Positivo Acquisition are, necessarily, based on projections and assumptions of expert advisers hired by us about the combined businesses of Arco and Positivo, which may not materialize as expected or which may prove to be inaccurate. Our ability to achieve the anticipated benefits will depend on our ability to successfully and efficiently integrate the business and operations of Positivo with our business and achieve the expected synergies. We may encounter significant challenges with successfully integrating and recognizing the anticipated benefits of the Positivo Acquisition, including the following:

- potential disruption of, or reduced growth in, our historical core businesses, due to diversion of management attention and uncertainty with Positivo's current partner schools and supplier relationships;
- coordinating and integrating research and development teams across technologies and products to enhance product development while reducing costs;
- consolidating and integrating corporate, information technology, finance and administrative infrastructures, and integrating and harmonizing business and other back-office systems, which may be more difficult than anticipated, in particular because Positivo shares back-office systems with the Positivo Group through a shared-services center;
- coordinating sales and marketing efforts to effectively position our capabilities and the direction of product development;
- difficulties in achieving anticipated cost savings, synergies, business opportunities and growth prospects from combining Positivo's business with our business;
- difficulties in effectively execute the plan for the integration of the two companies;
- the increased scale and complexity of our operations resulting from the Positivo Acquisition;
- retaining key employees, suppliers and other partners of Positivo;
- obligations that we will have to counterparties of Positivo that arise as a result of the change in control of Positivo;
- difficulties in anticipating and responding to actions that may be taken by competitors in response to the transaction;
- issues that may arise as a result of the public in general not being able to distinguish the business acquired by us, which continues to use the trademark "Positivo," and the businesses of Positivo Group, such as post-secondary education and the operation of physical schools, which also continues to use the trademark "Positivo;"
- potential labor, civil and tax liabilities arising from the corporate reorganization of the Positivo Group in 2018 to segregate the Positivo business from the other businesses of the Positivo Group, such as post-secondary education and the operation of physical schools; and
- the assumption of and exposure to unknown or contingent liabilities of Positivo.

If we do not successfully manage these issues and the other challenges inherent in integrating an acquired business of the scale of Positivo, then we may not achieve the anticipated benefits of the Positivo Acquisition, we could incur unanticipated expenses and charges and our operating results and the value of our Class A common shares could be materially and adversely affected. See "Item 4. Information on the Company—A. History and Development of the Company—Acquisitions—Acquisitions of Positivo Soluções Didáticas" for further information.

Uncertainty about the Positivo Acquisition may adversely affect our relationships with customers and employees, which could negatively affect our business.

The Positivo Acquisition may cause uncertainties in our relationships with our partner schools, which could impair our ability to or expand our historical partner school sales growth. Furthermore, uncertainties about the Positivo Acquisition may cause our current and prospective employees to experience uncertainty about their future with us. These uncertainties may impair our ability to retain, recruit or motivate key employees, which could affect our business. Additionally, the Positivo Acquisition could adversely affect our relationship with customers and employees, since the general public might not be able to distinguish the business acquired by us, which will continue to use the trademark "Positivo," and the Positivo Group. Legal proceedings (including criminal charges, civil or administrative proceedings) involving, as well as acts of, Positivo Group or any of its employees could cause damage to "Positivo Group" which may be erroneously associated to "Positivo" and may adversely affect our B2B2C base.

The use of cash on hand to finance the Positivo Acquisition will reduce our liquidity.

We will fund the remaining payments related to the Positivo Acquisition with cash on hand. This in turn will reduce our liquidity, thereby reducing the availability of our cash flow for working capital, dividend and capital expenditure needs or to pursue other potential strategic plans.

Positivo relies significantly on a key supplier for the printing of its educational materials.

Positivo currently relies significantly on a key supplier, Posigraf, a Positivo Group company that we did not acquire as part of the Positivo Acquisition, for the printing of its educational content. In the event that Posigraf ceases operations or otherwise ceases to do business with Positivo, or to the extent there are any disruptions in Positivo's relationship with Posigraf or any delays or interruptions by Posigraf in the printing of the educational content of Positivo, it may take a substantial amount of time and expense for Positivo to secure substitute suppliers, and it may harm Positivo's ability to deliver its printed educational content to its partner schools in a timely manner. This could hurt Positivo's relationships with its partner schools, prevent Positivo from acquiring new partner schools, and harm Positivo's reputation and business, which in turn, would harm our business and could adversely affect our financial conditions or results of operations.

Certain Factors Relating to Brazil

The Brazilian federal government has exercised, and continues to exercise, significant influence over the Brazilian economy. This involvement as well as Brazil's political, regulatory, legal and economic conditions could harm us and the price of our Class A common shares.

The Brazilian federal government frequently exercises significant influence over the Brazilian economy and occasionally makes significant changes in policy and regulations. The Brazilian government's actions to control inflation and other policies and regulations have often involved, among other measures, increases or decreases in interest rates, changes in fiscal policies, wage and price controls, foreign exchange rate controls, blocking access to bank accounts, currency devaluations, capital controls and import and export restrictions. We have no control over and cannot predict what measures or policies the Brazilian government may take in the future, and how these can impact us and our business. We and the market price of our securities may be harmed by changes in Brazilian government policies, as well as general economic factors, including, without limitation:

- growth or downturn of the Brazilian economy;
- interest rates and monetary policies;
- exchange rates and currency fluctuations;
- inflation;
- liquidity of the domestic capital and lending markets;
- import and export controls;

- exchange controls and restrictions on remittances abroad and payments of dividends;
- modifications to laws and regulations according to political, social and economic interests;
- fiscal policy and changes in tax laws;
- economic, political and social instability, including general strikes and mass demonstrations;
- the regulatory framework governing the educational industry;
- labor and social security regulations;
- energy and water shortages and rationing;
- commodity prices, including prices of paper and ink;
- changes in demographics, in particular declining birth rates, which will result in a decrease in the number of enrolled students in primary and secondary education in the future; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

Uncertainty over whether the Brazilian federal government will implement reforms or changes in policy or regulation affecting these or other factors in the future may affect economic performance and contribute to economic uncertainty in Brazil, which may have an adverse effect on our activities and consequently our operating results, and may also adversely affect the trading price of our Class A common shares. Recent economic and political instability has led to a negative perception of the Brazilian economy and higher volatility in the Brazilian securities markets, which also may adversely affect us and our Class A common shares. See "Item 5. Operating and Financial Review and Prospects—A. Operating results—Brazilian Macroeconomic Environment."

Economic uncertainty and political instability in Brazil may harm us and the price of our Class A common shares.

Brazil's political environment has historically influenced, and continues to influence, the performance of the country's economy. Political crises have affected and continue to affect the confidence of investors and the general public, which have historically resulted in economic deceleration and heightened volatility in the securities offered by companies with significant operations in Brazil.

The recent economic instability in Brazil has contributed to a decline in market confidence in the Brazilian economy as well as to a deteriorating political environment. In addition, various ongoing investigations into allegations of money laundering and corruption being conducted by the Office of the Brazilian Federal Prosecutor, including the largest such investigation, known as "*Operação Lava Jato*," have negatively impacted the Brazilian economy and political environment. The potential outcome of these investigations is uncertain, but they have already had an adverse impact on the image and reputation of the implicated companies, and on the general market perception of the Brazilian economy. We cannot predict whether the ongoing investigations will result in further political and economic instability, or if new allegations against government officials and/or executives of private companies will arise in the future.

A failure by the Brazilian government to implement necessary reforms may result in diminished confidence in the Brazilian government's budgetary condition and fiscal stance, which could result in downgrades of Brazil's sovereign foreign credit rating by credit rating agencies, negatively impact Brazil's economy, and lead to further depreciation of the *real* and an increase in inflation and interest rates, which could adversely affect our business, financial condition and results of operations.

Any of the above factors may create additional political uncertainty, which could harm the Brazilian economy and, consequently, our business, and could adversely affect our financial condition, our results of operations and the price of our Class A common shares.

Inflation and certain measures by the Brazilian government to curb inflation have historically harmed the Brazilian economy and Brazilian capital markets, and high levels of inflation in the future would harm our business and the price of our Class A common shares.

In the past, Brazil has experienced extremely high rates of inflation. Inflation and some of the measures taken by the Brazilian government in an attempt to curb inflation have had significant negative effects on the Brazilian economy generally. Inflation, policies adopted to curb inflationary pressures and uncertainties regarding possible future governmental intervention have contributed to economic uncertainty and heightened volatility in the Brazilian capital markets.

According to the National Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*), or IPCA, which is published by the IBGE, Brazilian inflation rates were 4.3%, 3.7% and 2.9% in 2019, 2018 and 2017, respectively. Brazil may experience high levels of inflation in the future and inflationary pressures may lead to the Brazilian government's intervening in the economy and introducing policies that could harm our business and the price of our Class A common shares. In the past, the Brazilian government's interventions included the maintenance of a restrictive monetary policy with high interest rates that restricted credit availability and reduced economic growth, causing volatility in interest rates. For example, the official interest rate in Brazil oscillated from 7.00% as of December 31, 2017 to 4.50% as of December 31, 2019, as established by the Monetary Policy Committee (*Comitê de Política Monetária do Banco Central do Brasil—COPOM*). Conversely, more lenient government and Central Bank policies and interest rate decreases have triggered and may continue to trigger increases in inflation, and, consequently, growth volatility and the need for sudden and significant interest rate increases, which could negatively affect us and increase our indebtedness.

Exchange rate instability may have adverse effects on the Brazilian economy, us and the price of our Class A common shares.

The Brazilian currency has been historically volatile and has been devalued frequently over the past three decades. Throughout this period, the Brazilian government has implemented various economic plans and used various exchange rate policies, including sudden devaluations, periodic mini-devaluations (during which the frequency of adjustments has ranged from daily to monthly), exchange controls, dual exchange rate markets and a floating exchange rate system. Although long-term depreciation of the *real* is generally linked to the rate of inflation in Brazil, depreciation of the *real* occurring over shorter periods of time has resulted in significant variations in the exchange rate between the *real*, the U.S. dollar and other currencies. The *real*/U.S. dollar exchange rate reported by the Central Bank was R$3.9048 per U.S. dollar on December 31, 2015 and R$3.2591 per U.S. dollar on December 31, 2016, which reflected a 16.5% appreciation in the *real* against the U.S. dollar during 2016. The *real*/U.S. dollar exchange rate reported by the Central Bank was R$3.308 per U.S. dollar on December 31, 2017, which reflected a 1.5% depreciation in the *real* against the U.S. dollar during 2017. The *real*/U.S. dollar exchange rate reported by the Central Bank was R$3.8748 per U.S.$1.00 on December 31, 2018, which reflected a 17.1% depreciation in the *real* against the U.S. dollar during 2017. The *real*/U.S. dollar exchange rate reported by the Central Bank was R$4.031 per U.S.$1.00 on December 31, 2019, which reflected a 4.03% increase in the *real* against the U.S. dollar during 2018. There can be no assurance that the *real* will not again depreciate against the U.S. dollar or other currencies in the future.

A devaluation of the *real* relative to the U.S. dollar could create inflationary pressures in Brazil and cause the Brazilian government to, among other measures, increase interest rates. Any depreciation of the *real* may generally restrict access to the international capital markets. It would also reduce the U.S. dollar value of our results of operations. Restrictive macroeconomic policies could reduce the stability of the Brazilian economy and harm our results of operations and profitability. In addition, domestic and international reactions to restrictive economic policies could have a negative impact on the Brazilian economy. These policies and any reactions to them may harm us by curtailing access to foreign financial markets and prompting further government intervention. A devaluation of the *real* relative to the U.S. dollar may also, as in the context of the current economic slowdown, decrease consumer spending, increase deflationary pressures and reduce economic growth.

On the other hand, an appreciation of the *real* relative to the U.S. dollar and other foreign currencies may deteriorate the Brazilian foreign exchange current accounts. We and certain of our suppliers purchase goods and services from countries outside Brazil, and thus changes in the value of the U.S. dollar compared to other currencies may affect the costs of goods and services that we purchase. Depending on the circumstances, either devaluation or appreciation of the *real* relative to the U.S. dollar and other foreign currencies could restrict the growth of the Brazilian economy, as well as our business, results of operations and profitability.

Infrastructure and workforce deficiency in Brazil may impact economic growth and have a material adverse effect on us.

Our performance depends on the overall health and growth of the Brazilian economy. Brazilian GDP growth has fluctuated over the past few years, with contractions of 3.8% in 2015 and 3.3% in 2016, followed by a growth of 1.3% in 2017 and a growth of 1.3% in 2018. In 2019, the Brazilian GDP grew by 1.1%. Growth is limited by inadequate infrastructure, including potential energy shortages and deficient transportation, logistics and telecommunication sectors, general strikes, the lack of a qualified labor force, and the lack of private and public investments in these areas, which limit productivity and efficiency. Any of these factors could lead to labor market volatility and generally impact income, purchasing power and consumption levels, which could limit growth and ultimately have a material adverse effect on us.

Developments and the perceptions of risks in other countries, including other emerging markets, the United States and Europe, may harm the Brazilian economy and the price of our Class A common shares.

The market for securities offered by companies with significant operations in Brazil is influenced by economic and market conditions in Brazil and, to varying degrees, market conditions in other Latin American and emerging markets, as well as the United States, Europe and other countries. To the extent the conditions of the global markets or economy deteriorate, the business of companies with significant operations in Brazil may be harmed. The weakness in the global economy has been marked by, among other adverse factors, lower levels of consumer and corporate confidence, decreased business investment and consumer spending, increased unemployment, reduced income and asset values in many areas, reduction of China's growth rate, currency volatility and limited availability of credit and access to capital. Developments or economic conditions in other emerging market countries have at times significantly affected the availability of credit to companies with significant operations in Brazil and resulted in considerable outflows of funds from Brazil, decreasing the amount of foreign investments in Brazil.

Crises and political instability in other emerging market countries, the United States, Europe or other countries could decrease investor demand for securities offered by companies with significant operations in Brazil, such as our Class A common shares. In June 2016, the United Kingdom had a referendum in which the majority voted to leave the European Union (so-called "Brexit"). The Brexit caused significant volatility in global stock markets and currency exchange rate fluctuations. The United Kingdom formally left the European Union on January 31, 2020, at which point a transition period begun. The United Kingdom is expected to continue to follow certain European Union rules during the transition period; however, the ongoing process of negotiations between the United Kingdom and the European Union will determine the future terms of the United Kingdom's relationship with the European Union, including access to European Union markets, either during the transitional period or more permanently. We have no control over and cannot predict the effect of the United Kingdom's exit from the European Union nor over whether and to which effect any other member state will decide to exit the European Union in the future. These developments, as well as potential crises and forms of political instability arising therefrom or any other as of yet unforeseen development, may harm our business and the price of our Class A common shares.

Any further downgrading of Brazil's credit rating could reduce the trading price of our Class A common shares.

We may be harmed by investors' perceptions of risks related to Brazil's sovereign debt credit rating. Rating agencies regularly evaluate Brazil and its sovereign ratings, which are based on a number of factors including macroeconomic trends, fiscal and budgetary conditions, indebtedness metrics and the perspective of changes in any of these factors.

The rating agencies began to review Brazil's sovereign credit rating in September 2015. Subsequently, the three major rating agencies downgraded Brazil's investment-grade status:

- In 2015, Standard & Poor's initially downgraded Brazil's credit rating from BBB-negative to BB-positive and subsequently downgraded it again from BB-positive to BB, maintaining its negative outlook, citing a worse credit situation since the first downgrade. On January 11, 2018, Standard & Poor's further downgraded Brazil's credit rating from BB to BB-negative. On December 11, 2019, Standard & Poor's revised the outlook on Brazil's credit rating to positive from stable, which reflects the agency's expectations that the Brazilian government will be able to continue the implementation of measures to reduce the fiscal deficit.

- In December 2015, Moody's placed Brazil's Baa3's issue and bond ratings under review for downgrade and subsequently downgraded the issue and bond ratings to below investment grade, at Ba2 with a negative outlook, citing the prospect of a further deterioration in Brazil's debt indicators, taking into account the low growth environment and the challenging political scenario. In April 2018, Moody's maintained Brazil's credit rating at Ba2 but revised outlook from negative to stable, which it maintained in September 2018, citing expectations of further cuts to government spending.

- Fitch initially downgraded Brazil's sovereign credit rating to BB-positive with a negative outlook in December 2015, citing the rapid expansion of the country's rapidly expanding budget deficit and the worse-than-expected recession and subsequently downgraded it to BB with a negative outlook in May 2016. In February 2018, Fitch downgraded Brazil's sovereign credit rating again to BB-negative, citing, among other reasons, fiscal deficits, the increasing burden of public debt and an inability to implement reforms that would structurally improve Brazil's public finances. The BB-negative rating was reaffirmed in May 2019.

Brazil's sovereign credit rating is currently rated below investment grade by the three main credit rating agencies. Consequently the prices of securities offered by companies with significant operations in Brazil have been negatively affected.

The full consequences of a credit rating downgrade are inherently uncertain, as they depend upon numerous dynamic, complex and inter-related factors and assumptions, including market conditions at the time of any downgrade. A prolongation or worsening of the current Brazilian recession and continued political uncertainty, among other factors, could lead to further ratings downgrades. We cannot assure you that the rating agencies will maintain their current ratings or outlooks, and such changes could increase our funding costs and adversely affect our results of operations. Any further downgrade of Brazil's sovereign credit ratings could heighten investors' perception of risk and, as a result, cause the trading price of our Class A common shares to decline.

Certain Factors Relating to Our Class A Common Shares

The Founding Shareholders, our largest group of shareholders, own 100% of our outstanding Class B common shares, which represents 91% of the voting power of our issued share capital, and will control all matters requiring shareholder approval. This concentration of ownership and voting power limits your ability to influence corporate matters.

As of December 31, 2019, Oto Brasil de Sá Cavalcante, Margarida Maria Porto Soares de Sá Cavalcante, Ari de Sá Cavalcante Neto, Mariana Magalhães de Sá Cavalcante, Patrícia Soares de Sá Cavalcante, Paula Soares de Sá Cavalcante and Luciana Soares de Sá Cavalcante Moraes, or the Founding Shareholders, control our company and do not hold any of our Class A common shares, but beneficially own 50.4% of our issued share capital through their beneficial ownership of all of our outstanding Class B common shares, and consequently, 91% of the combined voting power of our issued share capital. Our Class B common shares are entitled to 10 votes per share and our Class A common shares, which are publicly traded, are entitled to one vote per share. Our 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. As a result, the Founding Shareholders will control the outcome of all decisions at our shareholders' meetings, and will be able to elect a majority of the members of our board of directors. They will also be able to direct our actions in areas such as business strategy, financing, distributions, acquisitions and dispositions of assets or businesses. For example, the Founding Shareholders may cause us to make acquisitions that increase the amount of our indebtedness or outstanding Class A common shares, sell revenue-generating assets or inhibit change of control transactions that benefit other shareholders. The Founding Shareholders' decisions on these matters may be contrary to your expectations or preferences, and they may take actions that could be contrary to your interests. They are able to prevent any other shareholders, including you, from blocking these actions. For further information regarding shareholdings in our company, see "Item 7. Major Shareholders and Related Party Transactions—A. Major shareholders."

As long as the Founding Shareholders continue to beneficially own a sufficient number of Class B common shares, even if they beneficially own significantly less than 50% of our outstanding share capital, acting together, they will be able to effectively control our decisions. For example, if our Class B common shares amounted to 15% of our outstanding common shares, beneficial owners of our Class B common shares (consisting of the Founding Shareholders), would collectively control 63.8% of the voting power of our outstanding common shares. If the Founding Shareholders sell or transfer any of their Class B common shares, they will generally convert automatically into Class A common shares, subject to limited exceptions, such as transfers to affiliates, to trustees for the holder or its affiliates and certain transfers to U.S. tax exempt organizations. The fact that any Class B common shares convert into Class A common shares if the Founding Shareholders sell or transfer them means that the Founding Shareholders will in many situations continue to control a majority of the combined voting power of our outstanding share capital, due to the voting rights of any Class B common shares that they retain. However, if our Class B common shares at any time represent less than 10% of the total number of shares in the capital of the Company outstanding, the Class B common shares then outstanding will automatically convert into Class A common shares. For a description of the dual class structure, see "Item 10. Additional Information—B. Memorandum and articles of association."

Our Articles of Association contain anti-takeover provisions that may discourage a third-party from acquiring us and adversely affect the rights of holders of our Class A common shares.

Our Articles of Association contain certain provisions that could limit the ability of others to acquire our control, including a provision that grants authority to our board of directors to establish and issue from time to time one or more series of preferred shares without action by our shareholders and to determine, with respect to any series of preferred shares, the terms and rights of that series. These provisions could have the effect of depriving our shareholders of the opportunity to sell their shares at a premium over the prevailing market price by discouraging third parties from seeking to obtain our control in a tender offer or similar transactions.

If securities or industry analysts do not publish research, or publish inaccurate or unfavorable research, about our business, the price of our Class A common shares and our trading volume could decline.

The trading market for our Class A common shares depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our Class A common shares or publish inaccurate or unfavorable research about our business, the price of our Class A common shares would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our Class A common shares could decrease, which might cause the price of our Class A common shares and trading volume to decline.

We do not anticipate paying any cash dividends in the foreseeable future.

We currently intend to retain our future earnings, if any, for the foreseeable future, to fund the operation of our business and future growth. We do not intend to pay any dividends to holders of our Class A common shares. As a result, capital appreciation in the price of our Class A common shares, if any, will be your only source of gain on an investment in our Class A common shares.

Our dual class capital structure means our shares are not included in certain indices. We cannot predict the impact this may have on our share price.

In 2017, FTSE Russell, S&P Dow Jones and MSCI announced changes to their eligibility criteria for inclusion of shares of public companies on certain indices to exclude companies with multiple classes of shares of common stock, such as ours, from being added to such indices. FTSE Russell announced plans to require new constituents of its indices to have at least five percent of their voting rights in the hands of public stockholders, whereas S&P Dow Jones announced that companies with multiple share classes, such as ours, will not be eligible for inclusion in the S&P 500, S&P MidCap 400 and S&P SmallCap 600, which together make up the S&P Composite 1500. MSCI also opened public consultations on their treatment of no-vote and multi-class structures and temporarily barred new multi-class listings from its ACWI Investable Market Index and U.S. Investable Market 2500 Index. We cannot assure you that other stock indices will not take a similar approach to FTSE Russell, S&P Dow Jones and MSCI in the future. Under the announced policies, our dual class capital structure is not eligible for inclusion in any of these indices and, as a result, mutual funds, exchange-traded funds and other investment vehicles that attempt to passively track these indices will not invest in our stock. It continues to be unclear what effect, if any, these policies will have on the valuations of publicly traded companies excluded from the indices, but in certain situations they may depress these valuations compared to those of other similar companies that are included. Exclusion from indices could make our Class A common shares less attractive to investors and, as a result, the market price of our Class A common shares could be adversely affected.

The dual class structure of our common stock has the effect of concentrating voting control with the Founding Shareholders; this will limit or preclude your ability to influence corporate matters.

Each Class A common share, entitles its holder to one vote per share, and each Class B common share will entitle its holder to ten votes per share, so long as the total number of the issued and outstanding Class B common shares is at least 10% of the total number of shares outstanding. Due to the ten-to-one voting ratio between our Class B and Class A common shares, the beneficial owners of our Class B common shares (composed of the Founding Shareholders) collectively will continue to control a majority of the combined voting power of our common shares and therefore be able to control all matters submitted to our shareholders so long as the total number of the issued and outstanding Class B common shares is at least 10% of the total number of shares outstanding.

In addition, our Articles of Association provide that at any time when there are Class A common shares in issue, additional Class B common shares may only be issued pursuant to (1) a share split, subdivision of shares or similar transaction or where a dividend or other distribution is paid by the issue of shares or rights to acquire shares or following capitalization of profits, (2) a merger, consolidation, or other business combination involving the issuance of Class B common shares as full or partial consideration, or (3) an issuance of Class A common shares, whereby holders of the Class B common shares are entitled to purchase a number of Class B common shares that would allow them to maintain their proportional ownership interests in Arco (following an offer by us to each holder of Class B common shares to issue to such holder, upon the same economic terms and at the same price, such number of Class B common shares as would ensure that such holder may maintain a proportional ownership interest in Arco pursuant to our Articles of Association).

Future transfers by holders of Class B common shares will generally result in those shares converting to Class A common shares, subject to limited exceptions, such as certain transfers effected to permitted transferees or for estate planning or charitable purposes. The conversion of Class B common shares to Class A common shares will have the effect, over time, of increasing the relative voting power of those holders of Class B common shares who retain their shares in the long term.

In light of the above provisions relating to the issuance of additional Class B common shares, the fact that future transfers by holders of Class B common shares will generally result in those shares converting to Class A common shares, subject to limited exceptions as provided in the Articles of Association; as well as the ten-to-one voting ratio of our Class B common shares and Class A common shares, holders of our Class B common shares will in many situations continue to maintain control of all matters requiring shareholder approval. This concentrated control will limit or preclude your ability to influence corporate matters for the foreseeable future. For a description of our dual class structure, see "Item 10. Additional Information—B. Memorandum and articles of association—Voting Rights."

We are a Cayman Islands exempted company with limited liability. The rights of our shareholders, including with respect to fiduciary duties and corporate opportunities, may be different from the rights of shareholders governed by the laws of U.S. jurisdictions.

We are a Cayman Islands exempted company with limited liability. Our corporate affairs are governed by our Articles of Association and by the laws of the Cayman Islands. The rights of shareholders and the responsibilities of members of our board of directors may be different from the rights of shareholders and responsibilities of directors in companies governed by the laws of U.S. jurisdictions. In particular, as a matter of Cayman Islands law, directors of a Cayman Islands company owe fiduciary duties to the company and separately a duty of care, diligence and skill to the company. Under Cayman Islands law, directors and officers owe the following fiduciary duties: (i) duty to act in good faith in what the director or officer believes to be in the best interests of the company as a whole; (ii) duty to exercise powers for the purposes for which those powers were conferred and not for a collateral purpose; (iii) directors should not properly fetter the exercise of future discretion; (iv) duty to exercise powers fairly as between different sections of shareholders; (v) duty to exercise independent judgment; and (vi) duty not to put themselves in a position in which there is a conflict between their duty to the company and their personal interests. Our Articles of Association have varied this last obligation by providing that a director must disclose the nature and extent of his or her interest in any contract or arrangement, and following such disclosure and subject to any separate requirement under applicable law or the listing rules of the Nasdaq, and unless disqualified by the chairman of the relevant meeting, such director may vote in respect of any transaction or arrangement in which he or she is interested and may be counted in the quorum at the meeting. Conversely, under Delaware corporate law, a director has a fiduciary duty to the corporation and its stockholders (made up of two components) and the director's duties prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. See "Item. 16G Corporate Governance—Principal Differences between Cayman Islands and U.S. Corporate Law."

As a foreign private issuer and an "emerging growth company" (as defined in the JOBS Act), we will have different disclosure and other requirements than U.S. domestic registrants and non-emerging growth companies.

As a foreign private issuer and emerging growth company, we may be subject to different disclosure and other requirements than domestic U.S. registrants and non-emerging growth companies. For example, as a foreign private issuer, in the United States, we are not subject to the same disclosure requirements as a domestic U.S. registrant under the Exchange Act, including the requirements to prepare and issue quarterly reports on Form 10-Q or to file current reports on Form 8-K upon the occurrence of specified significant events, the proxy rules applicable to domestic U.S. registrants under Section 14 of the Exchange Act or the insider reporting and short-swing profit rules applicable to domestic U.S. registrants under Section 16 of the Exchange Act. In addition, we intend to rely on exemptions from certain U.S. rules which will permit us to follow Cayman Islands legal requirements rather than certain of the requirements that are applicable to U.S. domestic registrants.

We will follow Cayman Islands laws and regulations that are applicable to Cayman Islands companies. However, Cayman Islands laws and regulations applicable to Cayman Islands companies do not contain any provisions comparable to the U.S. proxy rules, the U.S. rules relating to the filing of reports on Form 10-Q or 8-K or the U.S. rules relating to liability for insiders who profit from trades made in a short period of time, as referred to above.

Furthermore, foreign private issuers are required to file their annual report on Form 20-F within 120 days after the end of each fiscal year, while U.S. domestic issuers that are accelerated filers are required to file their annual report on Form 10-K within 75 days after the end of each fiscal year. Foreign private issuers are also exempt from Regulation Fair Disclosure, aimed at preventing issuers from making selective disclosures of material information, although we will be subject to Cayman Islands laws and regulations having substantially the same effect as Regulation Fair Disclosure. As a result of the above, even though we are required to file reports on Form 6-K disclosing the limited information which we have made or are required to make public pursuant to Cayman Islands law, or are required to distribute to shareholders generally, and that is material to us, you may not receive information of the same type or amount that is required to be disclosed to shareholders of a U.S. company.

The JOBS Act contains provisions that, among other things, relax certain reporting requirements for emerging growth companies. Under this act, as an emerging growth company, we will not be subject to the same disclosure and financial reporting requirements as non-emerging growth companies. For example, as an emerging growth company we are permitted to, and intend to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies. Also, we will not have to comply with future audit rules promulgated by the U.S. Public Company Accounting Oversight Board, or PCAOB, (unless the SEC determines otherwise) and our auditors will not need to attest to our internal controls under Section 404(b) of the Sarbanes-Oxley Act. We may follow these reporting exemptions until we are no longer an emerging growth company. As a result, our shareholders may not have access to certain information that they deem important. We will remain an emerging growth company until the earlier of (1) the last day of the fiscal year (a) following the fifth anniversary of the completion of our initial public offering, (b) in which we have total annual revenues of at least US$1.07 billion, or (c) in which we are deemed to be a large accelerated filer, which means the market value of our Class A common shares that is held by non-affiliates exceeds US$700.0 million as of the prior June 30th, and (2) the date on which we have issued more than US$1.0 billion in non-convertible debt during the prior three-year period. Accordingly, the information about us available to you will not be the same as, and may be more limited than, the information available to shareholders of a non-emerging growth company. We could be an "emerging growth company" for up to five years, although circumstances could cause us to lose that status earlier, including if the market value of our Class A common shares held by non-affiliates exceeds $700 million as of any June 30 (the end of our second fiscal quarter) before that time, in which case we would no longer be an "emerging growth company" as of the following December 31 (our fiscal year end). We cannot predict if investors will find our Class A common shares less attractive because we may rely on these exemptions. If some investors find our Class A common shares less attractive as a result, there may be a less active trading market for our Class A common shares and the price of our Class A common shares may be more volatile.

As a foreign private issuer, we are permitted to, and we will, rely on exemptions from certain Nasdaq corporate governance standards applicable to U.S. issuers, including the requirement that a majority of an issuer's directors consist of independent directors. This may afford less protection to holders of our Class A common shares.

Section 5605 of the Nasdaq equity rules requires listed companies to have, among other things, a majority of their board members be independent, and to have independent director oversight of executive compensation, nomination of directors and corporate governance matters. As a foreign private issuer, however, we are permitted to, and we will, follow home country practice in lieu of the above requirements. See "Item 16G Corporate Governance—Principal Differences between Cayman Islands and U.S. Corporate Law."

We may lose our foreign private issuer status which would then require us to comply with the Exchange Act's domestic reporting regime and cause us to incur significant legal, accounting and other expenses.

In order to maintain our current status as a foreign private issuer, either (a) more than 50% of our Class A common shares must be either directly or indirectly owned of record by non-residents of the United States or (b)(i) a majority of our executive officers or directors may not be U.S. citizens or residents, (ii) more than 50% of our assets cannot be located in the United States and (iii) our business must be administered principally outside the United States. If we lose this status, we would be required to comply with the Exchange Act reporting and other requirements applicable to U.S. domestic issuers, which are more detailed and extensive than the requirements for foreign private issuers. We may also be required to make changes in our corporate governance practices in accordance with various SEC and Nasdaq rules. The regulatory and compliance costs to us under U.S. securities laws if we are required to comply with the reporting requirements applicable to a U.S. domestic issuer may be significantly higher than the costs we will incur as a foreign private issuer.

Our shareholders may face difficulties in protecting their interests because we are a Cayman Islands exempted company.

Our corporate affairs are governed by our Articles of Association, by the Companies Law (as amended) of the Cayman Islands and the common law of the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under the laws of the Cayman Islands are not as clearly defined as under statutes or judicial precedent in existence in jurisdictions in the United States. Therefore, you may have more difficulty protecting your interests than would shareholders of a corporation incorporated in a jurisdiction in the United States, due to the comparatively less formal nature of Cayman Islands law in this area.

While Cayman Islands law allows a dissenting shareholder to express the shareholder's view that a court sanctioned reorganization of a Cayman Islands company would not provide fair value for the shareholder's shares, Cayman Islands statutory law does not specifically provide for shareholder appraisal rights in connection with a court sanctioned reorganization (by way of a scheme of arrangement). This may make it more difficult for you to assess the value of any consideration you may receive in a merger or consolidation (by way of a scheme of arrangement) or to require that the acquirer gives you additional consideration if you believe the consideration offered is insufficient. However, Cayman Islands statutory law provides a mechanism for a dissenting shareholder in a merger or consolidation to apply to the Grand Court of the Cayman Islands for a determination of the fair value of the dissenter's shares if it is not possible for the company and the dissenter to agree on a fair price within the time limits prescribed.

Shareholders of Cayman Islands exempted companies (such as us) have no general rights under Cayman Islands law to inspect corporate records and accounts or to obtain copies of lists of shareholders. Our directors have discretion under our Articles of Association to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

Subject to limited exceptions, under Cayman Islands' law, a minority shareholder may not bring a derivative action against the board of directors. Class actions are not recognized in the Cayman Islands, but groups of shareholders with identical interests may bring representative proceedings, which are similar.

United States civil liabilities and certain judgments obtained against us by our shareholders may not be enforceable.

We are a Cayman Islands exempted company and substantially all of our assets are located outside of the United States. In addition, the majority of our directors and officers are nationals and residents of countries other than the United States. A substantial portion of the assets of these persons is located outside of the United States. As a result, it may be difficult to effect service of process within the United States upon these persons. It may also be difficult to enforce in U.S. courts judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors who are not resident in the United States and the substantial majority of whose assets are located outside of the United States. Further, it is unclear if original actions predicated on civil liabilities based solely upon U.S. federal securities laws are enforceable in courts outside the United States, including in the Cayman Islands and Brazil. Courts of the Cayman Islands may not, in an original action in the Cayman Islands, recognize or enforce judgments of U.S. courts predicated upon the civil liability provisions of the securities laws of the United States or any state of the United States on the grounds that such provisions are penal in nature. Although there is no statutory enforcement in the Cayman Islands of judgments obtained in the United States, courts of the Cayman Islands will recognize and enforce a foreign judgment of a court of competent jurisdiction if such judgment is final, for a liquidated sum, provided it is not in respect of taxes or a fine or penalty, is not inconsistent with a Cayman Islands' judgment in respect of the same matters, and was not obtained in a manner which is contrary to the public policy of the Cayman Islands. In addition, a Cayman Islands court may stay proceedings if concurrent proceedings are being brought elsewhere.

Judgments of Brazilian courts to enforce our obligations with respect to our Class A common shares may be payable only in reais.

Most of our assets are located in Brazil. If proceedings are brought in the courts of Brazil seeking to enforce our obligations in respect of our Class A common shares, we may not be required to discharge our obligations in a currency other than the *real*. Under Brazilian exchange control laws, an obligation in Brazil to pay amounts denominated in a currency other than the *real* may only be satisfied in Brazilian currency at the exchange rate, as determined by the Central Bank, in effect on the date the judgment is obtained, and such amounts are then adjusted to reflect exchange rate variations through the effective payment date. The then-prevailing exchange rate may not afford non-Brazilian investors with full compensation for any claim arising out of or related to our obligations under the Class A common shares.

The Economic Substance law of the Cayman Islands may affect our operations.

The Cayman Islands has recently enacted the International Tax Co-operation (Economic Substance) Law (2020 Revision), or the Cayman Economic Substance Law. We are required to comply with the Cayman Economic Substance Law. As we are a Cayman Islands company, compliance obligations include filing annual notifications for the Company, which need to state whether we are carrying out any relevant activities and if so, whether we have satisfied economic substance tests to the extent required under the Cayman Economic Substance Law. As it is a new regime, it is anticipated that the Cayman Economic Substance Law will evolve and be subject to further clarification and amendments. We may need to allocate additional resources to keep updated with these developments, and may have to make changes to our operations in order to comply with all requirements under the Cayman Economic Substance Law. Failure to satisfy these requirements may subject us to penalties under the Cayman Economic Substance Law.

European Union Tax Decisions.

On February 18, 2020, it was announced that the Cayman Islands has been placed on the list of noncooperative jurisdictions published by the European Union, or EU, for tax purposes. The Cayman Islands government issued a press release on February 18, 2020 affirming that the jurisdiction introduced appropriate legislative changes on February 7, 2020 relating to the EU's criteria, but that the listing appears to stem from such legislation not being enacted by February 4, 2020, which was the date of the EU's Code of Conduct Group meeting to advise the EU Finance Ministers prior to the Finance Ministers' decision regarding the listing on February 18, 2020. The Cayman Islands government press release states that the Cayman Islands remains fully committed to cooperating with the EU, and will continue to constructively engage with them with the view to be delisted as soon as possible. It is unclear as to whether the Cayman Islands being placed on such list will have a significant, or any, effect on us.

Our Class A common shares may not be a suitable investment for all investors, as investment in our Class A common shares presents risks and the possibility of financial losses.

The investment in our Class A common shares is subject to risks. Investors who wish to invest in our Class A common shares are thus subject to asset losses, including loss of the entire value of their investment, as well as other risks, including those related to our Class A common shares, us, the sector in which we operate, our shareholders and the general macroeconomic environment in Brazil, among other risks.

Each potential investor in our Class A common shares must therefore determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of our Class A common shares, the merits and risks of investing in our Class A common shares and the information contained in this annual report;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in our Class A common shares and the impact our Class A common shares will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in our Class A common shares;
- understand thoroughly the terms of our Class A common shares and be familiar with the behavior of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

ITEM 4. INFORMATION ON THE COMPANY

A. History and development of the company

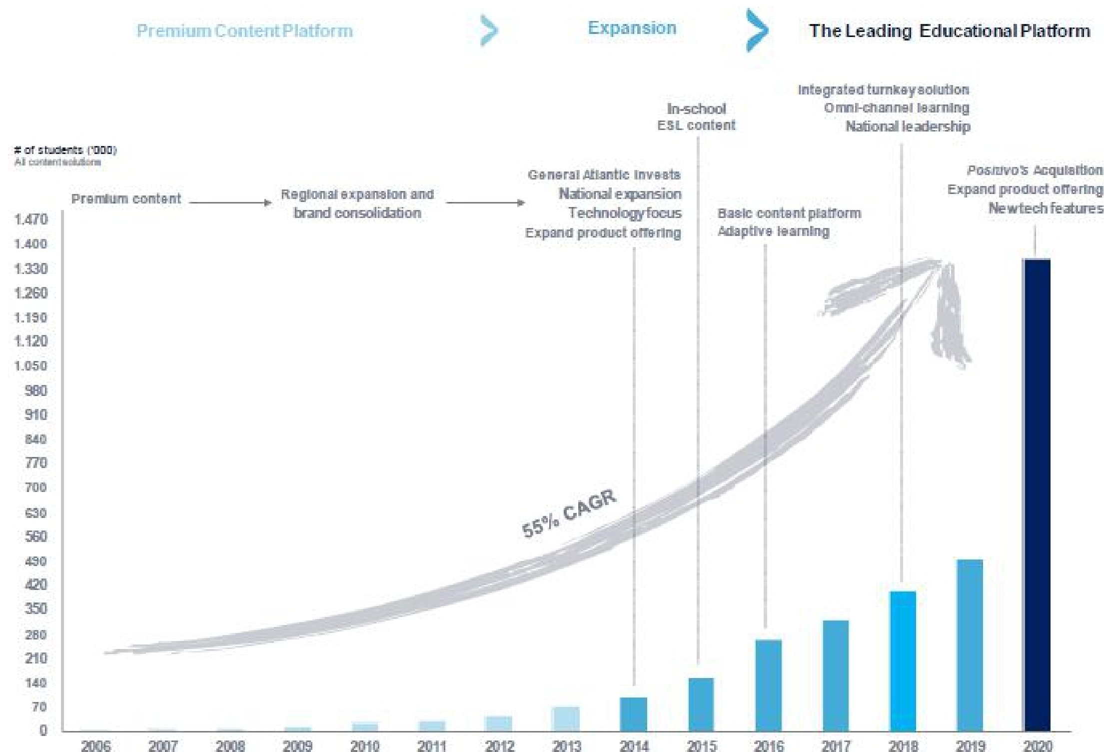
We were founded in 2004. However, our history goes back to 1941, when the grandfather of our CEO and founder, Ari de Sá Cavalcante Neto, acquired a small school in downtown Fortaleza. Over decades, the school grew into a large educational group with several branches providing K-12 education to over 7,000 students becoming recognized by its quality nationally and for successfully preparing students for the most rigorous national and international college admission exams for admission into institutions such as Massachusetts Institute of Technology, Stanford University and Princeton University, and national and international science competitions such as the International Physics Olympiad (IPhO), the International Mathematical Olympiad (IMO) and the International Chemistry Olympiad (IChO).

Colégio Ari de Sá developed a proprietary educational methodology aimed at improving student academic performance. The methodology is based on instilling discipline and a culture of hard work, stimulating students to develop a study routine and to demonstrate a proactive and considerate attitude toward their learning habits.

In 2004, our CEO and founder, Ari de Sá Cavalcante Neto, decided to start an independent company exclusively focused on content and technology for K-12 schools, SAS. The SAS method was created with the aim of offering it as a solution to private schools across Brazil. Our system uses technology as a powerful tool to promote improvements in student performance. This is achieved, in part, by allowing students to prepare for class in advance by using our platform's video lessons, homework tools and daily class reviews, as well as our practical workbooks with class-specific content, homework and performance reports. The SAS method is based on the concept of personalized and adaptive learning, aimed at providing tailored education to each student according to his or her individual needs, with concentration on the main areas in need of improvement, which manifests in higher levels of academic achievement.

Since 2015, we have been investing in technology and our printed methodology has evolved into an educational platform capable of delivering its curriculum content in both printed and digital format. It has also evolved into a robust omni-channel platform, capable of delivering the entire K-12 curriculum in both printed and digital format, with *lecturettes* featuring expert, on-screen teachers and tailored assignments and assessments to engage students and ensure subject-area mastery across all grades.

With this integrated approach, students can track their progress and performance, teachers have access to real-time data to evaluate students and personalize their teaching, and school administrators have access to their school's performance both on absolute and comparative terms.



With an asset-light and highly-scalable business model that emphasizes operating efficiency and profitability, we were able to grow the number of students served at a 55% CAGR since 2006, reaching a total of 1,362,141 students served in 2020, combining organic growth, strategic investments and acquisitions to grow our K-12 education exposure. These initiatives have helped us identify new business potential to enhance our overall growth prospects, such as education IT systems (WPensar and EEM Licenciamento de Programas Educacionais S.A., or EEM), supplemental instruction content (International School, PES, Nave à Vela Editora e Comercializadora de Materiais Educacionais S.A. (formerly Nave à Vela Ltda.), or NAV, and Pleno) and digital-native content platform (Geekie).

On September 25, 2018, the registration statement on Form F-1 (File No 333-7007) relating to our initial public offering of our class A common shares was declared effective by the SEC. On September 25, 2018, we commenced our initial public offering. On September 28, 2018, we closed our initial public offering, pursuant to which we issued and sold 12,777,777 Class A common shares for an aggregate price of U.S.$223,611,098 (R$895.2 million).

On October 29, 2019, we completed a follow-on public offering, consisting of 3,450,656 Class A common shares issued and sold by us, and 4,268,847 Class A common shares sold by certain selling shareholders. The public offering price was US$43.00 per Class A common share. We received net proceeds of US$143.9 million, after deducting US$3.7 million in underwriting discounts and commissions. On November 26, 2019, an additional 661,112 Class A common shares were sold by General Atlantic Arco (Bermuda), L.P. following the exercise by the underwriters of their option to purchase additional shares.

Following a decade of growth, and our initial public offering in 2018, we are excited about the future and how technological advances can impact education. We believe that students are increasingly looking for modern, dynamic and client oriented educational platforms and that our tech-enabled approach is positioned to deliver a variety of content and provide a new learning experience that is more effective, personal, engaging and enjoyable.

Acquisitions

Acquisition of Positivo Soluções Didáticas

On May 7, 2019, we entered into a purchase agreement with the shareholders of Positivo to acquire the entire share capital of Positivo, one of the largest K-12 content providers to private schools in Brazil, and other companies of the Positivo Group (as defined below), or Positivo Acquisition. Positivo is part of a group founded in 1972 in Curitiba by a group of teachers as a preparatory course focused on preparing students for admission exams to universities in the state of Paraná, or Positivo Group. The preparatory course reached 2,300 enrolled students in the first year of operation and its success led the group to quickly open new schools for all K-12 grades under the brand *Colégio Positivo*. In a short period of time, the proprietary content and methodology developed and used by *Colégio Positivo* schools achieved significant recognition among teachers, parents and students. The high quality content and its dynamic approach led to the foundation of Positivo in 1979, allowing the Positivo brand to expand far beyond the reach of *Colégio Positivo*, being adopted by third-party schools in several cities of the state of Paraná and other Brazilian states.

With over 40 years of brand legacy, Positivo evolved to become a leading content providing platform that transforms the lives of over 710,000 students in nearly 3,700 private schools across all Brazilian states. This is a vibrant ecosystem with several opportunities to effectively address the needs of parents, students, teachers and school owners. Positivo is focused on building long-term relationships with partner schools and this approach is an important factor to its success, proven by the fact that more than 50% of its client base has over ten years of relationship.

This carve-out acquisition encompasses only the private school learning systems and does not include the other assets of the Positivo Group, such as the public school learning system, the printing company, the *Universidade Positivo* post-secondary education business, and the *Colégio Positivo* proprietary schools. The Positivo Acquisition was consummated on November 1, 2019. The agreed purchase price was R$1,684.8 million (equity value), of which (i) 50% was paid in cash on the transaction closing date, and (ii) the remaining 50% will be paid in four installments as follows: (1) 10% to be paid in cash in each of 2021 and 2022, and (2) 15% to be paid in cash in each of 2023 and 2024, all as adjusted by the CDI rate (Brazilian interest rates).

The Positivo Acquisition allowed us to increase our student base twofold, reaching over 1.2 million students in 2019. In addition, it allowed us to accelerate our growth with the same B2B2C business model, with predictable subscription-based revenue, high operating leverage and cash flow conversion while remaining asset-light. By adding complementary assets, Positivo also enables us to broaden our product offerings and expand our footprint. Positivo comprises two different brands with reciprocal business profiles: (i) *Sistema de Ensino Positivo*, or SPE, an educational solution consisting of content, technology and services provided to private schools serving upper-middle-income students; and (ii) *Conquista Solução Educacional*, or Conquista, which is focused on private schools serving lower-middle income students. Together, SPE and Conquista enhance our Core Curriculum offering, allowing us to reach a larger base of schools at different price points. In addition, Positivo also owns Positivo English Solution, or PES, an affordably priced second-language-offering that enhances our Supplemental Solutions.

Positivo has a strong presence in the South and Southeast regions of Brazil, with relatively low geographic overlap with our student base. The acquisition will also allow us to add opportunities through our scale and technology, strengthening our capacity to invest in high quality content and technology and enabling us to enhance our student base experience and academic outcomes through technology improvements and our cross-selling capabilities.

Acquisition of EEM

On April 29, 2019, we entered in an agreement to acquire all the shares of EEM Licenciamento de Programas Educacionais S.A., or EEM, hereinafter referred to as the EEM Acquisition, an app developer with more than 600,000 enrolled students at more than 1,000 schools that enhances communication between schools and parents by providing chat-based interactions, location-based identifications, Net Promoter Scores, or NPS, tool to assess parent's satisfaction and pilot project related to payments. The purchase consideration transferred was R$18.3 million. The amount of R$16.1 million was paid on the closing date, the amount of R$0.3 million was paid on June 29, 2019, and the deferred payment in the amount of R$1.9 million, which has been retained for a period of two years as guarantee for the payment of any contingent liabilities, will be released in accordance with the provisions of the agreement. Any remaining balance will be transferred to the former owners of the acquired entity. For further information, see note 4a to our audited consolidated financial statements.

Acquisition of NAV

In May 2019, we acquired a 13.2% interest in the share capital of *Nave à Vela Editora e Comercializadora de Materiais Educacionais S.A.* (formerly *Nave à Vela Ltda*), or NAV, a developer of competence-based learning content present in more than 50 schools and reaching 16,000 students, according to NAV's website, for the total subscription price of R$4.2 million, hereinafter referred to as the NAV Acquisition. Pursuant to the investment and share purchase agreement, we have agreed to acquire the remaining 86.8% of the outstanding share capital of NAV in three tranches, as follows: (i) Tranche 1, corresponding to 37.8% of the outstanding share capital of NAV, which we acquired on October 29, 2019, for the amount of R$21.1 million, (ii) Tranche 2, corresponding to 24% of the outstanding share capital of NAV, which we intend to acquire on February 15, 2021, for the amount of R$20 million, and (iii) Tranche 3, corresponding to 25% of the outstanding share capital of NAV, which we intend to acquire on February 15, 2022. For further information, see note 4b to our audited consolidated financial statements.

NAV enhances our Supplemental Solutions offering and the cross-selling capacity of our Core Curriculum offering through a competence-based curriculum to address 21st century skills. The EEM Acquisition and NAV Acquisition provide us with new capabilities that further increases our value proposition to partner schools, parents and students, and also allows us to access each acquisition's network of schools. Through projects, problem solving and technology, NAV helps students develop transferable skills, such as critical and creative thinking, and communication skills.

Acquisition of Geekie

In December 2016, we acquired a 6.54% interest in Geekie, an entity that provides technology for adaptive assessment and learning products and engages in the production, development and licensing of software tailored to the specific requirements of education sector customers. On July 3, 2018, we acquired an additional 1.51% interest in the share capital of Geekie, increasing our total interest to 8.05%.

On September 20, 2019, we acquired an additional 0.96% interest in the share capital of Geekie through a capital increase of R$1.2 million. On October 14, 2019, we acquired an additional 1.92% interest in the share capital of Geekie through a capital increase of R$2.5 million, increasing our total interest to 10.92%. In addition, on October 25, 2019, we acquired an additional 18.44% interest in the share capital of Geekie from a minority shareholder for the amount of R$21.9 million, increasing our total interest to 29.36%. On November 15, 2019, we acquired an additional 1.17% interest in the share capital of Geekie through a capital increase of R$2.0 million, increasing our total interest to 30.53%. In December 2019, we acquired an additional 7.00% interest in the share capital of Geekie through a capital increase of R$4.3 and the purchase of minority shareholders for R$5.8 increasing its total interest to 37.53% as of December 31, 2019. Finally, on March 4, 2020, we acquired an additional 10.51% interest in Geekie's share capital from minority shareholders for R$12.7 increasing our total interest to 48.04%. As of the date of this annual report, we do not exercise control over the Geekie's operations.

As of the date of this annual report, discussions with the other Geekie shareholders are ongoing in connection with the acquisition of additional interests and additional capital increases in Geekie. For further information, see note 11 to our audited consolidated financial statements.

Acquisition of SAE

In June 2016, we acquired a 70% interest in the share capital of SAE. In October 2017, we acquired the remaining 30% in the share capital of SAE. As of December 31, 2019, we held a 100% interest in the share capital of SAE. The investment in SAE added a new platform for the Company's Core segment with a different pedagogical approach and different pricing point. This acquisition enabled the Company to serve a broader range of schools, allowing us to maximize our market reach and penetration. Thus, with the SAE solution, the Company started to offer a basic subscription solution focused on upper middle income private schools.

Acquisition of International School

In December 2015 and January 2017, our subsidiary EAS Educação (at the time, SAS Educação S.A.), or EAS Brazil, acquired 40% and 11.48% interests, respectively, in the share capital of International School from Mr. Ulisses Borges Cardinot, pursuant to an investment and other covenants agreement (*Contrato de Investimento e Outras Avenças*) dated December 21, 2015 (as amended on January 28, 2016 and January 23, 2017), or the Investment Agreement. Mr. Cardinot is currently the chief executive officer of International School pursuant to a shareholders' agreement between Mr. Cardinot and EAS Brazil.

The Investment Agreement contains certain contractual arrangements for the acquisition by EAS Brazil of the remaining 48.52% interest in the share capital of International School held by Mr. Cardinot, or the Remaining Interest, divided in two steps: (1) 25% of the share capital between January 1, 2020 and April 30, 2020 at a purchase price equal to the product of 30% and 10 times the accounting EBITDA of International School for the 2019 school year (twelve-month period between October and September) (subject to certain adjustments); and (2) 23.52% of the share capital between January 1, 2021 and April 30, 2021 at a purchase price equal to the product of 30% and 10 times the accounting EBITDA (as defined in the Investment Agreement) of International School for the 2020 school year (subject to certain adjustments). In addition, Mr. Cardinot may elect to allocate up to 50% of the total purchase price to subscribe for EAS Brazil shares (which would be valued at the product of 30% and 10 times the accounting EBITDA of EAS Brazil (subject to certain adjustments) for the applicable school year). See note 4e to our audited consolidated financial statements.

Pursuant to the Investment Agreement, upon the approval of an initial public offering of EAS Brazil (1) certain contractual arrangements for the acquisition by EAS Brazil of the Remaining Interest are accelerated; and (2) Mr. Cardinot's option to allocate up to 50% of the total purchase price to subscribe for EAS Brazil shares must be exercised by Mr. Cardinot at the shareholder meeting approving an initial public offering by EAS Brazil. We recognized a financial liability as of December 31, 2019 in the amount of R$297,722 million, which represented the present value of the estimated amount payable to Mr. Cardinot. This financial liability may vary in subsequent financial periods and depending on the final basis for calculation of the purchase price of the Remaining Interest and it will be updated accordingly in our financial statements for future financial periods. See "Item 8. Financial Information—A. Consolidated statements and other financial information—Legal Proceedings." for more information on this matter.

Acquisition of Content Providers

In April 2015, we acquired a 99.99% interest in Editora e Livraria Alegre POA Ltda., a content provider to upper and middle income private schools in Brazil. In June 2015, we acquired a 99.99% interest in Material Didático Desterro Ltda., a content provider to upper and middle income private schools in Brazil. In September 2017, we acquired a 100% interest in NS Educação Ltda., or NS Educação. NS Educação is an educational content provider to middle class private schools in Brazil.

Acquisition of WPensar

In April 2015, we acquired a 25% interest in WPensar, a company that develops and licenses school management systems software. Pursuant to the shareholder agreement entered into in connection with the acquisition and further amended by the parties on March 7, 2020, we expect to acquire the remaining 75% of its outstanding share capital by September 2020 in cash. For further information, see note 11 to our audited consolidated financial statements.

Investments in Pleno

In 2019, we started investing in a social-emotional supplemental solution called Pleno, developed to meet schools' demand for a product that goes beyond the student's cognitive development. Through the same B2B2C business model and integrated with the K-12 curriculum, Pleno helps students to develop competencies and skills, such as self and social-awareness, design thinking and entrepreneurship.

Corporate Information

Our principal executive offices are located at Rua Augusta 2840, 9th floor, suite 91, Consolação, São Paulo – SP, 01412-100, Brazil. Our telephone number at this address is +55 (11) 3047-2655.

The SEC maintains an internet website that contains reports and other information about issuers, like us, that file electronically with the SEC. The address of that website is www.sec.gov. Investors should contact us for any inquiries through the address and telephone number of our principal executive office. Our principal website is www.arcoeducacao.com.br. The information contained in, or accessible through, our website is not incorporated into this annual report.

B. Business overview

Our mission is to transform the way students learn by delivering high quality education at scale through technology to K-12 schools.

We provide a complete pedagogical system with technology-enabled features to deliver educational content to private schools in Brazil. Our turnkey curriculum solutions provide educational content in both printed and digital formats delivered through our platform to improve the learning process.

Our network as of March 31, 2020 consisted of 5,414 partner schools (being 3,736 partner schools of Positivo), compared to 1,464 schools as of March 31, 2019, 1,140 schools as of March 31, 2018 and 835 schools as of March 31, 2017, representing annual growth rates of 269.8%, 28.4% and 36.5%, respectively. We had 1,362,141 enrolled students across all Brazilian states as of March 31, 2020 (being 710,705 enrolled students of Positivo), compared to 498,553 enrolled students as of March 31, 2019, 405,814 as of March 31, 2018 and 322,031 as of March 31, 2017, representing annual growth rates of 173.2%, 22.9% and 26.0%, respectively.

We have an asset-light, highly-scalable business model that emphasizes operational efficiency and profitability. We operate through long-term service contracts with private schools. These contracts generally have initial terms that average three years, pursuant to which we provide educational content in printed and digital format to private schools. Our revenue is driven by the number of enrolled students at each customer using the solutions and the agreed-upon price per student per year, all in accordance with the terms and conditions set forth in each contract. As a result, we benefit from high visibility in our net revenue and operating margin, which we calculate by dividing our operating profit by net revenue over a given period. Our annual retention rate was 93% in 2019 and 95% in 2018 and 2017, which makes our recurring revenue base highly stable.

Our business model has allowed us to grow and achieve profitability since our founding. Our net revenue totaled R$572.8 million, R$381.0 million and R$244.4 million in 2019, 2018 and 2017, respectively, representing annual growth rates of 50.3% and 55.9% in 2019 and 2018, respectively. We generated operating profit of R$58.1 million, R$62.1 million and R$74.9 million in 2019, 2018 and 2017, respectively. We had a loss of R$9.4 million in 2019, a loss of R$82.9 million in 2018, and a profit of R$43.6 million in 2017, respectively. Our partner school base is highly diversified, which reduces our dependence on a concentrated number of large clients. Our 10 largest clients represented only 5.6%, 9.6% and 12.0% of our ACV in 2019, 2018 and 2017, respectively.

Combined ACV Bookings for the core curriculum and supplemental solution totaled R$1,005.8 million for the 2020 school year. Together, Positivo’s combined ACV Bookings for the 2020 school year plus Arco’s combined ACV Bookings for the 2020 school year result in a 4% ACV market share of the total addressable market, which includes after-school education and the potential market for private K-12 learning systems and textbooks in Brazil, based on EY-Parthenon’s assessment of the private K-12 learning systems market. In addressing the core solutions market, Positivo’s combined ACV Bookings for the 2020 school year plus Arco’s Core Solutions ACV Bookings for the 2020 school year result in an 12% core solutions market share, which includes the potential market for private K-12 learning systems and textbooks in Brazil, based on EY-Parthenon’s assessment of the private K-12 learning systems market.

We believe that the quality of our platform, together with the credibility of our client base and the strong reputation of our brand, has driven our significant growth, allowing us to quickly and efficiently expand our footprint in Brazil since our founding. As of December 31, 2018, 490 (or 10%) of our partner schools ranked as one of the top three schools of their respective cities, according to the ENEM, the principal national standardized test for university entrance in Brazil. Furthermore, Arco’s schools are among the top 10 in 13 out of 27 Brazilian states according to ENEM results as of December 31, 2018, and Arco has the highest penetration among top 10 performing schools according to rankings based on data from the Brazilian Ministry of Education and our existing partner schools.

Context

The 21st century has been characterized by rapid and accelerating technological innovation, with students at the forefront of the adoption of new technologies. We believe that we can deliver a more effective, personal, engaging and enjoyable learning experience for students by combining high quality proprietary content and software applications in our simple, integrated, and personalized educational platform. We aim to move beyond traditional educational models used by schools by empowering educators, school administrators and students to achieve their highest potential through our educational platform.

We founded our company with the aim of creating high quality products that simplify learning and make the education process more efficient. Traditionally, school administrators required a multitude of vendors for developing content, engaging in teacher training, and commercializing and managing K-12 education. Simultaneously, students acquired educational content through textbooks from various publishers across retail channels. Our platform aims to replace this multitude of third-party educational providers with a streamlined, one-stop solution that delivers high quality education at scale.

Our Core Curriculum and Supplemental Solutions enable students, teachers and school administrators to have access to engaging and easy-to-use resources that propel academic success and meet students' diverse learning needs. Pairing our printed and digital curriculum with real-time data and teacher-led learning allows us to personalize learning at the individual level, improving both individual student and aggregate school performance.

We develop our educational content using a model based on extensive research and performance-based standards. We combine printed and digital content with online *lecturettes* featuring expert, on-screen teachers and tailored assignments and assessments to engage students and help them master their subject areas. With this integrated approach, students can track their progress and performance, teachers can access real-time data to evaluate students and personalize their teaching, and school administrators can better manage their school's performance both on absolute and comparative terms.

The increase in internet penetration and the rapid increase in the use of mobile devices and cloud-based services is broadening access to educational content and services and expanding the potential reach of educational institutions. Our platform does not require our partner schools to make any significant capital expenditures or setup investments, and is compatible with most mainstream computing platforms (including tablets and mobile phones). Our solutions are designed to be highly interactive and enjoyable, which we believe results in enhanced educational outcomes when compared to traditional models.

Underlying Trends

We believe that the strength of our business and growth prospects is supported by strong underlying market and industry trends, including:

Demand for quality education is driving a shift from public to private K-12 education

A wide gap in the quality of education exists between public and private K-12 institutions in Brazil, and within the private school market itself. Test performance is significantly better in private primary and secondary education, as illustrated by the average quality index differential of the primary and IDEB. As of December 31, 2017, private K-12 education schools had an average education quality index score 47% higher than that of public primary and secondary schools across all school years according to the IDEB quality index differential. As a result, over the last nine years, student enrollments in private K-12 institutions have increased 18.2%, from 6.9 million in 2010 to 8.2 million in 2019.

Technological innovation is driving enhancements in private K-12 education

In a 2019 survey conducted by FGV, the number of smartphones in Brazil was expected to reach 230 million by May 2019, or approximately 1.6 smartphone devices per Brazilian. Brazil is a mass adopter of disruptive technological innovations in a number of areas, and it is among the five largest markets for Waze®, the digital traffic map application for Android® and iOS®, with São Paulo serving as its largest city in terms of number of users, according to an April 2019 article in *Época Negócios*, a Brazilian financial magazine. Brazil is also the second-largest market in the world for Instagram® in terms of number of users according to a May 2019 article in *Exame*, a Brazilian business magazine, and one the most popular destinations for Airbnb®, with Rio de Janeiro ranking fifth behind Moscow, New York City, Paris and London, according to an August 2018 article in *Época Negócios*.

We believe that this digital transition can provide significant benefits, and opportunities for, education service and content providers, such as:

- revenue diversification, by means of technological developments in education platforms, such as new tools or capabilities, may be sold for different purposes and to different consumers;
- customization enabled by technology and tied to a soft adaptation, which allows for distribution to different customers and a scaling by companies that offer different solutions; and
- margin gains, given a lower cost per student and a larger consumer base that is accessible through technological developments.

Technology has created opportunities to make learning more affordable, accessible, flexible, personal and effective. Classroom instruction and delivery models are changing and are likely to have a substantial impact on the industry.

Importance of K-12 performance in university admissions processes

The best higher education institutions in Brazil are public, with a highly competitive admissions process based largely on challenging standardized admissions exams. According to the World University Rankings 2020 published by Times Higher Education (THE), 39 out of the 46 top-ranked universities in Brazil were public as of September 11, 2019. In recent years, competition for admission into public universities has increased, a trend driven both by greater student demand and a decrease in the number of available seats. In 2012, there were on average 11 applicants per available seat in public universities, as compared to 14 applicants in 2016, according to Oliver Wyman, while the number of public university seats decreased by 6.3% from 2012 to 2016. As a result of this competition, parents are increasingly focused on schools that over-perform in the standardized university admissions tests. According to a 2017 study by the Brazilian Institute of Public Opinions and Statistics (*Instituto Brasileiro de Opinião Pública e Estatística*), or IBOPE, education is the number one spending priority for Brazilian families. Our solution is designed to enhance our students' ability to perform on these exams.

Expansion of school hours and after-school programs including, but not limited to, English as a Second Language, or ESL, bilingual programs and 21st century skills programs

The increased focus on education has led to an increase in the length of the average school day. After-school education, comprising of tutoring, language courses, 21st century skills, such as critical thinking, leadership, collaboration and communication skills, and robotics, among other extracurricular activities, is also becoming more popular, offering a variety of training and learning programs in which students can participate according to their personal interests and preferences. Language courses are among the most popular after-school activities and represent an area with significant room for growth, primarily as a result of:

- the increasing relevance of languages, especially English, in a globalized context;
- the low English proficiency level in Brazil; and
- the emphasis in language classes currently offered by K-12 schools on reading and written communication, despite the fact that the labor market relies more heavily on oral communication (which also creates a market for bilingual schools).

For many parents, after-school education is considered a lifeline that helps them work without worry and balance their schedules, given (i) that Brazil has one of the highest average working hours per week in the world, and (ii) the increased participation of women in the workforce. In addition, an increase in disposable income has increased demand for private education and after-school programs, and parent expectations for their children's education are high considering the strong competition to gain admission into top public universities. Accordingly, after-school education represents a growing opportunity for private institutions, with an addressable market of R$18.7 billion compared to R$6.5 billion of potential market for private K-12 learning systems and textbooks in Brazil, based on EY-Parthenon's assessment of the private K-12 learning systems market as of October 2019. This is especially the case given the wide variety of supplemental solutions that can be offered to students during after-school hours.

Obsolescence of traditional content distribution models

We believe that traditional content distribution models are becoming obsolete. Traditional educational publishers are almost exclusively focused on physical textbooks, which they sell through retailers rather than directly to schools. These traditional suppliers have limited capability to develop and offer integrated digital solutions to schools, teachers and students, and typically rely on third-party authors, illustrators and graphic designers to develop new content. In contrast, because of our robust technology backbone, use of data and strong relationships with teachers and administrators, we can offer a comprehensive solution and content that is continuously updated and improved.

Limited and unintegrated product offering

Due to the lack of turnkey education solutions, school administrators often rely on a multitude of third-party vendors for K-12 educational content, teacher training, student testing, management and communication tools.

Traditional education providers have struggled to develop mission critical education platforms for several reasons, including the significant costs associated with the development of content and technologies, as well as the lack of extensive in-house technological expertise. In addition, developing a comprehensive and effective methodology is difficult to achieve since it requires many years of proven educational experience and a successful track record.

We are able to replace a multitude of third-party educational vendors with a streamlined and consolidated solution, offering a one-stop shop that delivers enhanced learning across the educational spectrum.

Our Market Opportunity

According to EY-Parthenon's assessment of the private K-12 learning systems market, the existing addressable market in Brazil for core curriculum solutions and supplemental solutions totals approximately R$25.2 billion in sales revenues as of October 2019, of which we currently capture approximately 4% based on our 2020 ACV Bookings as of March 31, 2020. We can address this market by launching new solutions and entering new categories.

We benefit from structural differences in our market, when compared to the education markets in the United States and Europe. Private schools in Brazil are generally for-profit institutions, and the private education market in Brazil is large and highly fragmented, primarily a result of lower overall levels of government funding for K-12 public education. As of December 31, 2019, approximately 8.2 million students were enrolled in approximately 41,700 private schools (19.1% of the total number of K-12 students in Brazil), according to the INEP and the IBGE. In addition, the national curriculum set by the Ministry of Education requires standardized content across Brazilian schools, which helps create demand for a unified curriculum. Finally, teachers' unions in Brazil are relatively less influential than their counterparts in the United States and Europe, where such unions often serve as obstacles to the adoption of innovations.

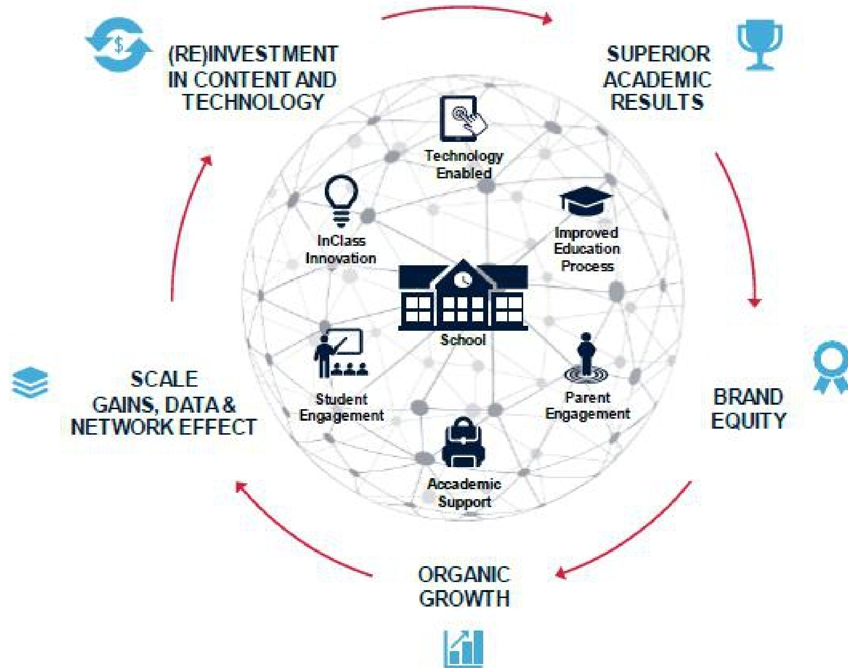
We believe that the challenges inherent in the traditional content distribution model, coupled with increasing demand for modern content and integrated value-added services, present a unique market opportunity for our business. By providing an affordable, modern and efficient platform, we believe that we can continue to disrupt the Brazilian education market and increase our penetration into current and new markets.

The Arco Way

Quality, a key component for the success in the private K-12 market, is always at the center of our decisions and it has been the gear of our virtuous cycle over the years.

As we continuously invest in quality and customer support, we assist our schools to achieve higher academic results. This is illustrated by the ENEM strong results of our partner schools, one of the main metrics to measure education quality in Brazil. According to the 2018 results of the ENEM exam, (i) three of the 10 top schools in the Brazilian national school rankings use our solutions; (ii) partner schools ranked among the top 10 in 13 out of 27 Brazilian states; and (iii) 490 of our partner schools ranked among the top three schools in their respective cities. The strong results achieved by our partner schools improve our brand equity, help build our reputation and consequently, tends to contribute to our healthy, sustainable organic growth.

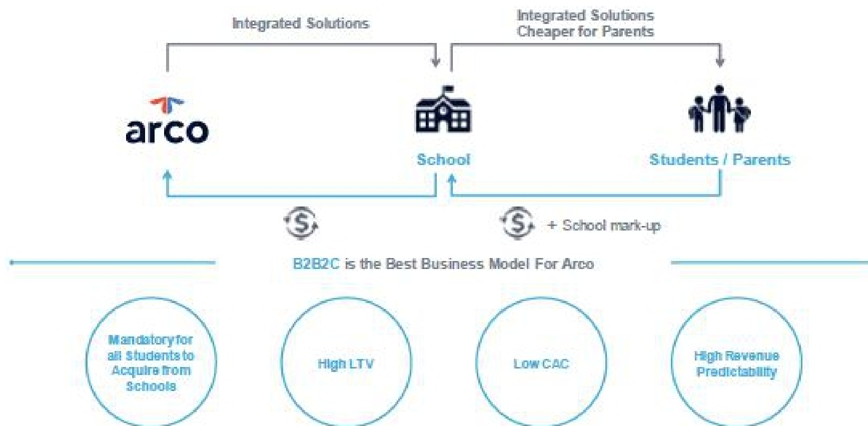
As we grow and add new partner schools, our network becomes a powerful source of leads generation and data. In addition, the increased scale allows us to reinvest in content, quality and service, contributing to the positive loop.



Our Business Model

Our B2B2C model is financially aligned with our partner schools. Our revenues consist of wholesale content fees paid by our partner schools annually on a per-student, per-year basis. On average, partner schools charge students' parents an incremental markup on top of our wholesale fees, ensuring that their incentives are aligned with ours. Accordingly, we provide a supplemental revenue stream to our partner schools through our B2B2C model, which is a feature that the traditional education model does not employ. Once schools adopt our platform for a particular class year, access to, and payment for, our platform becomes mandatory for all enrolled students in each class year, and such payments are charged as a supplement to tuition. Typically, we revise our contract fees annually, in line with our price-setting policies, which are usually above published inflation indices, to account for improvements in our platform and for changes in our cost and expenses structure.

The following chart illustrates our business-to-business-to-consumer model:



Long-term contracts, high retention rates and high financial predictability. Our three-year standard contract provides a revenue stream with long-term cash flow visibility. We have a lead time (which we define as the period from the moment of first contact to the execution of a contract) for the acquisition of new partner schools, and we typically enter into contracts with new partner schools within one year from the moment of first contact. Once our content is adopted, switching costs (which are the costs that schools incur as a result of switching to our platform) and time associated with updating the teaching curriculum for each class year work to our advantage. A portion of our average 5.0% annual attrition rate is attributable to the early termination or suspension of performance by us, at our option, of contracts with certain partner schools as a result of their failure to timely pay our contract fees.

Asset-light and scalable business model, with high operating leverage and limited capex requirements. By outsourcing distribution activities to third parties and developing standard solutions, we have an asset-light and scalable business model that enables us to quickly expand our customer base with low associated expenses and capital expenditures. This allows us to increasingly expand our margins as we grow the number of students we serve, while generating cash to fund the development of new products and features, as well as identify acquisitions and strategic investments.

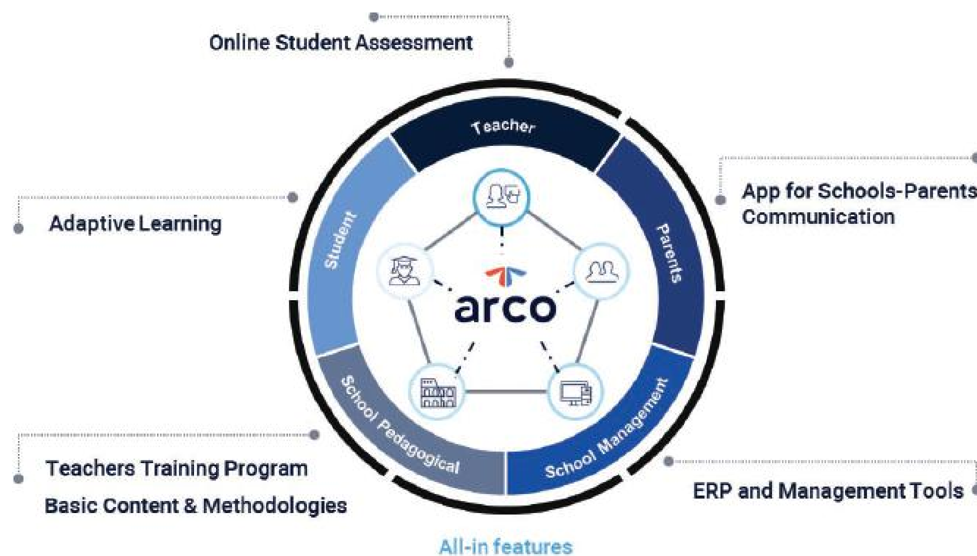
Our platform is difficult to replicate. We have continuously developed our platform since our founding, with the benefit of over 50 years of an evolving educational methodology and a dedicated team of education specialists focused on developing and improving our Core Curriculum and Supplemental Solutions materials. Accordingly, we believe that the depth of our educational content and the technological experience necessary to develop our products makes our platform difficult to replicate.

Our Solutions

In the education sector, we believe that quality is fundamental. Our platform was developed with the benefit of over 50 years of an evolving educational methodology and robust track record of academic results. Our track record of high-performing educational outcomes motivated us to create a digital, technology-driven product that could deliver high quality education at scale.

Additionally, Positivo is the pioneer in the learning system segment in Brazil and has served the K-12 private school market for more than 40 years. The pedagogical methodology developed inside the *Colégio Positivo* schools was transformed into a comprehensive educational solution that quickly expanded to other schools in Brazil. Over time, Positivo expanded its product offering to address different profiles of schools and increase its addressable market.

We provide a complete suite of turnkey curriculum solutions and technology-enabled features to help our students, teachers, partner schools and parents, targeting our students' educational success.



Our turnkey educational platform solutions comprise core K-12 curricula, as well as supplemental instructional content currently focused on English as a second language.

Benefits Across Our Educational Platform

We deliver the following benefits to all the stakeholders engaged in the learning process:

- *Students:* We deliver a personalized, multimedia learning experience, in an omni-channel format. Students can access content in various formats, including digital, video, print and other audiovisual media aligned with the daily curriculum of their classes. Our platform provides real-time feedback to students on areas for improvement and benchmarking relative to their peers, which enables us to simultaneously ensure that education is provided on an individual basis, and that our content is complete, up-to-date and readily available.

- *Teachers:* We offer a range of tools to help improve teacher efficiency and learning outcomes. We provide teaching plans for each class, digital content for classroom review, pre-made class videos, a test builder platform and homework correction automation tools. In addition, teachers are able to access students' performance reports and identify which students are having difficulties in progressing in a given class at any time.

- *Administrators:* We provide a supplemental revenue stream to our partner schools. In addition, our platform provides back office administrative support, alongside data and analytics to support decision-making processes. Administrators receive student reports and are able to analyze student participation rates, detailed individual performance, an overview by area of knowledge and their schools' national ranking. They are also able to benchmark teacher performance to optimize the effectiveness of their teaching staff.

- *Parents:* Our software brings parents closer to the education process, through an informal communication channel and the opportunity to closely monitor and engage with their children's performance and development.

Our Products

We believe that innovation is an important part of our success. As a technology company in the education sector, we believe that our dynamic and adaptive nature is essential to our continued growth. Our product offerings comprise two main segments that operate in concert: (i) Core Curriculum; and (ii) Supplemental Solutions.

Our Core Curriculum comprises high quality content solutions that are designed to address the Ministry of Education's national 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 media that are aligned with the daily curriculum of their classes. Our Core Curriculum offering serves a broad range of price points, allowing us to maximize our market reach and penetration. It is offered in two different versions, consisting of (i) SAS, a premium solution focused on high-income private schools, and (ii) SAE, a basic solution focused on upper-middle income private schools.

SAS and SAE share certain key attributes, such as:

- *Online homework assessment*: An extensive questions and problem-solving activities database that provides additional teacher-led instructional content to help meet individual student or small student group needs. Assessments enable thorough, customized evaluations of student performance over a single lesson, over the course of a topic, or throughout the entire academic year.

- *Adaptive learning*: A personalized instruction and assessment tool delivered through our exam management portal to help students prepare for and take exams. The user-friendly reporting and ongoing progress monitoring features enable educators to pinpoint student needs down to the sub-skill level, while providing real-time feedback at the class level, school and national level. The platform also enables teachers to generate exams based on a given class profile, using a database containing a broad range of questions.

- *Interactive learning*: Leveraging the combined abilities of our pedagogical and EdTech teams, we have created augmented reality and video features throughout our materials, allowing students to point their digital devices at certain sections in our materials to view educational animations or recorded videos that provide further information on the topic in question, contributing to a more interactive and engaging learning experience.

- *Students and teachers web portal*: An online environment aggregating relevant content for students and teachers by grade in the form of digital classes, exam database, assessment templates, teachers' guides and lesson plans, exams and textbooks' problem solving in addition to articles and general educational-related tips.

- *In-app communication*: A responsive, simple and user-friendly communication tool for partner schools, students and parents, giving them access to exam results and problem solving, video classes, student grades, as well as the school calendar and attendance records.

- *Support to partner schools:* Back-office management, educational consulting services, training programs for teachers to assess and improve the quality of their teaching methods and marketing advisory services.

As part of our Core Curriculum, we offer complementary support services to partner schools consisting of:

- *Back office management tools:* HR tools with financial, student recruiting and administrative features.

- *Educational consulting services to partner schools:* Personalized support to ensure complete understanding and appropriate implementation of our learning platform. This includes, constant support to partner schools throughout the school year in connection with educational practices, administrative, human resources and financial aspects, development of customized students' assessment models, organization of education congresses and pedagogical meetings, as well as parents and students counselling.

- *Training programs for teachers and school administrators:* A suite of materials to allow partner schools and teachers to assess the quality of their teaching methods and how they can improve them. This includes local, regional and national educational congresses, forums, seminars and lectures, in addition to training sessions.

- *School marketing advisory:* A comprehensive range of marketing and communication materials, events and support, including marketing brochures and recruitment campaigns.

Additionally, through Positivo, our Core Curriculum solutions include (i) SPE, an educational solution consisting of content, technology and services provided to upper-middle-income class private schools, and (ii) Conquista, which is focused on lower-middle-income private schools, a profile of school that we previously did not target. As part of our Core Curriculum, we also deliver, through Positivo, traditional solutions which are annually sold to partner schools without long-term contracts on a case by case basis.

Our Supplemental Solutions comprise additional value-added content for which partner schools can opt-in as an addition to our Core Curriculum. We have a Supplemental Solutions market share of 1%, calculated by dividing Arco's Supplementary Solutions ACV Bookings for the 2020 school year by the total addressable market for Supplemental Solutions, which consists of ESL, bilingual programs and 21st century skills programs, based on EY-Parthenon's assessment of the private K-12 learning systems market. Currently, our primary Supplemental Solutions offering is an ESL bilingual program, first offered in 2015 following our acquisition of an interest in International School. International School provides students with an internationally-oriented education, in a multicultural environment, based on a curriculum like the International Baccalaureate or Cambridge International Examinations. We intend to add additional, non-core supplemental educational modules to our Supplemental Solutions over time.

Additionally, through Positivo, our Supplemental Solution also offers the PES, a bilingual program with an approach that promotes integrated learning of content and language, in partnership with Cambridge University Press. The program consists of 2-5 weekly hours of English classes with several tools to develop the skills needed to communicate well. PES also provides teachers' training and pedagogical support to its partner schools. PES was launched in 2015 and has a strong cross-sell potential within our Core Solution partner schools network and to expand to schools that have not yet adopted our solution. Positivo's focus on student outcomes and long-term relationships with partner schools is proven by the strong results achieved in national exams.

The key attributes of our Supplemental Solutions are:

- *Proprietary applications:* Two complementary applications providing content and English-based games that form part of students' school year collections, including a communications tool for partner schools, students and parents.
- *Robotics:* Pioneering activities that enable students to build and program their own Lego® robots as a way to maximize learning beyond the classroom experience.
- *Combination of concrete materials and animations:* Print and digital textbooks combined with interactive animations, educational videos and exercises.
- *Crowdsourced education:* Collaborative and versatile platform for classrooms that allows students to collaborate in project building and problem solving.

Our Team and Culture

We have a strong corporate culture, and we encourage our employees to actively adopt it. We believe in:

- customer first focus;
- ethics, respect and humility;
- excellence and a willingness to learn;
- meritocracy, discipline and an execution mindset; and
- cost focus, with a school owner's mindset.

Technology

We believe that the use of technology is fundamental to achieving our goal of placing each student at the center of the educational experience. In our view, technology is a mean to delivering content through several formats and devices, creating a connection between each student and our common curriculum through a unique and comprehensive pedagogical approach.

Our application programming interfaces, or APIs, provide a standardized way to provision, manage, engage and deliver content to students, faculty and administrators. The APIs manage authentication and access for our entire technology stack and is designed to manage and interface with new technologies as they are introduced.

All of our APIs, applications, and application components are designed from the ground up to produce significant, readable and interpretable data. Log monitoring allows us to proactively identify and mitigate potential capacity, performance and security issues, while advanced analytics on student usage data provides the company with powerful insights to evaluate course content, communicate new technology releases and improve user experience and engagement.

To implement our innovative vision, we have a specialized in-house EdTech team comprised of engineers, software engineers, software developers, product owners, user experience and user interface designers, data scientists and digital content developers, who are responsible for envisioning and creating the ideal digital presentation of our materials within our platform, bringing the work of our pedagogical and content teams to life. Our core technology platform is fully developed and customized by our in-house EdTech team.

Following the best frameworks in digital product development, we offer a buy-and-build solution from the customer stand point, as users and customers have the opportunity to influence product evolution and participate in early stages of new-product conception.

Additionally, through “Positivo On,” a platform we have developed internally, we provide video classes, personalized learning tracks, e-books, among others, and assessments are fully integrated with the pedagogical curriculum with the objective of creating an omni-channel solution to deliver digital content and transform the way students learn. “Positivo On” has a web version as well as applications for both Android and iOS.

The main drivers of our technology strategy are:

- Connectivity—connecting content and stakeholders in a seamless way;
- Omni-channel—full access to our content, anywhere, anytime, across devices;
- Empowerment—ability to identify individual needs and build a personalized learning experience;
- User Centered—intuitive design so users can quickly adapt and fully use features to their advantage;
- Management—data and analytics to support educators’ decision-making; and
- Data Analytics—monitor and assess student performance, engagement and the impact of our solutions.

What Sets Us Apart

We believe that we have the following business strengths that allow us to disrupt the private K-12 education market:

Disruptive approach to traditional school model

Instead of simply delivering content as a product through textbooks, we provide an education solution through a technology-based platform. We believe that our platform is cutting-edge, modern, dynamic and client-oriented. We offer a multi-channel experience, combining proprietary content and software that would otherwise require the purchase of multiple, non-integrated solutions.

According to internal studies, we believe that the parents of students enrolled at our partner schools enjoy significant savings since our content solutions are less expensive than a traditional collection of textbooks, mainly because we can avoid incremental costs associated with a traditional retail distribution chain by primarily selling directly to our partner schools, as well as certain incremental costs relating to content production. In contrast, the sale of traditional textbooks often requires publishers to pay authors’ royalties for each book sold, and traditional textbooks are frequently marketed as penned by specific authors, each of which generally entails higher total royalty costs, whereas we generally acquire rights to content from a large pool of available authors, without variable payments relating to royalties. Furthermore, we deliver a supplemental revenue stream for our partner schools.

As of December 31, 2019, partner schools charged parents an incremental markup on our wholesale per student prices.

Strong combination of content development team and technology to develop a best-in-class learning experience

As of December 31, 2019, we had a dedicated team of over 713 technology and content development employees focused on developing and improving our Core Curriculum and Supplemental Solutions materials. They achieve this by leveraging feedback from our (i) highly-qualified base of over 990 experienced educational authors in Brazil on the quality of materials we produce, and (ii) network of partner schools and teachers on the impact of our materials on student performance. The advanced state of our platform reflects a process of evolution spanning over a decade, making it difficult to replicate.

Widespread positive customer satisfaction and strong academic outcomes

Our customer satisfaction is driven by our ability to meaningfully improve the performance of our partner schools' enrolled students on the ENEM, a prerequisite for entrance into almost all higher education undergraduate institutions in Brazil. According to the 2018 results of the ENEM exam:

- three of the 10 top schools in the Brazilian national school rankings use our solutions;
- our schools are among the top 10 in 13 out of 27 Brazilian states; and
- 490 of our partner schools are ranked among the top three schools in their respective cities.

In addition, we have the highest penetration among top 10 performing schools, according to rankings based on data from the Brazilian Ministry of Education and our existing partner schools.

Strong brand equity and aligned incentives resulting in high retention rates

We prioritize quality by employing a "white glove" service model across our business, with clear financial incentives (in the form of bonuses) to our sales force that drive long-term relationships with our partner schools. Educational performance is one of the main drivers of school growth, and the success of our partner schools is a critical part of our value proposition. Due to the quality of our academic outcomes, we rarely lose clients. In addition, we have historically been highly effective in increasing contract values, achieving an annual retention rate of 93% in 2019 and 95% in 2018 and 2017.

Attractive financial model with a high level of visibility and predictability

We have cash flow visibility given our long-term contracts with partner schools. Initial contract terms generally average three years, with high switching costs resulting in a customer churn of approximately 7% in 2019. In addition, we benefit from increasing enrollments across partner schools as our relationships mature and deployments increase, leading to revenue growth and increased operating margins, which contribute to the predictability of our business.

Founder-led and experienced management, innovation-driven culture

Our culture flows from our founder and CEO's family, who have specialized in education for over 50 years. Our founder and CEO, Mr. Ari de Sá Cavalcante Neto, has brought his family's successful school formula to scale by creating a leading educational platform. We strive to innovate and instill in our professionals a passion for serving all our stakeholders and seeking impactful next-generation solutions for private K-12 education.

As of December 31, 2019, the average age of our employees was 32 and 51% of our employees were women. Also, we offer a long-term incentive plan for key employees and apply meritocratic methods to engage them, recognize their value and maintain their motivation.

Our Growth Strategies

We aim to continue driving rapid, profitable growth and to generate greater shareholder value by implementing the following strategic initiatives:

Deepen relationships with our existing customer base

We intend to increase student enrollments within our existing partner schools at a minimum marginal cost as we see major opportunities for increased penetration through:

- Increasing the number of class years that adopt our Core Curriculum at each partner school. As of March 31, 2020, our up selling potential would increase our student enrollments by 32%, translating to approximately 360,000 students; and

- Cross-selling our Supplemental Solutions to currently-enrolled class years at our partner schools. As of March 31, 2020, only 2% of our client base used both our Core Curriculum and Supplemental Solutions, thus representing a cross-sell opportunity of approximately 1,000,000 students.

Expand our partner school base

We estimate that the top five private education providers in Brazil accounted for less than 2% of the private education market as of December 31, 2017. We believe that our sales efforts will benefit as the performance of partners schools using our educational platform becomes more widespread and widely known.

Add new Supplemental Solutions

We consistently review potential opportunities to provide additional after-school educational solutions that we may integrate into our Supplemental Solutions. We plan to enforce a disciplined approach to growth by using market validation techniques to assess the likelihood of our partner schools adopting our solutions, as well as their potential spending. We will also aim to ensure that any new vertical fits within our proven business strategy, through a careful assessment of available alternatives, such as the number and size of potential adjacent market opportunities, and their relative risk and return.

Continue to innovate and extend our technological leadership

Innovation is a cornerstone of our culture. As such, we employ significant efforts and resources to ensure the constant development and improvement of our portfolio of solutions. We have also invested in a select group of education technology startups in an effort to bring new ideas and solutions into our ecosystem. These initiatives have helped us identify new business potential to enhance our overall growth prospects, such as education IT systems (WPensar and EEM), supplemental instruction content (International School, PES, NAV and Pleno) and digital-native content platform (Geekie).

We intend to increase the functionality of our platform and continue our investment in the development and acquisition of new applications that extend our technological leadership. We also intend to continue to improve and update our print and digital content based on the real-time feedback we receive from our partner schools.

Continue to pursue M&A opportunities

We plan to continue to pursue acquisitions that are complementary to, or that will help us diversify, our business. We intend to maintain a disciplined approach towards evaluating possible targets and integrating acquisitions into our business model. Our preferred acquisition targets are core or supplemental educational platform providers that engage in delivering K-12 educational content through software-based platforms pursuant to B2B2C business models. We are currently evaluating possible acquisition opportunities and submit non-binding proposals from time to time.

We believe that we have developed a strong capability and track record of identifying, negotiating and integrating acquisitions. Moreover, we have developed a systematic model that enables us to integrate our acquired businesses in a timely and efficient manner. Since 2011, we have successfully acquired or invested in 14 companies. Our acquisition strategy is focused on expanding our operations into new regions within Brazil and adding new products and technologies to accelerate our pace of innovation and broaden our footprint.

We have already executed a number of strategic transactions since our initial public offering. These acquisitions have a strong fit with our business and have been executed based on three main pillars: (i) boost growth, accelerating the expansion of our partner school base; (ii) increase cross-sell opportunities, extending our product offering; and (iii) enhance the client experience, adding value-add tech features. See “Item 4.A. History and development of the company—Acquisitions.”

Marketing and Sales

Our platform has evolved into a complex solution. The adoption of our platform by partner schools requires us to first build trust and confidence in our solutions, which can only be achieved by engaging them with our solutions and demonstrating a proven track record of success and quality, while constantly monitoring client satisfaction and feedback.

We have a non-traditional sales approach, which is structured around a practice we refer to as "Educational Consulting," which reflects both our core value of ensuring that education is our first priority, as well as the unique sales dynamics associated with our industry.

We have a lead time (which we define as the period from the moment of first contact to the execution of a contract) for the acquisition of new partner schools, and we typically enter into contracts with new partner schools within one year from the moment of first contact, which requires a series of interactions and constant contact, to build a trust based relationship with target and partner schools. Our sales strategy is based on creating touch points to highlight the quality of our solutions. We aim to achieve this with dedicated sessions for experimenting and testing with our platform. We also hold a number of specialized events aimed at target and partner schools, product journeys and guided visits to our units, and participate in industry fairs.

The success of our sales process requires uniquely qualified professionals, who must not only have an academic background, but are also sales-oriented. We invest a significant amount of time and resources to recruit and train our sales force, averaging approximately 147 hours of training per year per person. After the initial training and exposure to our Educational Consulting environment, each professional begins working by shadowing an experienced consultant. It takes approximately a year of shadowing before each new professional can work individually on our behalf. In 2019, we had approximately 5,208 applicants for our consultant positions. Currently, we employ more than 362 sales professionals. Our consultants' incentives are also aligned with our long-term goals and are tied to our profitability, as a significant portion of their annual compensation is variable and is paid out to them annually in the form of a bonus provided certain targets are met.

In order to improve and optimize our partner school acquisition process, we structured a market intelligence division, which focuses on mapping and segmenting our target markets to support and focus our sales strategies, as well as providing our sales consultants with industry knowledge and high-level market analysis and insights. Our market intelligence division has access to a significant volume of data, is continuously undertaking industry research and analysis and receives regular feedback from, and is in regular contact with, our consultants deployed in the field.

Additionally, we promote specialized events that are aimed to retain current partner schools. The most relevant event is Positivo's Course Program that provides teacher's training, workshops of recent trends in education and lectures from highly specialized and trained pedagogical professionals. In 2019, the Course Program reached 48 cities, addressing approximately 70% of SPE's partner schools.

In addition, we work in conjunction with a branding agency, which assists us in developing and strengthening our brands, increasing their national awareness, and building our institutional image. Our brand portfolio is structured to reflect our value proposition and leverage our marketing and sales strategy. A study conducted by *Expertise* as of January 2019 showed that the Positivo brand is the most recognizable among parents, teacher and school events.

Furthermore, we have a loyalty program aimed at strengthening the relationship with partner schools and increasing the length of the contract. The loyalty program allows SPE to offer more personalized consulting services from our pedagogical experts, literature materials to complement the school's curriculum, cooperative media, and other products or services, in order to increase a contract's profitability.

Our Customer Service and Support

We believe that the best way to ensure the loyalty of our customers is to maintain a healthy, long-term relationship with our partner schools. We aim to achieve this through our customer engagement and support service, which supports partner schools in the implementation and integration of our educational solutions into their systems, as well as help them identify and achieve their pedagogical, business and management objectives, including legal, finance and marketing. Our customer service and support comes in a variety of forms such as on-site visits, remote assistance, workshops and events for partner schools. We assign independent and dedicated client-centric customer support teams to each of our solutions. Customer service and support is comprised of two departments which are focused on developing partner school relationships and are available to address any post-implementation issues that may arise: (1) pedagogical consulting, and (2) customer service:

Pedagogical Consulting

Our pedagogical consulting department is responsible for the pedagogical supervision and educational development of our partner schools. It aims to ensure that our educational platform is being used efficiently, and to actively assist our partner schools in improving the learning experience of their students and helping them develop the necessary skills inside and outside the classroom. It also leverages a dedicated management team to train and support our partner schools in maximizing their supplemental revenue streams.

Our pedagogical consulting team activities with partner schools include:

- implementing pedagogical methodologies in connection with our educational platform and associated educational materials, making pedagogical recommendations, understanding school communities, and coordinating lesson planning;
- periodic in-person meetings and coordinated site visits to evaluate the educational process, assisting partner school owners and faculty members to develop learning and interaction projects through the use of educational media content and new technologies, and conducting lectures for parents and students;
- continuous online or on-site training for teachers and school coordinators; and
- developing educational evaluation models tailored to each partner school's profile and needs, and training school owners and managers to use the school owner/manager specific features of our educational platform.

Customer Support

Our customer support department provides day-to-day customer and administrative support to our partner schools in connection with our educational platform by e-mail and/or by telephone. Our customer support department interacts with our pedagogical consulting department when necessary to minimize the risk of miscommunication and ensure a unified approach to customer satisfaction.

Our Geographic Presence

We believe our platform can be adopted by virtually any private K-12 school in Brazil. We believe that our product offering addresses Core and Supplemental curriculum needs for all Brazilian schools. As of March 31, 2020, our network consisted of 5,414 unique partner schools and 1,362,141 enrolled students across all Brazilian states and in 1,346 cities, comprising students from kindergarten to high school. Our national presence has consistently expanded over the last five years, through both organic and non-organic growth and our largest client accounted for only 1.1% of our ACV Bookings.

Our Clients

We provide a complete pedagogical system with technology-enabled features to deliver educational content to K-12 schools in Brazil. Our turnkey curriculum solutions provide educational content in both printed and digital formats delivered through our platform to improve the learning process. Our network as of March 31, 2020 consisted of 5,414 partner schools. Our partner school base is highly diversified, which reduces our dependence on a concentrated number of large clients. Our 10 largest clients represented only 5.6%, 9.6% and 12.0% of our ACV in 2019, 2018 and 2017, respectively. Even though our partner schools pay for our solutions, we view students, parents, teachers, school management and teachers as our customers.

Our Competition

We compete with traditional publishers and textbook providers, other providers of core curriculum solutions, as well as with online education platforms. Factors influencing competition in this industry may include price, overall education experience and track record, industry experience and reputation, content quality, availability of technology, faculty, facilities, location and program offerings, among others.

Most traditional publishers and textbook providers are typically focused exclusively on physical textbooks. They do not produce their own content, do not update their content frequently, and do not have developed digital platforms. Furthermore, we believe that traditional publishers and textbook providers whose strategy it is to develop education solutions similar to ours do not possess the content development expertise, brand awareness, or the track record to sell such solutions directly to schools.

Other core curriculum solutions providers offer primarily printed content and a limited amount of digital content. Other online platforms that offer education solutions through digital channels face difficulties to efficiently integrate solutions for schools, parents, students and teachers. We believe our proprietary content is engaging to students, teachers and parents, as illustrated by our ability to persuade schools to switch from other products to our products.

We seek to differentiate ourselves from our competitors primarily on the basis of our simple, integrated and personalized educational platform. We believe the following factors are critical to success in the private K-12 education in Brazil:

(1) level of a solution's effectiveness, personalization, engagement and enjoyment;

(2) quality of the user experience and customer service;

(3) breadth and depth of features and functionalities;

(4) brand recognition and academic outcomes; and

(5) Overall cost of education solutions.

Seasonality

Our revenues and operating results normally fluctuate as a result of seasonal variations in our business. For further information on seasonal variations in our business, please see "Item 5. Operating and Financial Review and Prospects—A. Operating results—Revenue Recognition and Seasonality."

Legal Proceedings

See "Item 8. Financial Information—A. Consolidated statements and other financial information—Legal Proceedings."

Regulatory Overview

The Brazilian constitution establishes education as a right of all citizens, the provision of which is a duty of the state and the family. Accordingly, the government is required to provide all Brazilian citizens with access to free primary education that requires compulsory attendance. Private investment in education is permitted so long as entities providing education services comply with the applicable rules and regulations.

The Brazilian education system is organized as a cooperation regime among federal, state and municipal governments. The federal government is required to organize and coordinate the federal education system in order to guarantee equal opportunity and quality of education throughout Brazil. Brazilian states and the Brazilian Federal District are required to focus on primary and secondary education, while municipalities are responsible for providing preschool and primary education, and each is responsible for establishing and implementing the relevant rules and regulations for each educational stage the subject of its focus, including monitoring and evaluation, and the issuance of all relevant authorizations, recognitions and qualifications for each such educational stage.

Law No. 9,394/1996, or National Education Guidelines Law (*Lei de Diretrizes e Bases da Educação Nacional*), or LDB, establishes the guidelines for the provision of education services in Brazil and sets forth the federal government's duty to: (1) coordinate the national education system; (2) prepare the National Education Plan; (3) provide financial assistance to the states, the Federal District and municipalities; and (4) define, in cooperation with other federal entities, the responsibilities and guidelines for primary and secondary education.

In addition, the federal government, through Law No. 13,005 of June 25, 2014, implemented the National Education Plan (*Plano Nacional de Educação*), or PNE, with a duration of ten years from the date of its publication. The National Education Plan established objectives for primary and secondary education that must be met by the Brazilian federal system. These objectives are: (1) the universalization of preschool education, with a target to enroll at least 50% of all children up to three years of age in schools by 2024; (2) the universalization of primary education, with a target to enroll at least 95% of children between the ages of six and 14 in schools by 2024; (3) the universalization of secondary education, with a target to enroll at least 85% of adolescents between the ages of 15 and 17 in schools by 2024; (4) to ensure that all children learn the Portuguese alphabet by the third year of primary education; (5) to make available full-time education in at least 50% of public schools; (6) to improve the quality of primary education as evaluated by the IDEB; (7) to ensure that all students are literate by the time they are 15 years old; (8) to make available at 25% of primary and secondary education to young adults and adults; and (9) to increase enrollment in professional studies to three times the current enrollment rate. Accordingly, each of the federal, state and municipal governments was required to prepare a ten-year education plan and establish policies, guidelines and objectives applicable to the segment of the Brazilian education system over which it is responsible. In addition, these objectives act as guidelines for the private education sector.

Primary and Secondary Education

Primary and secondary education in Brazil is equivalent to K-12 education in the United States, and consists of elementary school, junior high and high school, which are regulated by the LDB and the National Education Plan.

The LDB regulates a nationwide, common core curriculum, the number of teaching hours, the minimum classroom attendance and grade advancement. States, municipalities and educational institutions can pass rules and regulations according to specific regional and local requirements, such as differences in curricula and calendar, grade advancement and issuance of academic documentation for primary and secondary education students.

The National Education Plan establishes ten-year targets for all the levels and stages of education, mandating that states and municipalities create and establish similar plans compatible with such national targets. It is incumbent upon the Primary and Secondary Education Secretariat (*Secretaria de Educação Básica*), or SEB, under the supervision of the MEC, to monitor compliance with the PNE by states and municipalities. This inspection and monitoring includes guidance and rules for assessing the primary and secondary education stages.

Under the federal constitution and the LDB, access to primary and secondary education is a right of all children from the ages of four to 17. Following amendments to Law No. 11,274 on February 6, 2006, the duration of primary and secondary education was extended from a period of eight years to a period of nine years. Among the purposes of primary education are: (1) development of the capacity to learn, including basic abilities in reading, writing and arithmetic; (2) comprehension of the natural and social environment, the political system, technology, arts and social values; (3) development of the capacity to acquire new knowledge and abilities and the formation of attitudes and values; and (4) strengthening family ties, social cohesion and mutual tolerance. Assessment of primary education is coordinated by the state legislation of each individual state, on a case-by-case basis.

Secondary education is designed to fulfill the government's duty to progressively complete the formation of the citizen, seeking universalization of scope and coverage. Secondary education is conducted for a period of not less than three years and seeks: (1) the consolidation and deepening of the knowledge acquired in primary education; (2) the basic preparation of the person being educated for work and to be able to adapt within the labor market or pursue further education; (3) the improvement of the student as a person, including ethical formation and the development of intellectual autonomy and critical thinking; and (4) the comprehension of the scientific and technological bases of the productive processes, relating theory to practice in each discipline. Assessment of secondary education is conducted on a national scale and coordinated by the MEC.

Regulatory Bodies

The main regulatory bodies of the Brazilian education system are:

- the MEC;
- the INEP;
- the CNE;
- the CEB;
- the Higher Education Board (*Câmara de Educação Superior*), or CES;

- State and Municipal Secretaries (*Secretarias Estaduais de Educação* and *Secretarias Municipais de Educação*, respectively); and

- State and Municipal Councils of Education (*Conselhos Estaduais de Educação* and *Conselhos Municipais de Educação*, respectively).

The MEC is Brazil's highest governmental body for education. It formulates and evaluates Brazilian national education policy, ensuring the quality of education and compliance with education regulations. The INEP is a related federal entity responsible for evaluating educational institutions in Brazil, as well as conducting research in order to provide a reliable database for public use.

The MEC is assisted by the CNE, which is the entity with regulatory power and deliberative authority to ensure national education improvement. The CNE is comprised of the CEB, which is the federal agency responsible for the regulation of the K-12 education system, and the CES, which is the federal agency responsible for the higher education system. Both regulatory bodies are composed of 12 members appointed by the President of Brazil.

States and municipalities are responsible for regulating K-12 education. State Secretaries of Education (*Secretarias Estaduais de Educação*) are assisted by the State Councils of Education (*Conselhos Estaduais de Educação*), and are the main regulatory bodies for primary and secondary school education. The Municipal Secretaries of Education (*Secretarias Municipais de Educação*) are assisted by the Municipal Councils of Education (*Conselhos Municipais de Educação*), and are the main regulatory bodies of preschool education.

The LDB grants power to states and municipalities to authorize, accredit and supervise primary and secondary education institutions. This is achieved through each governmental entity's respective Department of Education.

Regulations Applicable to the Company's Activities

The Company is not directly regulated by the MEC nor any other regulatory agency. However, our educational platform and related educational materials seek to comply with the LDB and the guidelines established by the BNCC. In addition, our partner schools are K-12 education providers and are directly regulated by the MEC and must comply with their regulations.

The BNCC is a set of guidelines that provides a curriculum specifying the core skills and knowledge required to be taught as part of primary and secondary education in Brazil and each school has the autonomy to elaborate or adapt their curricula and pedagogical projects according to such guidelines. The BNCC guidelines were established following overall poor student performance levels achieved while the predecessor education guidelines were in effect. Several indicators suggest that the predecessor guidelines were failing in several ways, leading the MEC to initiate discussions relating to a new method based upon a comparison between Brazil and other countries' results, which formed the basis for developing the BNCC. The LDB and the BNCC establish what subject matters shall be taught for each level of education (early childhood education, primary education and secondary education), and we have ensured that our educational materials and platform meet the requisite standards and thus comply with these guidelines.

As provided by the LDB and the BNCC, early childhood education should enable children to live in society, to play, to participate, to explore, to express themselves, and to know themselves. Primary education, in turn, shall offer the following subject matters: (i) Portuguese; (ii) Arts; (iii) Mathematics; (iv) Geography; (v) History; (vi) Religious Studies; (vii) English; and (viii) Science. Also, according to the current BNCC, approved by Ruling No. 1,210, 2018, secondary education shall offer curricula covering the following subjects (i) Portuguese; (ii) Arts; (iii) Mathematics; (iv) Geography; (v) History; (vi) Physics; (vii); Chemistry; (viii) Biology; (ix) English, (x) Science, (xi) Sociology; (xii) Philosophy; and (xiii) Physical Education. As our partner schools are private and have the autonomy to establish their pedagogical projects, there are no other guidelines relevant to the materials provided.

While following the BNCC is still required of every school in the country, there are opportunities to provide content solutions and after-school solutions to improve and adapt to the new status quo in Brazil's education market.

Syndicates

Teachers and professors may contribute to the Brazilian Teacher's Union (*Sindicato dos Professores*), as they work as registered employees under the CLT (Labor Laws Consolidation) regime. The syndicate contribution may be deducted once a year by employers directly from the employee's payroll in an amount equal to one working day's salary, subject to the express authorization of such employee. Such syndicate contribution does not imply syndicate association.

C. Organizational structure

We are a Cayman Islands exempted company incorporated with limited liability on April 12, 2018. Arco became the holding company of Arco Educação S.A. and its operating subsidiaries, including EAS Brazil and Positivo, which provides educational content from basic to secondary education ("K-12 curriculum").

The table below is a list of the Company's subsidiaries, joint ventures and associated companies as of the date of this annual report:

				Direct and indirect interest (%)		
Name	**Principal activities**	**Country**	**Investment type**	**2019**	**2018**	**2017**
Arco Brazil	Holding	Brazil	Subsidiary	100.0	100.0	-
EAS	Educational content	Brazil	Subsidiary	100.0	100.0	100.0
Barra Américas Editora Ltda.	Educational content	Brazil	Subsidiary	100.0	100.0	100.0
Distribuidora de Material Didático Desterro Ltda.	Educational content	Brazil	Subsidiary	100.0	100.0	100.0
Novagaúcha Editora e Livraria Ltda.	Educational content	Brazil	Subsidiary	-	100.0	100.0
SAS Sistema de Ensino Ltda.	Educational content	Brazil	Subsidiary	100.0	100.0	100.0
Arco Ventures S.A..	Educational content	Brazil	Subsidiary	100.0	100.0	100.0
SAS Livrarias Ltda.	Educational content	Brazil	Subsidiary	100.0	100.0	100.0
SAE Digital S.A.	Educational content	Brazil	Subsidiary	100.0	100.0	100.0
Escola de Aplicação São José dos Campos Ltda.	Educational services	Brazil	Subsidiary	-	69.6	69.6
International School Serviços de Ensino, Treinamento e Editoração, Franqueadora S.A.	Educational content	Brazil	Subsidiary	51.5	51.5	51.5
NS Ventures Participações Ltda.	Educational content	Brazil	Subsidiary	-	100.0	100.0
NS Educação Ltda.	Educational content	Brazil	Subsidiary	-	100.0	100.0
Nave à Vela Ltda.	Educational content	Brazil	Subsidiary	51.0	-	-
EEM Licenciamento de Programas Educacionais Ltda.	Educational technology	Brazil	Subsidiary	100.0	-	-
NLP Soluções Educacionais Ltda.	Educational content	Brazil	Subsidiary	100.0	-	-
Sistema Positivo de Ensino.	Educational content	Brazil	Subsidiary	100.0	-	-
WPensar S.A.	Educational technology	Brazil	Joint venture	25.0	25.0	25.0
Geekie Desenvolvimento de Softwares S.A.	Educational technology	Brazil	Associate	37.5	8.05	6.5

For more details about our organizational structure please see "Presentation of Financial and Other Information—Organizational Structure" and refer to notes 1, 2.2 and 2.3 to our audited consolidated financial statements.

D. Property, plant and equipment

Intellectual Property

Most of our services are provided using proprietary software developed by third parties and by our employees. We rely on a combination of industrial property, copyright and software laws, as well as employee and third-party non-disclosure, confidentiality and other types of contractual arrangements to protect, establish, maintain and enforce our intellectual property rights, including with respect to our proprietary rights related to our products and services. Nevertheless, we may hold restricted rights over certain software developed either by third parties or by our current or former employees and, occasionally, may be subject to lawsuits filed by said third parties or employees to claim ownership over each software. In addition, we license technology from third parties, and do not hold or own licenses regarding all software employed in the business. However, we have not received any legal notices related to such non-licensed software and are employing measures to obtain pending licenses.

As of December 31, 2019, we own 148 trademark registrations in Brazil, 2 in Argentina, 2 in Bolivia, 1 in Chile, 2 in Ecuador, 2 in Paraguay, 1 in Peru, 2 in Uruguay and 112 registered domain names in Brazil. We also have a number of pending trademark applications in Brazil, the U.S. and Venezuela (111 in Brazil, 3 in the U.S. and 2 in Venezuela, as of December 31, 2019). We have a number of registered copyrights, most notably copyrights for text formatting, critical reading, books, drafting, text editing and review, reformulation, book updates, content coordination, illustrations and diagramming.

Properties

Our corporate headquarters, which houses our sales, marketing, and business operations, are located in São Paulo at Rua Augusta and comprise 1,960 square meters under a lease that expires in 44 months. We also lease 5,869 square meters in Fortaleza for our product development, sales, and business operations under a lease that expires in 2025. Additionally, we lease 13,858 square meters in Curitiba, which houses Positivo’s sales, marketing and business operations, under a lease that expires on July 31, 2022. We have offices in several other locations and believe our facilities are sufficient for our current needs.

In addition to our corporate headquarters and as of December 31, 2019, we leased operational, sales, distribution and administrative facilities in Barueri, Campinas, Curitiba, Diadema, Florianópolis, Porto Alegre, Recife, Salvador and Simões Filho. As of December 31, 2019, we had a services agreement with a data center service provider for the provision of data services to us from its data centers located globally, which expires in 2021 and a cloud storage agreement which can be terminated at our discretion with 30 days’ notice to the service provider. We believe that our facilities are suitable and adequate for our business as presently conducted, however, we periodically review our facility requirements and may acquire new space to meet the needs of our business or consolidate and dispose of facilities that are no longer required.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and the notes thereto as well as the information presented under "Item 3. Key Information—A. Selected financial data." The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those set forth in "Item 3. Key Information—D. Risk factors."

A. Operating results

We provide a complete pedagogical system with technology-enabled features to deliver educational content to private schools in Brazil.

We founded our company with the aim of creating high quality products that simplify learning and make the education process more efficient. Traditionally, school administrators required a multitude of vendors for content development, training, commercializing and managing K-12 education. Simultaneously, students acquired educational content through textbooks from various publishers across retail channels. Our platform aims to replace this multitude of third-party educational providers with a streamlined, one-stop solution that delivers high quality education at scale.

We believe the success of our platform, together with the quality of our client base and the popularity of our brand, has driven our significant growth, allowing us to quickly and efficiently expand our footprint in Brazil.

We provide a complete suite of turnkey curriculum solutions and technology-enabled features to help our students, teachers, partner schools and parents, targeting our students' educational success. Our turnkey educational platform solutions consist of core K-12 curricula, as well as supplemental instructional content currently focused on English as a second language.

As of March 31, 2020, we had 5,414 unique partner schools. These schools are spread across 1,346 cities located across all of the states of Brazil. Our partner schools base is highly diversified, which reduces our dependence on major accounts.

Our Growth

Our revenue growth has been driven by:

- **Expansion of our partner school base:** The increase in the number of partner schools using our educational platform. Through a sophisticated sales process with our highly skilled sales team, we build relationships with partners schools and plant seeds for new features and products.

- **Deepening of relationships with our existing customer base:** The increase in the number of enrolled students we serve in our partner schools, through (i) the increase in the number of class years that adopt our Core Curriculum solutions (upselling), and (ii) cross-selling our Supplemental Solutions.

- **Price increases:** The annual adjustments of our contract fees, in line with our price-setting policies which are usually above published inflation indices, to account for changes in our cost and expenses structure and for improvements in our platform.

- **M&A:** The acquisition of complementary businesses has helped us expand our operations regionally and nationally, and also add new products and technologies. This allows us to become a one-stop shop platform, which we believe further strengthens our stickiness and improves our value proposition.

The strength of our partner school base and our ability to expand sales are demonstrated in the increasing portion of our ACV derived from existing clients and up sell in existing clients, combining for 127.7%, 37.6% and 43.4% growth in 2020, 2019 and 2018 respectively.

Another indicator of demand for our platform is our annualized cohort analysis. We define a cohort as the amount spent by all of our partner schools on our platform over each 12 month period. 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 customers 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.

Customer expansion can be seen in the ACV growth in cohorts over the last six fiscal years. Our cohorts of customers from 2014 through 2019 have grown their ACV, on a compound annual growth rate of 14% for the 2014 cohort, 12% for the 2015 cohort, 17% for the 2016 cohort, 9% for the 2017 cohort, 10% for the 2018 cohort and 11% for the 2019 cohort.

Revenue Recognition and Seasonality

Prior to the adoption of IFRS 15, revenue was recognized when the significant risks and rewards of ownership were transferred to the customer, recovery of the consideration was probable, the associated costs and possible return of educational content could be estimated reliably, there was no continuing management involvement with the educational content and the amount of revenue could be measured reliably. Upon the adoption of IFRS 15, revenue is recognized when the performance obligation is satisfied. We recognize our revenue at the moment we deliver our content to our partner schools in printed format or via access to our digital platform. The technology is provided solely to optimize the use of our educational content. Our printed materials can be used independently of the technology we provide, as the content of both our printed materials and online materials is substantially the same.

We generate substantially all of our revenue from contracts that have an average term of three years, pursuant to which we provide educational content in printed and digital format to partner schools. Our revenue is driven by the number of enrolled students at each partner school using our solutions and the agreed price per student per year, all in accordance with the terms and conditions set forth in each contract. Each contract contemplates penalties ranging between 20% and 100% of the remaining total value of the contract in the event of termination, and the content already delivered by us through the termination date is not returned to us by the partner school.

Our partner schools pay us our fees directly, and pass that cost on to their enrolled students' parents, who in turn are charged through a mandatory supplement to school tuition, in lieu of paying for textbooks from several vendors. Most of our partner schools charge parents an incremental markup from which we do not earn any additional revenue on top of our wholesale prices.

Pursuant to the terms of our contracts with our partner schools, they are required, by the end of November of each year, to provide us with an estimate of the number of enrolled students that will access our content in the next school year (which typically starts in February of the following year). Since we allow our partner schools to make small adjustments to their estimates to account for late admissions and dropouts, this number may fluctuate slightly until March 31, when it becomes more accurate.

We typically deliver our Core Curriculum content four times each year in March, June, August and December and our Supplemental Solutions content twice each year in June and December, typically two to three months prior to the start of each school quarter. This allows our partner schools and their teachers to prepare classes in advance of each school quarter. Because we recognize revenue at the moment of delivery of our educational content, our fourth quarter results reflect the growth in the number of our students from one school year to another. Consequently, we generally produce higher revenues in the fourth quarter of our fiscal year compared to the preceding quarters.

In addition, we bill partner schools and collect the sales we charge them in the first half of each academic collections year, generally resulting in a higher cash position in the first half of each fiscal year relative to the second half of each fiscal year.

Accordingly, we expect quarterly fluctuations in our revenues and operating results to continue. These fluctuations could result in volatility and adversely affect our liquidity and cash flows. As our business grows, these seasonal fluctuations may become more pronounced. As a result, we believe that sequential quarterly comparisons of our financial results may not provide an accurate assessment of our financial position.

A significant portion of our expenses is also seasonal. Due to the nature of our business cycle, we require significant working capital, typically in September and/or October of each year, to cover costs related to production and accumulation of inventory, selling and marketing expenses, and delivery of our teaching materials at the end of each fiscal year in preparation for the beginning of each school year. Therefore, such operating expenses are generally incurred in the period between September and December of each year.

Key Business Metrics

We review the following key metrics to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans and make strategic decisions:

Enrolled Students

The number of enrolled students is the primary operational metric our management reviews. It represents the total number of students at our partner schools served by our platform during a given school year. Although our primary customers are the partner schools we attract to our base, our revenues are determined by the number of students enrolled in our partner schools.

We typically have high visibility of the number of students we will serve before the school year starts, typically by the end of November. Since we allow our partner schools to make small adjustments to their estimates to account for late admissions and dropouts, this number may fluctuate slightly until March 31, when it becomes more accurate. Accordingly, we believe this metric is most accurately reflected as of March 31 of each year.

As of March 31, 2020, we had 1,362,141 enrolled students (including 710,705 enrolled students of Positivo) and as of March 31, 2019, 2018 and 2017, we had 498,553, 405,814 and 322,031 enrolled students, respectively, representing a CAGR of 62%.

In our Core Curriculum segment, we had 1,131,691 (including 669,800 students of Positivo), 413,678, 363,824 and 303,950 students as of March 31, 2020, 2019, 2018 and 2017, respectively, representing a CAGR of 55%. In our Supplemental Solutions segment, which we began consolidating in our financial statements in 2017, we had 230,450, 84,875, 41,990 and 18,081 students as of March 31, 2020, 2019, 2018 and 2017, respectively.

The following table sets forth the number of enrolled students at our partner schools as of the dates indicated.

		As of March 31,		
	2020(1)	2019	2018	2017
Number of enrolled students	1,362,141	498,553	405,814	322,031

(1) Including 710,705 enrolled students of Positivo.

ACV Bookings

ACV Bookings is an operating metric and represents our partner schools' commitment to pay for our solutions offerings. We believe that they are a meaningful indicator of demand for our platform and the market's response to it.

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. ACV Bookings is a non-accounting managerial operating metric and is not prepared in accordance with IFRS. We calculate ACV Bookings by multiplying the number of enrolled students at each partner school with the average ticket per student per year, all in accordance with the terms of our contract with such partner school. Although our contracts with our partner schools are typically for three-year terms, we record one year of revenue under such contracts as ACV Bookings. For example, if a school enters into a three-year contract with us to provide our Core Curriculum solution to 100 students for a contractual fee of $100 per student per year, we record $10,000 as ACV Bookings, not $30,000.

We measure our ACV Bookings on a monthly basis throughout the school year, starting in November of the preceding fiscal year. Pursuant to the terms of our contracts with our partner schools, they are required, by the end of November of each year, to provide us with an estimate of the number of enrolled students that will access our platform in the next school year. Since we allow our partner schools to make small adjustments to their estimates to account for late admissions and dropouts, this number may fluctuate slightly until March 31, when it becomes more accurate. Accordingly, we believe this metric is most accurately reflected as of March 31 of each year.

The following table sets forth our ACV Bookings for the periods presented.

			As of March 31,		
	2020(1)	2020(2)	2019(3)	2018(4)	2017(5)
	US$ (except number of enrolled students)(1)	R$ (except number of enrolled students)	R$ (except number of enrolled students)		
Number of enrolled students	n/a	1,362,141	498,553	405,814	322,031
Average ticket per student per year	183.2	738.4	884.3	793.8	711.9
ACV Bookings (in millions)	**249.5**	**1,005.8**	**440.9**	**322.1**	**229.3**

(1) For convenience purposes only, amounts in *reais* as of March 31, 2020 have been translated to U.S. dollars using an exchange rate of R$4.031 to US$1.00, the commercial selling rate for U.S. dollars as of December 31, 2019 as reported by the Central Bank. These translations should not be considered representations that any such amounts have been, could have been or could be converted at that or any other exchange rate. See "Item 3. Key Information—A. Selected financial data—Exchange Rates" for further information about recent fluctuations in exchange rates.

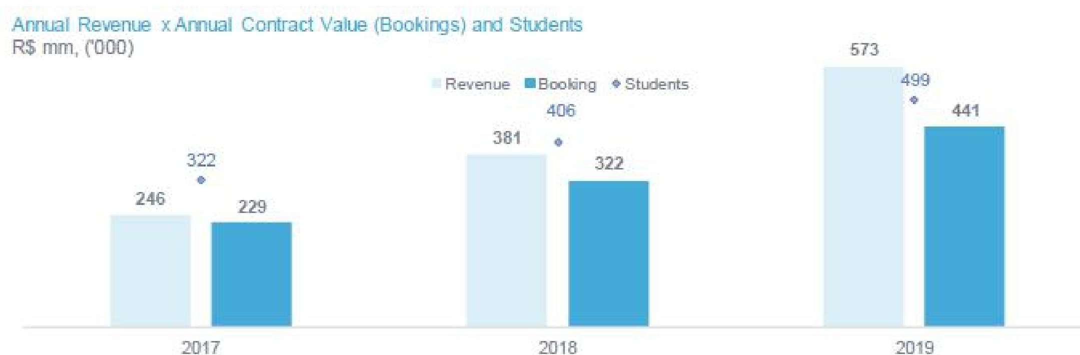
(2) For the 2020 school year (which we define for purposes of ACV Bookings as the period starting in October 2019 and ending in September 2020). Includes the ACV Bookings of Positivo, which we acquired in November 2019.

(3) For the 2019 school year (which we define for purposes of ACV Bookings as the period starting in October 2018 and ending in September 2019).

(4) For the 2018 school year (which we define for purposes of ACV Bookings as the period starting in October 2017 and ending in September 2018).

(5) For the 2017 school year (which we define for purposes of ACV Bookings as the period starting in October 2016 and ending in September 2017).

As of March 31, 2020, our total number of students enrolled was 1,362,141, our average ticket per student per year was R$738.4 and our total ACV Bookings were R$1,005.8 million.



The following table sets forth the approximate number of enrolled students and ACV Bookings for our supplemental segment for the periods presented.

	As of March 31,				
	2020(1)	**2020(2)**	**2019(3)**	**2018(4)**	**2017(5)**
	US$ (except number of enrolled students)(1)	**R$ (except number of enrolled students)**	**R$ (except number of enrolled students)**		
Number of enrolled students	n/a	230,450	84,875	42,000	18,000
ACV Bookings (in millions)	**50.2**	**202.2**	**100.4**	**45.0**	**20.0**

(1) For convenience purposes only, amounts in *reais* as of March 31, 2020 have been translated to U.S. dollars using an exchange rate of R$4.031 to US$1.00, the commercial selling rate for U.S. dollars as of December 31, 2019 as reported by the Central Bank. These translations should not be considered representations that any such amounts have been, could have been or could be converted at that or any other exchange rate. See "Item 3. Key Information—A. Selected financial data—Exchange Rates" for further information about recent fluctuations in exchange rates.

(2) For the 2020 school year (which we define for purposes of ACV Bookings as the period starting in October 2019 and ending in September 2020). Includes the ACV Bookings of Positivo, which we acquired in November 2019.

(3) For the 2019 school year (which we define for purposes of ACV Bookings as the period starting in October 2018 and ending in September 2019).

(4) For the 2018 school year (which we define for purposes of ACV Bookings as the period starting in October 2017 and ending in September 2018).

(5) For the 2017 school year (which we define for purposes of ACV Bookings as the period starting in October 2016 and ending in September 2017).

For our supplemental segment, as of March 31, 2020, the approximate number of enrolled students was 230,450 and ACV Bookings were approximately R$202,2 million.

Brazilian Macroeconomic Environment

We believe that our results of operations and financial performance are and will continue to be affected by the following macroeconomic trends and factors:

All of our operations are located in Brazil. As a result, our revenues and profitability are affected by political and economic developments in Brazil and the effect that these factors have on the availability of credit, disposable income, employment rates and average wages in Brazil. Our operations, and the industry in general, are particularly sensitive to changes in economic conditions.

Brazil is the largest economy in Latin America, as measured by gross domestic product, or GDP. The following table shows data for real GDP, inflation and interest rates in Brazil and the U.S. dollar/*real* exchange rate at the dates and for the periods indicated.

	For the Year Ended December 31,		
	2019	2018	2017
Real growth (contraction) in gross domestic product	1.1%	1.3%	1.3%
Inflation (IGP-M)(1)	7.3%	7.5%	(0.5)%
Inflation (IPCA)(2)	4.3%	3.7%	2.9%
Long-term interest rates—TJLP (average)(3)	6.2%	6.7%	7.0%
CDI interest rate (4)	6.0%	6.5%	10.1%
Period-end exchange rate—*reais* per US$1.00	R$ 4.031	3.875	3.308
Average exchange rate—*reais* per US$1.00(5)	R$ 3.946	3.656	3.203
Appreciation (depreciation) of the real vs. US$ in the period(6)	(4.0)%	(17.1)%	(1.5)%
Unemployment rate(7)	11.9%	12.3%	12.7%

Source: FGV, IBGE, Central Bank and B3.

(1) Inflation (IGP-M) is the general market price index measured by the FGV.

(2) Inflation (IPCA) is a broad consumer price index measured by the IBGE.

(3) TJLP is the Brazilian long-term interest rate (average of monthly rates for the period).

(4) The CDI (*certificado de depósito interbancário*) interest rate is an average of interbank overnight rates in Brazil, accumulated during the corresponding period.

(5) Average of the exchange rate on each business day of the year.

(6) Comparing the US$ closing selling exchange rate as reported by the Central Bank at the end of the period's last day with the day immediately prior to the first day of the period discussed.

(7) Average unemployment rate for year as measured by the IBGE.

For the years ended December 31, 2019, 2018 and 2017, we have been able to offset the inflation effects by adjusting the contractual fees per student that we charge our partner schools above the IPCA rate. Our financial performance is also tied to fluctuations in interest rates, such as the CDI rate, because such fluctuations affect the value of our financial investments.

Printer Costs; Raw Materials

We outsource the printing and binding of our educational materials. Printer costs are one of our principal costs; printer fees are impacted by changes in the price of paper, one of the principal raw materials required for the production of our educational materials. The cost of paper is generally impacted by fluctuations in the U.S. dollar/*real* exchange rate, and is also impacted by inflation, but not necessarily linked to a specific inflation index. Such changes in prices are reflected as inflation adjustments in the fees charged by our third-party printers, which produce our printed materials. To the extent we cannot offset the impact of printer costs by adjusting the contractual fees per student that we charge our partner schools, our margins may be negatively affected.

Critical Accounting Estimates and Judgments

Our consolidated financial statements are prepared in conformity with IFRS. In preparing our audited consolidated financial statements, we make assumptions, judgments and estimates that can have a significant impact on amounts reported in our consolidated financial statements. We base our assumptions, judgments and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. We regularly reevaluate our assumptions, judgments and estimates. Our significant accounting policies are described in note 2 to our audited consolidated financial statements. We believe that the following critical accounting policies are more affected by the significant judgments and estimates used in the preparation of our consolidated financial statements:

Impairment of Non-Financial Assets

Impairment exists when the carrying value of an asset or cash generating unit, or CGU, or a group of CGUs exceeds its recoverable amount, defined as the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on data available from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a discounted cash flow model, or DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities to which we have not yet committed or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as to expected future cash inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill that is recognized by us. The key assumptions used to determine the recoverable amount for the different operating segments, including a sensitivity analysis, are disclosed and further explained in note 14 to our audited consolidated financial statements.

Provisions for Expected Credit Losses of Trade Receivables and Contract Assets

We use a provision matrix to calculate expected credit losses, or ECLs, for trade receivables and contract assets. The provision rates are based on days past due for customer. The provision matrix is initially based on our historical observed default rates. We calibrate the matrix to adjust the historical credit loss experience with forward-looking information. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. Our historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on our trade receivables and contract assets is disclosed in note 7 to our audited consolidated financial statements.

Taxes

Deferred tax assets are recognized for deductible temporary differences and unused tax credits from net operating losses carryforward to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. Further details on taxes are disclosed in note 24 to our audited consolidated financial statements.

Fair Value Measurement of Financial Instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs into these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required to estimate fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. See note 26 to our audited consolidated financial statements for further information.

Contingent consideration, resulting from business combinations, is valued at fair value as of the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently remeasured at each reporting date. This determination of fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor. Any contingent consideration is classified as financial instruments from acquisition of interests. For further information, see notes 6, 16 and 26 to our audited consolidated financial statements.

Recent Accounting Pronouncements

New standards, interpretations and amendments adopted in 2019

We started applying IFRS 16—Leases in 2019 for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below. Several other amendments and interpretations were applied by us for the first time in 2019, but they do not have an impact on our consolidated financial statements. We have not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16—Leases

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet. We adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized in retained earnings at the date of initial application. We elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. We also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (i.e., short-term leases), and lease contracts for which the underlying asset is of low value (i.e., low-value assets).

For further information, see note 2.5 to our audited consolidated financial statements.

JOBS Act

We are an emerging growth company under the JOBS Act. The JOBS Act provides that an emerging growth company can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

Subject to certain conditions set forth in the JOBS Act, if, as an "emerging growth company," we choose to rely on such exemptions we may not be required to, among other things, (i) provide an auditor's attestation report on our system of internal controls over financial reporting pursuant to Section 404, (ii) provide all of the compensation disclosure that may be required of non-emerging growth public companies under the Dodd-Frank Wall Street Reform and Consumer Protection Act, (iii) comply with any requirement that may be adopted by the PCAOB regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements (auditor discussion and analysis), and (iv) disclose certain executive compensation related items such as the correlation between executive compensation and performance and comparisons of the CEO's compensation to median employee compensation. These exemptions will apply for a period of five years following the completion of our initial public offering or until we are no longer an "emerging growth company," whichever is earlier.

Components of Our Results of Operations

The following is a summary of the principal line items comprising our statements of income (loss).

Net revenue

We generate substantially all of our revenue from contracts that have a standard term of three years, pursuant to which we provide educational content in printed and digital format to partner schools.

Our revenue is driven by the number of enrolled students at each partner school using our solutions and the agreed price per student per year, all in accordance with the terms and conditions set forth in each contract. We recognize our revenue at the moment we make our content available to our partner schools in printed format or via access to our digital platform. We typically deliver our Core Curriculum content four times each year in March, June, August and December and our Supplemental Solutions content twice each year in June and December, typically two to three months prior to the start of each school quarter. This allows our partner schools and their teachers to prepare classes in advance of each school quarter.

Cost of sales

Cost of sales primarily consists of expenses related to the production and delivery of our content and technology, which are mainly composed of printing costs, employee-related costs and the purchase of long-term intellectual property assets such as educational content produced by third-party authors, as well as inventory write-off costs.

We intend to continue to invest additional resources in our content development and technology platform. The timing of these expenses will affect our cost of sales in the affected periods. Also, we may launch new products that require additional resources and can affect our cost of sales.

Expenses

We classify our operating expenses as selling expenses, general and administrative expenses, and other expenses. The largest component of our operating expenses is employee and labor-related expenses, which includes salaries and bonuses, employee benefit expenses and contractor costs. We allocate expenses such as information technology infrastructure costs related to our operations and rent and occupancy charges in each expense category based on employee headcount in that category.

- *Selling expenses.* Selling expenses consist primarily of the personnel expenses of our sales and marketing and customer support employees, including commissions and incentives, travel and travel-related expenses, benefits, marketing programs, including lead generation, costs of our education-related conferences and other miscellaneous expenses, as well as intangible assets amortization expenses. We expect that our selling expenses will increase as we increase the size of our sales and marketing teams and potentially increase the number of conferences and events that we organize.

- *General and administrative expenses.* General and administrative expenses consist of personnel expenses and related expenses, including executive, finance, legal, human resources, recruiting, employee-related information technology, administrative personnel, payroll, and benefits. They also consist of expenses in connection with professional fees for external legal, accounting and other consulting services, intangible assets amortization expenses, as well as other miscellaneous expenses. We expect general and administrative expenses to increase on an absolute *real* basis but decrease as a percentage of total revenue as we focus on processes, systems and controls that will enable our internal support functions to grow concurrently with the growth of our business. We also anticipate increases to general and administrative expenses as we incur the expenses of compliance associated with being a publicly traded company, including legal, audit and consulting fees.

We allocate share-based payment expense to general and administrative expenses. These share-based expenses represent granted share options to selected employees we consider to be key executives. We recognize our share-based payments as an expense in the statement of income based on their fair value over the vesting period. These charges have been significant in the past, and we expect that they will increase as we hire more employees and seek to retain existing employees.

Other income (expenses), net

Our other income (expenses), net, line item consists mainly of miscellaneous income and/or expense items.

Finance result

Our finance result includes finance income and finance costs.

Finance income includes mainly income from cash equivalents and financial investments and changes in fair value of derivative instruments from business combinations and acquisition of interest in associates and joint ventures. Finance costs consist mainly of changes in fair value of derivatives instruments and interest expenses of liabilities from business combinations and other financial discounts and bank fees.

Income taxes

Income taxes include current and deferred income taxes. Deferred tax expenses are mainly related to provisions for bonuses, inventories reserve, allowance for doubtful accounts, share-based compensation plan, intangible amortization and derivatives from acquisition of interests and business combinations.

Results of Operations

Year Ended December 31, 2019 Compared to the Year Ended December 31, 2018

The following table sets forth our consolidated statements of income (loss) for the years ended December 31, 2019 and 2018:

	For the Year Ended December 31,		
	2019	2018	Variation
	(in R$ millions, except for percentages)		
Statement of Income Data:			
Net revenue	572.8	381.0	50.3%
Core(1)	433.3	303.0	43.0%
Supplemental(1)	139.5	78.0	78.9%
Cost of sales	(117.3)	(80.7)	45.4%
Gross profit	**455.5**	**300.2**	**51.7%**
Selling expenses	(199.8)	(113.3)	76.3%
General and administrative expenses	(191.4)	(129.8)	47.5%
Other income (expenses), net	(6.2)	4.9	(226.5)%
Operating profit	**58.1**	**62.1**	**(6.4)%**
Finance income	72.0	36.6	96.7%
Finance costs	(170.8)	(198.8)	(14.1)%
Finance result	**(98.8)**	**(162.2)**	**(39.1)%**
Share of loss of equity-accounted investees	(1.8)	(0.8)	125.0%
Loss before income taxes	**(42.5)**	**(100.9)**	**(57.9)%**
Income taxes—income	**33.1**	**18.0**	**83.9%**
Current	(46.9)	(26.5)	77.0%
Deferred	80.0	44.5	79.8%
Loss for the year	**(9.4)**	**(82.9)**	**(88.7)%**
Loss attributable to:			
Equity holders of the parent	(9.4)	(82.4)	(88.6)%
Non-controlling interests	—	(0.5)	—

(1) Our operating segments consist of our Core segment and our Supplemental segment. For further information, see note 25 to our audited consolidated financial statements.

Net revenue

Net revenue for the year ended December 31, 2019 was R$572.8 million, an increase of R$191.8 million, or 50.3%, from R$381.0 million for the year ended December 31, 2018.

This increase was primarily attributable to:

(i) in the first three quarters of 2019, the positive impact of our organic growth through the addition of new partner schools and an increase in up-sales of our solutions, which resulted in a 22.9% increase in the total number of students enrolled at our partner schools, to 498,553 students distributed across our partner schools as of March 31, 2019, from 405,814 students distributed across our partner schools as of March 31, 2018;

(ii) in the fourth quarter of 2019, the positive impact of our organic growth through the addition of new partner schools and an increase in up-sales of our solutions, which resulted in a 173.2% increase in the total number of students enrolled at our partner schools, to 1,362,141 students distributed across our partner schools as of March 31, 2020 from 498,553 students distributed across our partner schools as of March 31, 2019;

(iii) the 11.4% increase in the average contractual fees per student that we charge our partner schools, from R$793.8 per student as of March 31, 2018 to R$884.3 per student as of March 31, 2019, which impacted the first three quarters of 2019; and

(iv) the completion of the acquisition of Positivo on November 1, 2019, which contributed 710,705 students to our total student base, with an average ticket per student per year of R$579.0, impacting the last two months of 2019.

In our Core segment, net revenue for the year ended December 31, 2019 was R$433.3 million, an increase of R$130.3 million, or 43.0%, from R$303.0 million for the year ended December 31, 2018.

This increase was primarily attributable to:

(i) the 13.7% increase in the number of enrolled students at partner schools, from 363,824 enrolled students as of March 31, 2018 to 413,678 enrolled students as of March 31, 2019, which impacted the first three quarters of 2019, combined with the 174% increase in the number of enrolled students at partner schools to 1,131,691 as of March 31, 2020, which impacted the fourth quarter of 2019; and

(ii) the 8.6% overall increase in the average contractual fees per student payable by partner schools, from R$757.6 per student for the year ended December 31, 2018 to R$823.0 per student for the year ended December 31, 2019, which impacted the first three quarters of 2019.

In our Supplemental segment, net revenue for the year ended December 31, 2019 was R$139.5 million, an increase of R$61.5 million, or 78.9% from R$78.0 million for the year ended December 31, 2018.

This increase was primarily attributable to the 172% increase in the number of enrolled students at partner schools, from 84,875 enrolled students as of March 31, 2019 to 230,450 enrolled students as of March 31, 2020 and the addition of new supplemental solutions in our portfolio.

Cost of sales

Cost of sales for the year ended December 31, 2019 was R$117.3 million, an increase of R$36.6 million, or 45.4%, from R$80.7 million for the year ended December 31, 2018. This increase of 45.4% was primarily attributable to the overall increase in the production volume of our educational materials, resulting from the positive impact of our organic growth. The increase in cost of sales was lower than our revenue growth due to captured benefits from economies of scale.

As a percentage of net revenue, our cost of sales decreased to 20.5% for the year ended December 31, 2019, compared to 21.2% for the year ended December 31, 2018.

In our Core segment, cost of sales for the year ended December 31, 2019 was R$97.5 million, an increase of R$26.6 million, or 37.7%, from R$70.9 million for the year ended December 31, 2018. As mentioned above, this increase was primarily attributable to the overall increase in the production volume of our educational materials, resulting from the positive impact of our organic growth. As a percentage of net revenue in our Core segment, cost of sales decreased to 22.5% in the year ended December 31, 2019, compared to 23.4% in the year ended December 31, 2018.

In our Supplemental segment, cost of sales for the year ended December 31, 2019 was R$19.7 million, an increase of R$9.9 million, or 101.0% from R$9.8 million for the year ended December 31, 2018. This increase was also primarily attributable to the overall increase in the production volume of our educational materials, resulting from the positive impact of our organic growth and the addition of our supplemental solutions in our portfolio. As a percentage of net revenue in our Supplemental segment, cost of sales increased to 14.6% in the year ended December 31, 2019, compared to 12.6% in the year ended December 31, 2018.

Gross profit

For the reasons discussed above, gross profit for the year ended December 31, 2019 was R$455.5 million, an increase of R$155.3 million, or 51.7%, from R$300.2 million for the year ended December 31, 2018. In our Core segment, gross profit for the year ended December 31, 2019 was R$335.8 million, an increase of R$103.7 million, or 44.7%, from R$232.1 million for the year ended December 31, 2018. In our Supplemental segment, gross profit for the year ended December 31, 2019 was R$119.8 million, an increase of R$51.6 million or 75.7%, from R$68.1 million for the year ended December 31, 2018.

Selling expenses

Selling expenses for the year ended December 31, 2019 were R$199.8 million, an increase of R$86.5 million, or 76.3%, from R$113.3 million for the year ended December 31, 2018. This increase was primarily attributable to:

(i) a R$38.3 million, or 78.1%, increase in sales personnel expenses, mainly attributable to the 35% increase in the number of employees in our educational and pedagogical consulting teams to support our growth strategy going forward;

(ii) a R$13.5 million, or 78.0%, increase in customer support expenses due to continuous investments for customer satisfaction, which increases as our school base grows;

(iii) a R$11.6 million, or 97.4%, increase in depreciation and amortization expenses, mainly due to the acquisition of Positivo, which includes Positivo's trademarks, and customer relationship and educational systems; and

(iv) a R$13.3 million, or 74.0%, increase in sales & marketing expenses, mainly attributable to the expansion of our educational and pedagogical teams' activities, such as traveling expenses, advertising, and other general expenses, necessary to support our growth strategy going forward.

General and administrative expenses

General and administrative expenses for the year ended December 31, 2019 were R$191.4 million, an increase of R$61.6 million, or 47.5%, from R$129.8 million for the year ended December 31, 2018. This increase was primarily attributable to:

(i) a R$14.1 million increase in corporate personnel expenses totaling R$53.4 million for the year ended December 31, 2019, due to the 25% increase in the number of employees in our general administrative team, from 284 employees as of December 31, 2018, to 355 employees as of December 31, 2019; and

(ii) a R$29.1 million increase in third-party services expenses totaling R$43.4 million for the year ended December 31, 2019, attributable to expenses relating to (i) the acquisition of Positivo; and (ii) the follow-on equity public offering we completed on October 29, 2019.

Operating profit

For the reasons discussed above, operating profit for the year ended December 31, 2019 was R$58.1 million, a decrease of R$4.0 million, or 6.4%, from R$62.1 million for the year ended December 31, 2018.

Finance result

Finance result for the year ended December 31, 2019 was a net finance cost of R$98.8 million, a decrease of R$63.4 million, from a net finance cost of R$162.2 million for the year ended December 31, 2018, for the reasons described below.

Finance income. Finance income for the year ended December 31, 2019 was R$72.0 million, an increase of R$35.4 million, or 96.7%, from R$36.6 million for the year ended December 31, 2018. This increase was mainly attributable to the interest generated from financial investments.

Finance costs. Finance costs for the year ended December 31, 2019 was R$170.8 million, a decrease of R$28.0 million, from R$198.8 million for the year ended December 31, 2018. This decrease was primarily attributable to the effects of fair value adjustments of our derivative financial instruments comprising the put and call options of our business acquisitions and investments in associates and joint ventures, primarily with respect to International School, which had an impact of R$89.4 million.

Share of loss of equity-accounted investees

Share of loss of equity-accounted investees for the year ended December 31, 2019 was a loss of R$1.8 million, as compared to a loss of R$0.8 million for the year ended December 31, 2018, attributable to the performance of our equity-accounted investees.

Loss before income taxes

For the reasons discussed above, for the year ended December 31, 2019, we recorded a loss before income taxes of R$42.5 million compared to a loss of R$100.9 million for the year ended December 31, 2018.

Income taxes – income

For the year ended December 31, 2019, we recorded an income tax credit of R$33.1 million compared to an income tax credit of R$18.0 million for the year ended December 31, 2018. This income tax credit was mainly attributable to the recognition of deferred tax credits over financial instruments from acquisition of interests.

Loss for the year

As a result of the foregoing, loss for the year ended December 31, 2019 was R$9.4 million compared to a loss of R$82.9 million for the year ended December 31, 2018.

Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017

The following table sets forth our consolidated statements of income (loss) for the years ended December 31, 2018 and 2017:

	For the Year Ended December 31,		
	2018	**2017**	**Variation**
	(in R$ millions, except for percentages)		
Statement of Income Data:			
Net revenue	381.0	244.4	55.9%
Core(1)	303.0	219.0	38.4%
Supplemental(1)	78.0	25.4	207.1%
Cost of sales	(80.7)	(58.5)	37.9%
Gross profit	**300.2**	**185.9**	**61.5%**
Selling expenses	(113.3)	(65.3)	73.5%
General and administrative expenses	(129.8)	(48.9)	165.4%
Other income, net	4.9	3.3	48.5%
Operating profit	**62.1**	**74.9**	**(17.1)%**
Finance income	36.6	12.5	192.8%
Finance costs	(198.8)	(20.4)	874.5%
Finance result	**(162.2)**	**(7.9)**	**1,953.2%**
Share of loss of equity-accounted investees	(0.8)	(0.7)	14.3%
Profit (loss) before income taxes	**(100.9)**	**66.4**	**(252.0)%**
Income taxes—income (expense)	**18.0**	**(22.7)**	**(179.3)%**
Current	(26.5)	(31.0)	14.5%
Deferred	44.5	8.3	436.1%
Profit (loss) for the year	**(82.9)**	**43.6**	**(290.1)%**
Profit (loss) attributable to:			
Equity holders of the parent	(82.4)	44.3	(286.0)%
Non-controlling interests	(0.5)	(0.6)	16.7%

(1) Our operating segments consist of our Core segment and our Supplemental segment. For further information, see note 23 to our audited consolidated financial statements as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016.

Net revenue

Net revenue for the year ended December 31, 2018 was R$381.0 million, an increase of R$136.6 million, or 55.9%, from R$244.4 million for the year ended December 31, 2017.

This increase was primarily attributable to:

(i) in the first three quarters of 2018, the positive impact of our organic growth through the addition of new partner schools and an increase in up-sales of our solutions, which resulted in a 26.0% increase in the total number of students enrolled at our partner schools, to 405,814 students distributed across our partner schools as of March 31, 2018, from 322,031 students distributed across our partner schools as of March 31, 2017;

(ii) in the fourth quarter of 2018, the positive impact of our organic growth through the addition of new partner schools and an increase in up-sales of our solutions, which resulted in a 22.9% increase in the total number of students enrolled at our partner schools, to 498,553 students distributed across our partner schools as of March 31, 2019, from 405,814 students distributed across our partner schools as of March 31, 2018; and

(iii) the 11.5% increase in the average contractual fees per student that we charge our partner schools, from R$711.9 per student as of March 31, 2017 to R$793.8 per student as of March 31, 2018, which impacted the first three quarters of 2018, and a 11.4% increase in the average contractual fees to R$884.4 as of March 31, 2019, which impacted the fourth quarter of 2018.

In our Core segment, net revenue for the year ended December 31, 2018 was R$303.0 million, an increase of R$84.0 million, or 38.4%, from R$219.0 million for the year ended December 31, 2017.

This increase was primarily attributable to:

(i) the 19.7% increase in the number of enrolled students at partner schools, from 303,950 enrolled students as of March 31, 2017 to 363,824 enrolled students as of March 31, 2018, which impacted the first three quarters of 2018, combined with the 13.7% increase in the number of enrolled students at partner schools to 413,678 as of March 31, 2019, which impacted the fourth quarter of 2018; and

(ii) the 10.1% overall increase in the average contractual fees per student payable by partner schools, from R$687.9 per student for the year ended December 31, 2017 to R$757.6 per student for the year ended December 31, 2018, which impacted the first three quarters of 2018, and a 8.6% increase in the average contractual fees to R$823.0 as of March 2019, which impacted the fourth quarter of 2018.

In our Supplemental segment, net revenue for the year ended December 31, 2018 was R$78.0 million, an increase of R$52.6 million, or 207.1% from R$25.4 million for the year ended December 31, 2017.

This increase was primarily attributable to the 102.1% increase in the number of enrolled students at partner schools, from 41,990 enrolled students as of March 31, 2018 to 84,875 enrolled students as of March 31, 2019.

Cost of sales

Cost of sales for the year ended December 31, 2018 was R$80.7 million, an increase of R$22.2 million, or 37.9%, from R$58.5 million for the year ended December 31, 2017. This increase of 37.9% was primarily attributable to the overall increase in the production volume of our educational materials, resulting from the positive impact of our organic growth. The increase in cost of sales was lower than our revenue growth due to captured benefits from economies of scale.

As a percentage of net revenue, our cost of sales decreased to 21.2% for the year ended December 31, 2018, compared to 23.9% for the year ended December 31, 2017.

In our Core segment, cost of sales for the year ended December 31, 2018 was R$70.9 million, an increase of R$16.6 million, or 30.6%, from R$54.3 million for the year ended December 31, 2017. As mentioned above, this increase was primarily attributable to the overall increase in the production volume of our educational materials, resulting from the positive impact of our organic growth. As a percentage of net revenue in our Core segment, cost of sales decreased to 23.4% in the year ended December 31, 2018, compared to 24.8% in the year ended December 31, 2017.

In our Supplemental segment, cost of sales for the year ended December 31, 2018 was R$9.8 million, an increase of R$5.6 million, or 133.3% from R$4.2 million for the year ended December 31, 2017. This increase was also primarily attributable to the overall increase in the production volume of our educational materials, resulting from the positive impact of our organic growth. As a percentage of net revenue in our Supplemental segment, cost of sales decreased to 12.6% in 2018, compared to 16.5% in the year ended December 31, 2017.

Gross profit

For the reasons discussed above, gross profit for the year ended December 31, 2018 was R$300.2 million, an increase of R$114.4 million, or 61.5%, from R$185.9 million for the year ended December 31, 2017. In our Core segment, gross profit for the year ended December 31, 2018 was R$232.1 million, an increase of R$67.5 million, or 41.0%, from R$164.6 million for the year ended December 31, 2017. In our Supplemental segment, gross profit for the year ended December 31, 2018 was R$68.1 million, an increase of R$46.9 million or 221.2%, from R$21.2 million for the year ended December 31, 2017.

Selling expenses

Selling expenses for the year ended December 31, 2018 were R$113.3 million, an increase of R$48.0 million, or 73.5%, from R$65.3 million for the year ended December 31, 2017. This increase was primarily attributable to:

(i) a R$22.3 million, or 83.5%, increase in sales personnel expenses, mainly attributable to the 56.5% increase in the number of employees in our educational and pedagogical consulting teams to support our growth strategy going forward;

(ii) a R$9.1 million, or 111.4%, increase in customer support expenses, mainly due to the increase in our partner schools base across Brazil, as well as expenses related to promoting our growth strategy going forward; and

(iii) a R$8.6 million, or 92.4%, increase in sales & marketing expenses, mainly attributable to the expansion of our educational and pedagogical teams' activities, such as traveling expenses, advertising, and other general expenses, necessary to support our growth strategy going forward.

In our Core segment, selling expenses for the year ended December 31, 2018 were R$87.2 million, an increase of R$30.9 million, or 54.8%, from R$56.3 million for the year ended December 31, 2017. This increase was primarily attributable to an increase in (i) the number of employees in our educational and pedagogical consulting teams, (ii) sales & marketing and (iii) customer support expenses.

In our Supplemental segment, selling expenses for the year ended December 31, 2018 were R$26.1 million, an increase of R$17.1 million or 190.0%, from R$9.0 million for the year ended December 31, 2017. This increase was primarily attributable to an increase in (i) the number of employees in our educational and pedagogical consulting teams, and (ii) customer support expenses.

General and administrative expenses

General and administrative expenses for the year ended December 31, 2018 were R$129.8 million, an increase of R$80.9 million, or 165.4%, from R$48.9 million for the year ended December 31, 2017. This increase was primarily attributable to the vesting of the Long Term Incentive Plan (LTIP) as a result of our initial public offering, or IPO, in September 2018, resulting in a non-recurring expense of R$60.3 million for the year ended December 31, 2018. These expenses are also attributable to:

(i) a R$14.7 million increase in corporate personnel expenses totaling R$39.4 million for the year ended December 31, 2018, due to the 38.2% increase in the number of employees in our general administrative team, from 207 employees as of December 31, 2017, to 284 employees as of December 31, 2018; and

(ii) a R$6.5 million increase in third-party services expenses totaling R$14.3 million for the year ended December 31, 2018, attributable to expenses relating to (i) the creation of our shared services center in order to centralize our administrative expenses and internal controls across our business and (ii) the creation of our new value creation team.

Operating profit

For the reasons discussed above, operating profit for the year ended December 31, 2018 was R$62.1 million, a decrease of R$12.8 million, or 17.1%, from R$74.9 million for the year ended December 31, 2017. Adjusting the impact of the vesting of the LTIP, the operating profit for the year ended December 31, 2018 would be R$122.4 million, an increase of R$47.5 million, or 63.4%, from R$74.9 million for the year ended December 31, 2017, in line with our revenue growth.

Finance result

Finance result for the year ended December 31, 2018 was a finance cost, net of R$162.2 million, an increase of R$154.3 million, from a finance cost, net of R$7.9 million for the year ended December 31, 2017, for the reasons described below.

Finance income. Finance income for the year ended December 31, 2018 was R$36.6 million, an increase of R$24.1 million, or 192.8%, from R$12.5 million for the year ended December 31, 2017. This increase was mainly attributable to the interest generated from financial investments and by the increase in the fair value of our derivative financial instruments, comprising the put and call options of our business acquisitions and investments in associates and joint ventures.

Finance costs. Finance costs for the year ended December 31, 2018 was R$198.8 million, an increase of R$178.4 million, from R$20.4 million for the year ended December 31, 2017. This increase was primarily attributable to the foreign exchange rate variation on the proceeds we received from our IPO, which had an impact of R$34.4 million, and the fair value of our derivative financial instruments comprising the put and call options of our business acquisitions and investments in associates and joint ventures, primarily with respect to International School, which had an impact of R$130.4 million.

Share of loss of equity-accounted investees

Share of loss of equity-accounted investees for the year ended December 31, 2018 was a loss of R$0.8 million, as compared to a loss of R$0.7 million for the year ended December 31, 2017, attributable to the performance of our equity-accounted investees.

Profit (loss) before income taxes

For the reasons discussed above, for the year ended December 31, 2018, we recorded a loss before income taxes of R$100.9 million compared to a profit of R$66.4 million for the year ended December 31, 2017.

Income taxes – income (expense)

For the year ended December 31, 2018, we recorded an income tax credit of R$18.0 million compared to an income tax expense of R$22.7 million for the year ended December 31, 2017. This income tax credit was mainly attributable to the recognition of deferred tax credits over financial instruments from acquisition of interests.

Profit (loss) for the year

As a result of the foregoing, loss for the year ended December 31, 2018 was R$82.9 million compared to a profit of R$43.6 million for the year ended December 31, 2017.

B. Liquidity and capital resources

As of December 31, 2019, we had R$623.7 million in cash and cash equivalents and financial investments (current). We believe that our current available cash and cash equivalents and financial investments and the cash flows from our operating activities will be sufficient to meet our working capital requirements and capital expenditures in the ordinary course of business for the next 12 months.

The following discussion of our liquidity and capital resources is based on the financial information derived from the audited consolidated financial statements included elsewhere in this annual report.

Cash Flows

	For the Year Ended December 31,		
	2019	2018	2017
	(in thousands of *reais*)		
Cash Flow Data			
Net cash flows from (used in) operating activities	(7,615)	92,124	62,650
Net cash flows used in investing activities	(631,442)	(780,964)	(77,269)
Net cash flows from financing activities	676,211	734,742	11,095

Operating Activities

We recorded net cash flows used in operating activities of R$7.6 million in 2019, compared to net cash flows from operating activities of R$92.1 million in 2018. In 2019, our net cash flows used in operating activities were affected by the impact of our organic growth through the acquisition of new companies, in addition to adding new partner schools and an increase in up-sales of our solutions during the period, which was partially offset by increases in payments to suppliers and personnel expenses. In 2018, net cash flows from operating activities increased by 47.0%, from R$62.7 million in 2017. Our net cash flows from operating activities were affected by the impact of our organic growth through the acquisition of new companies, in addition to adding new partner schools and an increase in up-sales of our solutions during the period, which was partially offset by increases in payments to suppliers and personnel expenses.

Investing Activities

Our net cash used in investing activities was R$631.4 million in the year ended December 31, 2019, compared to net cash used in investing activities of R$781.0 million in the year ended December 31, 2018, primarily due to the positive impact of new addition of financial investments of R$ 277.4 and the amount paid in acquisition of subsidiaries during this year of R$ 798.9.

Our net cash used in investing activities was R$77.3 million in the year ended December 31, 2017, compared to R$781.0 million in the year ended December 31, 2018, primarily due to the increase in financial investments in 2018 as a result of the net proceeds we received from our initial public offering in 2018. The net proceeds were invested in nonexclusive funds managed by highly rated financial institutions.

Financing Activities

Out net cash flows from financing activities for the year ended December 31, 2019 was R$676.2 million, compared to R$734.7 million in the year December 31, 2018, primarily due to net proceeds from public offering, which in 2019 was R$589.6 million, and in 2018 was R$895.2 million. Additionally, in 2019 we received R$97.6 from loans and financing, and zero in 2018. Finally, in 2018 we paid dividends in the amount of R$85.0 million, and zero in 2019.

Our net cash flows from financing activities for the year ended December 31, 2018 was R$734.7 million, compared to R$11.1 million for the year ended December 31, 2017, primarily due to the R$816.0 million in net proceeds we received from our initial public offering in 2018.

Indebtedness

As of December 31, 2019, our total outstanding indebtedness was R$98.6 million.

On October 25, 2019, we entered into a loan agreement with Banco Bradesco S.A., pursuant to which we borrowed R$100.0 million. The loan accrues interest at a rate equal to 100% of the CDI plus 0.7% per annum. The principal on the loan is payable in a single instalment in October 2020.

On March 23, 2020, we entered into a loan agreement with Banco Bradesco S.A., pursuant to which we borrowed R$200.0 million. The loan accrues interest at a rate equal to 100% of the CDI plus 0.7% per annum. The principal on the loan is payable in a single instalment in December 2020.

Capital Expenditures

In the years ended December 31, 2019, 2018 and 2017 we made capital expenditures of R$54.1 million, R$36.2 million and R$11.4 million, respectively. These capital expenditures mainly include expenditures related to the acquisition of property and equipment and the acquisition of intangible assets. Our capital expenditures increased in 2019 as compared to 2018 mainly due to (i) investments made to comply with the BNCC amounting to R$14.9 million and R$ 5,5 million of investments and educational technology; (ii) investments in leasehold improvements of Fortaleza and São Paulo site of R$4.6 million; and (iii) development Pleno's product of R$4.1 million. Our capital expenditures increased in 2018 as compared to 2017 mainly due to (i) investments made to comply with the BNCC amounting to R$9.6 million of capitalized personnel expenses, and R$7.7 million of acquired content; (ii) the capitalization of payroll expenses within the EdTech team related to internally developed technology for our platform amounting to R$5.3 million; and (iii) investments of R$3.1 million in our Supplemental solution.

We expect to increase our capital expenditures to support the growth in our business and operations. We expect to meet our capital expenditure needs for the foreseeable future from our operating cash flow, our existing cash and cash equivalents. Our future capital requirements will depend on several factors, including our growth rate, the expansion of our research and development efforts, employee headcount, marketing and sales activities, the introduction of new features to our existing products and the continued market acceptance of our products.

C. Research and development, patents and licenses, etc.

See "Item 4. Information on the Company—D. Property, plant and equipment—Intellectual Property."

D. Trend information

For a discussion of trend information, see "Item 4. Information on the Company—B. Business Overview—Underlying Trends."

E. Off-balance sheet arrangements

As of December 31, 2019, we did not have any off-balance sheet arrangements.

F. Tabular disclosure of contractual obligations

The following is a summary of our contractual obligations as of December 31, 2019:

	Payments Due By Period as of December 31, 2019				
	Less than 3 months	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Total**
			(in thousands of *reais*)		
Trade payables	34,521	—	—	—	34,521
Lease liabilities	2,037	4,808	19,012	—	25,857
Loans and financing	—	98,561	—	—	98,561
Financial instruments from acquisition of interests(1)	—	—	33,940	—	33,940
Accounts payable to selling shareholders	—	117,959	1,098,273	—	1,216,232
Total	**36,558**	**221,328**	**1,151,225**	—	**1,409,111**

(1) Includes (i) an option to acquire the remaining 51.76% of the outstanding share capital of Geekie in May 2022 pursuant to the share purchase agreement dated as of December 8, 2016, and (ii) an option to acquire the remaining 75% of the outstanding share capital of WPensar by September 2020.

G. Safe harbor

See "Forward-Looking Statements."

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and senior management

We are managed by our board of directors and by our senior management, pursuant to our Articles of Association and the Cayman Islands Companies Law (as amended) or the Companies Law.

Board of Directors

As of December 31, 2019, our board of directors is composed of six members. Each director holds office for the term, if any, fixed by the shareholders' resolution that appointed him, or, if no term is fixed on the appointment of the director, until the earlier of his or her removal or vacation of office as a director in accordance with the Articles of Association. Directors appointed by the board of directors hold office until the next annual general meeting. Our directors do not have a retirement age requirement under our Articles of Association.

We do not have any service contracts with our executive directors that provide benefits upon termination of employment.

The following table presents the names of the current members of our board of directors.

Name	Age	Position
Oto Brasil de Sá Cavalcante	73	Chairman
Ari de Sá Cavalcante Neto	40	Director
Martin Escobari	48	Director
Alberto Menache	46	Independent Director*
Edward Ruiz	69	Independent Director*
Pablo Doberti	55	Independent Director*

* Member of our Audit Committee.

The following is a brief summary of the business experience of our directors. Unless otherwise indicated, the current business addresses for our directors is Rua Augusta 2840, 9th floor, suite 91, Consolação, São Paulo - SP, 01412-100, Brazil.

Oto Brasil de Sá Cavalcante is the Chairman of our board of directors, a position he has held since February 2018. Mr. Brasil de Sá Cavalcante has over 50 years' experience in the education industry. In 2001, he founded Colégio Ari de Sá in Fortaleza, and has been the chairman of its board of directors since 2001. In 2013, he founded Faculdade Ari de Sá in Fortaleza, and has been its chief executive officer since 2013. He holds a bachelor's degree in civil engineering from *Universidade Federal do Ceará* in Fortaleza.

Ari de Sá Cavalcante Neto is a member of our board of directors and our Chief Executive Officer, positions he has held since February 2018. He has been a member of the advisory committee at Colégio Ari de Sá since 2007. Mr. de Sá Cavalcante Neto was an associate at Ernst & Young from 1998 to 2000. He was the chief operating officer of Colégio Ari de Sá from 2001 to 2005, and was an associate at McKinsey & Company in 2006. He holds an MBA from the Massachusetts Institute of Technology (MIT).

Martin Escobari is a member of our board of directors, a position he has held since August 2018. He has been with General Atlantic since 2012, and is a member of its Executive Committee, is the Chair of its Investment Committee, and is the head of its Latin America business. Mr. Escobari serves on the board of directors of Empreendimentos Pague Menos SA, Invekra, S.A.P.I. de C.V. (d/b/a Laboratórios Sanfer, S.A. de C.V.), Grupo Axo, S.A.P.I. de C.V. and XP Investimentos, and has previously served on the boards of Ourofino Saude Animal Participações S.A., Sura Asset Management, Smiles S.A. Aceco TI Participações S.A., Grupo Linx and Decolar.com, Inc. Mr. Escobari co-founded submarino.com and was its chief financial officer from 1999 to 2007. He was an associate at the Boston Consulting Group (New York) from 1994 to 1996, an investment officer at the private equity firm GP Investimentos from 1998 to 1999, and a managing director at Advent International from 2007 to 2011. Mr. Escobari holds a bachelor's degree in economics from Harvard College (Harvard University) and an MBA (George F. Baker Scholar) from Harvard Business School. He serves on the board of Primeira Chance, a scholarship program for gifted children in Brazil and is active with Endeavor Brazil, where he mentors young entrepreneurs. Mr. Escobari is also a member of the Brazil office of Harvard's Rockefeller Center for Latin American Studies.

Alberto Menache is a member of our board of directors, a position he has held since August 2018. Currently, he is the vice chairman and chief executive officer of Linx S.A., or Linx, a position he has held since November 2013. Prior to becoming vice chairman and chief executive officer, Mr. Menache held management positions at Linx in sales, marketing, human resources, IT and finance.

Edward Ruiz is a member of our board of directors and the chair of our audit committee, positions he has held since July 2019. Mr. Ruiz is an American national with over 48 years of experience in public and private accounting. He has been a Certified Public Accountant in the United States since 1972. Edward retired from Deloitte in 2012, where he was an audit partner and member of Deloitte's IFRS Specialist Group in Brazil. As Head of the Capital Markets group in Brazil, Edward advised companies on financial and regulatory reporting matters related to initial public offerings and secondary offerings in Brazil, the United States and European Capital Markets. Prior to Deloitte, he held executive positions in internal audit at JP Morgan and PepsiCo Inc. in the United States. He holds a bachelor's degree in Business Administration from Pace University, New York City and has taken advanced courses related to an Executive MBA at FIA in São Paulo and governance courses at the Harvard Business School. Since his retirement, Mr. Ruiz has gained extensive board-level experience as a member and Audit Committee chair of several publicly traded companies in Brazil. Mr. Ruiz is currently a Board member and Audit Committee chair at Nexa Resources, a mining company listed on the New York Stock Exchange and Toronto Stock Exchange and with mining and smelting operations in Brazil and Peru.

Pablo Doberti is a member of our board of directors and a member of our audit committee, positions he has held since August 2019. Mr. Doberti is an education executive with more than 25 years of experience in the sector. He is the founder and CEO of Agaton Educação, a startup incubator and accelerator focused on education in Brazil and Mexico. He is also founder and CEO of Vivadi. Prior to Vivadi, Mr. Doberti was the General Global Director of Uno Internacional Santillana, creating the business model and leading the international expansion and the entrance of Unoi in Brazil. Mr. Doberti holds a bachelor's degree in Psychology from Universidad de Buenos Aires.

Executive Officers

Our executive officers are responsible for the day-to-day management of our business and for implementing the general policies and directives established by our board of directors. We have a strong management team led by Ari de Sá Cavalcante Neto, our Chief Executive Officer, who has broad experience in the education industry. The members of our management team have worked together as a team for many years. Our executive officers were appointed by our board of directors for an indefinite term.

The following table lists our current executive officers:

Name	Age	Position
Ari de Sá Cavalcante Neto	40	Chief Executive Officer
David Peixoto dos Santos	32	Chief Financial Officer
João Cunha Silva	34	Chief Operating Officer

The following is a brief summary of the business experience of our executive officers. Unless otherwise indicated, the current business addresses for our executive officers is Rua Augusta 2840, 9th floor, suite 91, Consolação, São Paulo - SP, 01412-100, Brazil.

David Peixoto dos Santos is our Chief Financial Officer and our Vice President of Business Development, positions he has held since March 2014. Prior to joining us, Mr. Peixoto dos Santos was an analyst at Credit Suisse from November 2011 to March 2014. He holds a law degree from *Universidade de São Paulo*, and participated in a student exchange program at Yale University.

João Cunha Silva is our Chief Operating Officer, a position he has held since January 2014. Prior to joining us, Mr. Cunha Silva was an associate at Boston Consulting Group from January 2008 to September 2009. He holds a bachelor's degree in computer engineering from *Universidade Estadual de Campinas (Unicamp)*, in Campinas, São Paulo, and a certificate from the Executive Leadership Development program at Stanford University.

Family Relationships

Oto Brasil de Sá Cavalcante, our Chairman, is the father of Ari de Sá Cavalcante Neto, our Chief Executive Officer.

Directors' and Officers' Insurance

We have contracted civil liability insurance coverage for acts carried out by our directors and executive officers in the course of their duties.

B. Compensation

Compensation of Directors and Officers

Under Cayman Islands law, we are not required to disclose compensation paid to our senior management on an individual basis and we have not otherwise publicly disclosed this information elsewhere.

Our executive officers, directors and management receive fixed and variable compensation. They also receive benefits in line with market practice in Brazil. The fixed component of their compensation is set on market terms and adjusted annually.

The variable component consists of cash bonuses and awards of shares (or the cash equivalent). Cash bonuses or paid to executive officers and members of our management based on previously agreed targets for the business. Shares (or the cash equivalent) are awarded under our share options long-term incentive program, as discussed below.

Long-Term Incentive Plan (LTIP) and Share-based Compensation

Restricted Shares Grant Plan

On April 30, 2019, our board of directors approved our restricted share long-term incentive program, or the "Restricted Shares Grant Plan." The maximum number of shares that can be issued under the Restricted Shares Grant Plan may not exceed 5% of our share capital at any time. The Restricted Shares Grant Plan is administered by our board of directors and a designated committee.

Our and our controlled companies' directors, officers, employees and professionals of any nature may participate in the Restricted Shares Grant Plan, which is composed of two underlying programs: (i) the regular program, pursuant to which we will grant restricted shares to the participant at no cost, subject to certain vesting conditions and (ii) the matching shares program, pursuant to which we 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 us 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. Under the regular shares program, the participant's right to receive the restricted shares will be subject to the participant remaining continuously bound as our employee, officer or director, as applicable, through each vesting, which may not exceed five years.

If a participant is dismissed by us with cause or voluntarily terminates his or her employment or service relationship with us, the participant will forfeit any right to the unvested shares. In the event that the participant is dismissed by us without cause or by mutual agreement between us and the participant, 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. In case of the participant's death or permanent disability, the participant (or his or her heirs) will be entitled to receive all the granted shares, whether or not vested, which will be delivered upon termination of the original vesting period.

If our shares cease to be publicly traded or in an event of a change in our control, the vesting period of the granted shares will be accelerated, as applicable. In each such case, each participant may elect to (i) sell his or her granted shares at a price equal to the price at which the shares were sold in connection with the transaction resulting in the Company becoming privately owned or in a change of control, or (ii) remain a shareholder of the Company subject to the approval of the board of directors.

Awards of restricted shares and matching shares may be settled in shares or cash, as determined by our board of directors. The restricted shares and matching shares may not be pledged, assigned or transferred to third parties, without the prior approval of our board of directors. Participants in the Restricted Share Grant Plan will be subject to a two year post-termination of employment or service noncompete and prohibition against soliciting our employees, service providers and customers. The Restricted Shares Grant Plan provides that the Company shall withhold portion of the restricted shares units to comply with all taxes applicable to the delivery of the restricted shares units to the beneficiary.

On April 30, 2019, we granted 542,760 restricted shares units pursuant to the Restricted Shares Grant Plan, with unit value of R$126.76. On June 30, 2019, we granted 3,086 restricted shares units pursuant to the Restricted Shares Grant Plan, with average unit value of R$192.19. On October 15, 2019, we granted 37,929 restricted shares units pursuant to the Restricted Shares Grant Plan, with unit value of R$200.18. As of December 31, 2019, we had 358,773 restricted shares units outstanding.

On January 23, 2020, we granted 13,000 shares units pursuant to the Restricted Shares Grant Plant, with unit value of R$214.45. On March 2, 2020, we granted 36,673 shares units pursuant to the Restricted Shares Grant Plan, with unit value of R$238.90. On March 4, 2020, we granted 13,166 shares units pursuant to the Restricted Shares Grant Plan, with unit value of R$254.18. All such shares will be available for sale by the beneficiaries annually, over three years, on each date of the anniversary of the IPO.

LTIP I

Certain members of our management participate in our share option long-term incentive program, or the LTIP I. Beneficiaries under the LTIP I are granted rights to buy shares based on certain criteria.

After our initial public offering in September 2018, all the options of the LTIP I were cancelled and reissued by Arco and automatically vested, generating an expense in our consolidated statement of income (loss) of R$59,747 thousand in 2018 (compared to an expense of R$1,359 thousand in 2017 and an expense of R$2,043 thousand in 2016).

As of December 31, 2019, we had a total of 1,091,039 exercised share options (the total of 1,091,039 share options of EAS were vested as of December 31, 2018 and 848,642 as of December 31, 2017). All the vested shares options were exercised by the beneficiaries and no additional options were granted under the LTIP I.

C. Board practices

Committees of the Board of Directors

Our board of directors has two standing committees: the Audit Committee and the Compensation Committee.

Audit Committee

The audit committee, which consists of Alberto Menache, Edward Ruiz and Pablo Doberti assists our board of directors in overseeing our accounting and financial reporting processes and the audits of our financial statements. In addition, the audit committee is directly responsible for the appointment, compensation, retention and oversight of the work of our independent registered public accounting firm. Edward Ruiz serves as Chairman of the audit committee. The audit committee consists exclusively of members of our board of directors who are financially literate, and Edward Ruiz is considered an "audit committee financial expert" as defined by the SEC. Our board of directors has determined that Alberto Menache, Edward Ruiz and Pablo Doberti satisfy the "independence" requirements set forth in Rule 10A-3 under the Exchange Act.

The audit committee is governed by a charter that complies with Nasdaq rules. The audit committee is responsible for, among other matters:

- the appointment, compensation, retention and oversight of any auditor or accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services;

- pre-approving the audit services and non-audit services to be provided by our independent auditor before the auditor is engaged to render such services;
- reviewing and discussing with the independent auditor its responsibilities under generally accepted auditing standards, the planned scope and timing of the independent auditor's annual audit plan(s) and significant findings from the audit;
- obtaining and reviewing a report from the independent auditor describing all relationships between the independent auditor and the Company consistent with the applicable PCAOB requirements regarding the independent auditor's communications with the audit committee concerning independence;
- confirming and evaluating the rotation of the audit partners on the audit engagement team as required by law;
- reviewing with management and the independent auditor, in separate meetings whenever the Audit Committee deems appropriate, any analyses or other written communications prepared by the Management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative IFRS methods on the financial statements; and other critical accounting policies and practices of the Company;
- reviewing, in conjunction with the Chief Executive Officer and Chief Financial Officer of the Company, the Company's disclosure controls and procedures and internal control over financial reporting;
- establishing procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters; and
- approving or ratifying any related person transaction (as defined in our related person transaction policy) in accordance with our related person transaction policy.

The audit committee meets as often as it determines is appropriate to carry out its responsibilities, but in any event, meets at least four times per year.

Compensation Committee

Our compensation committee was created on March 12, 2020 by our board of directors, and it is composed of two members, Edward Ruiz and Pablo Dorbeti.

Our compensation committee assists our board of directors in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. The committee reviews the total compensation package for our executive officers and directors and recommends to the board of directors for determination the compensation of each of our directors and executive officers, and will periodically review and approve any long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, and employee pension and benefits plans. Our board of directors has determined that Edward Ruiz and Pablo Doberti satisfy the requirements set forth Nasdaq Listing Rule 5605(d), which requires that a compensation committee consist entirely of independent directors.

D. Employees

As of December 31, 2019, 2018 and 2017, we had 1,949, 1,198 and 828 employees, respectively. As of December 31, 2019, 535 of these employees were based in our offices in Fortaleza, 688 of these employees were based in our offices in Curitiba, and 726 were based in cities elsewhere in Brazil. As of December 31, 2019, 2018 and 2017, we had 362, 122 and 90 sales consultants, respectively. We also engage temporary employees and consultants as needed to support our operations.

The table below breaks down our full-time personnel by function as of December 31, 2019:

Function	Number of Employees	% of Total
Management	23	1.2
Technology and Content Development	713	36.6
Sales and Marketing	546	28.0
Customer Support	335	17.2
General and Administrative	332	17.0
Total	1,949	100.0

Our employees are represented by labor unions through collective agreements (*convenções coletivas*) they have with such labor unions. These collective agreements are renegotiated annually. We have not experienced any work stoppages, and we consider our relations with our employees to be good.

None of our executive officers have entered into employment agreements with the Company. We do not have any service contracts with our executive directors that provide benefits upon termination of employment.

E. Share ownership

The shares and any outstanding beneficially owned by our directors and officers and/or entities affiliated with these individuals are disclosed in "Item 7. Major Shareholders and Related Party Transactions—A. Major Shareholders."

See "Item 6. Directors, Senior Management and Employees—B. Compensation—Long-Term Incentive Plan (LTIP)" for information on our share option long-term incentive program.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major shareholders

The following table and accompanying footnotes presents information relating to the beneficial ownership of our Class A common shares and Class B common shares as of December 31, 2019.

The number of common shares beneficially owned by each entity, person, executive officer or director is determined in accordance with the rules of the SEC, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares over which the individual has sole or shared voting power or investment power as well as any shares that the individual has the right to acquire within 60 days through the exercise of any option, warrant or other right. Except as otherwise indicated, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all common shares held by that person.

The percentages of beneficial ownership in the table below are calculated as of December 31, 2019 on the basis of (i) 27,538,240 Class A common shares outstanding, and (ii) 27,400,848 Class B common shares outstanding. In addition to the shares detailed below, we have a total of 21,324,404 Class A common shares outstanding that are publicly traded as of December 31, 2019.

Unless otherwise indicated below, the address for each beneficial owner is c/o Arco, Rua Augusta 2840, 9th floor, suite 91, Consolação, São Paulo - SP, 01412-100, Brazil.

	Shares Beneficially Owned as of December 31, 2019				% of Total Voting Power(1)
	Class A		Class B		
Shareholders	**Shares**	**%**	**Shares**	**%**	
5% Shareholders					
Ari de Sá Cavalcante Neto(2)	308,943	1.1%	8,297,485	30.3%	27.6%
Oto Brasil de Sá Cavalcante(3)	—	—%	18,966,953	69.2%	62.9%
General Atlantic Arco (Bermuda), L.P.(4)	5,503,203	20.0%	—	—%	1.8%
Other Shareholders					
Other Shareholders	—	—%	136,410	*%	*%
Executive Officers and Directors					
Ari de Sá Cavalcante Neto(2)	308,943	1.1%	8,297,485	30.3%	27.6%
Oto Brasil de Sá Cavalcante(3)	—	—%	18,966,953	69.2%	62.9%
David Peixoto dos Santos	—	—%	—	—%	—%
João Cunha Silva	—	—%	—	—%	—%
Pablo Doberti	—	—%	—	—%	—%
Martin Escobari(5)	—	—%	—	—%	—%
Alberto Menache(6)	—	—%	—	—%	—%
Edward Ruiz	—	—%	—	—%	—%
All directors and executive officers as a group	710,633	2.6%	27,264,438	99.5%	90.5%
Total	**27,538,240**	**100.0%**	**27,400,848**	**100.0%**	**100.0%**

* Represents beneficial ownership of less than 1% of our issued and outstanding common shares.

(1) Percentage of total voting power represents voting power with respect to all of our Class A common shares and Class B common shares, as a single class. Holders of our Class B common shares are entitled to 10 votes per share, whereas holders of our Class A common shares are entitled to one vote per share. For more information about the voting rights of our Class A common shares and Class B common shares, see "Item 10. Additional Information—B. Memorandum and articles of association."

(2) Indirectly owns Class B common shares through ASCN Investments Ltd.

(3) Indirectly owns Class B common shares through OSC Investments Ltd.

(4) Includes 5,503,203 Class A common shares owned by General Atlantic Arco (Bermuda), L.P., or GA Arco. The limited partners of GA Arco are General Atlantic SAS A, LLC, General Atlantic SAS B, LLC, General Atlantic SAS C, LLC, General Atlantic SAS D, LLC, General Atlantic SAS E, LLC, General Atlantic SAS F, LLC, General Atlantic SAS G, LLC, General Atlantic SAS H, LLC, General Atlantic SAS I, LLC, General Atlantic SAS J, LLC and GA Latin America Coinvestments, LLC, all of which are limited liability companies. Each of General Atlantic Partners 97A, L.P., or GAP 97A, General Atlantic Partners 97B, L.P., or GAP 97B, General Atlantic Partners 97C, L.P., or GAP 97C, General Atlantic Partners 97D, L.P., or GAP 97D, General Atlantic Partners 97E, L.P., or GAP 97E, General Atlantic Partners 97F, L.P., or GAP 97F, General Atlantic Partners 97G, L.P., or GAP 97G, General Atlantic Partners 97H, L.P., or GAP 97H, General Atlantic Partners 97I, L.P., or GAP 97I, and General Atlantic Partners 97J, L.P. (GAP 97J and together with GAP 97A, GAP 97B, GAP 97C, GAP 97D, GAP 97E, GAP 97F, GAP 97G, GAP 97H and GAP 97I, the GA Funds) is the sole member of General Atlantic SAS A, LLC, General Atlantic SAS B, LLC, General Atlantic SAS C, LLC, General Atlantic SAS D, LLC, General Atlantic SAS E, LLC, General Atlantic SAS F, LLC, General Atlantic SAS G, LLC, General Atlantic SAS H, LLC, General Atlantic SAS I, LLC and General Atlantic SAS J, LLC, respectively. The members of GA Latin America Coinvestments, LLC are GAP Coinvestments III, LLC, or GAPCO III, GAP Coinvestments IV, LLC, or GAPCO IV, GAP Coinvestments V, LLC, or GAPCO V, GAP Coinvestments CDA, L.P. and GAPCO GmbH & Co. KG (KG and together with GAPCO III, GAPCO IV, GAPCO V, GAPCO CDA, the Sponsor Coinvestment Funds). GAP (Bermuda) Limited is the general partner of GA Arco. General Atlantic GenPar, L.P., or GenPar, is the general partner of each of the GA Funds. General Atlantic LLC, or GA LLC, is the general partner of GenPar. GA LLC is also the managing member of GAPCO III, GAPCO IV, GAPCO V, and the general partner of GAPCO CDA. GAPCO Management GmbH, or GmbH, is the general partner of KG. There are eight members of the management committee of GA LLC, or the GA Management Committee, as of the date hereof. The members of the GA Management Committee are also the directors and the members of the management committee of GAP (Bermuda) Limited. The GA Management Committee controls the investment and voting decisions of GmbH. Martin Escobari, a member of our board of directors, is a member of the GA Management Committee. GA Arco, GA LLC, GenPar, GAP (Bermuda) Limited, the GA Funds and the Sponsor Coinvestment Funds are a "group" within the meaning of Rule 13d-5 of the Securities Exchange Act of 1934, as amended. Mr. Escobari disclaims beneficial ownership of all of such shares except to the extent of his pecuniary interest therein. The mailing address of the foregoing General Atlantic entities (other than GmbH and KG) is c/o General Atlantic Service Company, L.P., 55 East 52nd Street, 33rd Floor, New York, NY 10055. The mailing address of GmbH and KG is c/o General Atlantic GmbH, Luitpoldblock, Amiraplatz 3, 80333 Munich, Germany.

(5) Mr. Escobari, a member of our board of directors, is a managing director of GA LLC. Mr. Escobari disclaims beneficial ownership of the shares held by GA Arco except to the extent, if any, of his pecuniary interest therein. See footnote (4) above.

(6) Indirectly owns Class A common shares through Alfaco Holding Inc., a company incorporated in the British Virgin Islands, and the shares of which are 100% owned by our director Alberto Menache and his spouse, Fabiana Menache.

The holders of our Class A common shares and Class B common shares have identical rights, except that our Founding Shareholders as holders of Class B common shares (i) are entitled to 10 votes per share, whereas holders of our Class A common shares are entitled to one vote per share (ii) have certain conversion rights and (iii) are entitled to maintain a proportional ownership interest by purchasing additional Class B common shares in the event that additional Class A common shares are issued. For more information see "Item 10. Additional Information—B. Memorandum and articles of association—Preemptive or Similar Rights" and "Item 10. Additional Information—B. Memorandum and articles of association —Conversion." Each Class B common share is convertible into one Class A common share.

B. Related party transactions

Educational Agreement—International School Program

On August 2, 2016, Educadora ASC Ltda., or Educadora ASC, entered into an agreement with International School, pursuant to which International School agreed to (i) make available to Educadora ASC an educational platform that it developed, and (ii) supply to Educadora ASC the related materials, and Educadora ASC agreed to pay certain fees to International School in connection therewith. The agreement expired on December 31, 2019. The net revenue from sales to Educadora ASC totaled R$3.2 million, R$2.7 million and R$3.5 million for the years ended December 31, 2019, 2018 and 2017.

Development and Promotion of Educational Materials Agreement

On August 29, 2014, Educadora ASC and Livraria ASC Ltda., or Livraria ASC, entities under common control of our controlling shareholder, entered into an agreement with *SAS Desenvolvimento e Promoção de Material Didático*, or SAS *Material Didático*, pursuant to which (i) SAS *Material Didático* agreed to (a) make available to Educadora ASC and Livraria ASC an educational platform that it developed, and (b) supply to Educadora ASC and Livraria ASC the related materials, and (ii) Educadora ASC agreed to promote the educational platform and share its expertise in educational management with SAS *Material Didático*, and Educadora ASC and Livraria ASC agreed to pay certain fees to SAS *Material Didático* in connection therewith.

The agreement is for an initial term of 10 years, and will be automatically renewed for an additional 5 years or 10 years respectively, should there be a change of control or initial public offering of EAS Brazil or any of the companies in SAS *Material Didático*'s economic group. The net revenue from sales to Educadora ASC totaled R$0.4 million, R$0.4 million and R$0.2 million for the years ended December 31, 2019, 2018 and 2017, respectively. The net revenue from sales to Livraria ASC totaled R$5.2 million, R$5.1 million and R$5.2 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Loan Agreement with WPensar

EAS Brazil is party to a loan agreement with WPensar in the amount of R$1.0 million, executed on June, 2016. The loan accrues interest at the Brazilian Sistema Especial de Liquidação e Custódia (SELIC) rate and matures in July 2020.

Loan Agreement with Nave à Vela

Arco Ventures is party to two loan agreements with Nave à Vela in the amount of R$1.3 million (which Nave à Vela only requested for R$900,000.00) and R$1.0 million, as of December 31, 2019. Both loans were entered into on November 29, 2019 and mature on March 30, 2020 and April 30, 2020, respectively. The R$1.3 million loan accrues interest of 0.8% per month and the R$1.0 million loan accrues interest at 100% of CDI.

Loan and Debentures Agreements with Geekie

On January 17, 2019, we entered into an agreement (the "Geekie Agreement") with Geekie, our associated company. Pursuant to the Geekie Agreement, we purchased 100,000 debentures issued by Geekie, each at par value R$100.00, totaling R$10 million. The debentures mature in June 2022 and bears interest at 110% of the CDI. The debentures are convertible at the option of Arco on maturity through the call and put option mechanism in our investment agreement with Geekie, as described in note 10 to our audited consolidated financial statements.

In addition and pursuant to the Geekie Agreement, we lent R$4.0 million to Geekie Partners S.A., the controlling entity of Geekie. The loan is repayable in a single instalment in June 2022, bears interest at 110% of the CDI, and is secured by the shares of Geekie Partners S.A. in Geekie.

The transaction totaled R$14.0 million and its purpose was to support Geekie's working capital needs.

Lease Agreements

On July 28, 2014, OSC Empreendimentos Ltda., an entity under common control of our controlling shareholder, entered into a lease agreement with SAS Desenvolvimento Educacional Ltda., pursuant to which OSC Empreendimentos Ltda. agreed to lease office space to Arco Ventures S.A. (current corporate name of SAS Desenvolvimento Educacional Ltda.) in the city of Fortaleza. The agreement was for an initial term of two years and was subsequently tacitly extended for an indefinite term.

Although the lease agreements indicated above were executed among related parties, pursuant to Law 8,245/1991, whenever a lease agreement's term expires yet remains tacitly in force for an indefinite term, any party can terminate the lease agreement, upon a 30-day prior notice to the other party. If required to vacate the property, tenants may incur relocation costs and loss of revenue during relocation.

See note 13 to the audited consolidated financial statements included elsewhere in this annual report for further information.

Sale of Escola de Aplicação São José dos Campos Ltda.

On January 2, 2019, we sold the shares we owned in Escola de Aplicação São José dos Campos Ltda. to its minority shareholders. The transaction price of R$3,741 thousand will be paid in sixteen quarterly installments from January 2022 to October 2025, adjusted by the IGP-M.

Indemnification Agreements

We have entered into indemnification agreements with each of our directors and officers. Pursuant to these agreements, we have agreed to indemnify and hold harmless each director and officer to the full extent permitted by applicable law in the event of any claim made against him or her in any proceeding due to the fact that he or she is or was a director or officer of our company or served at our request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise.

In addition, under the terms of these agreements we have agreed to cover all expenses actually and reasonably incurred by each director and officer in connection with any such proceeding, with certain limited exceptions.

The indemnification extends to the beneficiary's services as a director or officer prior to the date of the indemnification agreement as well as afterward. It continues after the beneficiary ceases to be a director or officer.

C. Interests of experts and counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated statements and other financial information

Financial statements

See “Item 18. Financial Statements,” which contains our audited financial statements prepared in accordance with IFRS.

Dividends and Dividend Policy

We have not adopted a dividend policy with respect to future distributions of dividends. The amount of any distributions will depend on many factors such as our results of operations, financial condition, cash requirements, prospects and other factors deemed relevant by our board of directors and, where applicable, our shareholders. We currently intend to retain all available funds and any future earnings, if any, to fund the development and expansion of our business and we do not anticipate paying any cash dividends in the foreseeable future.

Subject to the Companies Law, Arco’s shareholders may, by resolution passed by a simple majority of the voting rights entitled to vote at a general meeting, declare dividends (including interim dividends) to be paid to shareholders but no dividend shall be declared in excess of the amount recommended by the board of directors. The board of directors may also declare dividends. Dividends may be declared and paid out of funds lawfully available to Arco. Except as otherwise provided by the rights attached to shares and the Articles of Association of Arco, all dividends shall be paid in proportion to the number of Class A common shares or Class B common shares a shareholder holds at the date the dividend is declared (or such other date as may be set as a record date); but, (i) if any share is issued on terms providing that it shall rank for dividend as from a particular date, share shall rank for dividend accordingly, and (ii) where we have shares in issue which are not fully paid up (as to par value) we may pay dividends in proportion to the amounts paid up on each share.

The holders of Class A common shares and Class B common shares shall be entitled to share equally in any dividends that may be declared in respect of Arco’s common shares from time to time. In the event that a dividend is paid in the form of Class A common shares or Class B common shares, or rights to acquire Class A common shares or Class B common shares, (1) the holders of Class A common shares shall receive Class A common shares, or rights to acquire Class A common shares, as the case may be; and (2) the holders of Class B common shares shall receive Class B common shares, or rights to acquire Class B common shares, as the case may be.

We have not declared or paid any dividends to our shareholders since our incorporation in the Cayman Islands on April 12, 2018. However, EAS Brazil, our principal operating company and the wholly-owned subsidiary of Arco Brazil at that time, paid significant dividends to the shareholders of EAS Brazil, including R$13.5 million in February 2016 and R$75.0 million in September 2017.

In addition, a dividend payment of R$10.5 million (based on EAS Brazil’s net profit for the year ended December 31, 2017, and pursuant to the Brazilian Corporate Law which requires EAS Brazil to pay a minimum dividend equal to 25% of its net profit for the year) which was declared by the management of EAS Brazil was approved at the EAS Shareholders’ Meeting, and paid to the shareholders of EAS Brazil on June 25, 2018. In addition, EAS Brazil approved an additional dividend of R$74.5 million on June 7, 2018, which was paid to the shareholders of EAS Brazil on June 25, 2018. There was no distribution of dividends of EAS Brazil in 2018 and 2019.

Certain Cayman Islands and Brazilian Legal Requirements Related to Dividends

Under the Companies Law and our Articles of Association, a Cayman Islands company may pay a dividend out of either its profit or share premium account, but a dividend may not be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. According to our Articles of Association, dividends can be declared and paid out of funds lawfully available to us, which include the share premium account. Dividends, if any, would be paid in proportion to the number of common shares a shareholder holds. For further information, see “Item 10. Additional Information—E. Taxation—Cayman Islands Tax Considerations.”

Additionally, please refer to “Item 3. D. Risk Factors—Certain Factors Relating to Our Business and Industry—We depend on dividend distributions by our subsidiaries, and we may be adversely affected if the performance of our subsidiaries is not positive or if Brazil imposes legal restrictions on dividend distributions by subsidiaries.” Our ability to pay dividends is directly related to positive and distributable net results from our Brazilian subsidiaries. If, for any legal reasons due to new laws or bilateral agreements between countries, they are unable to pay dividends to Cayman Islands companies, or if a Cayman Islands company becomes incapable of receiving them, we may not be able to make any dividend payments in the future.

Legal proceedings

We are, and may be from time to time, involved in disputes that arise in the ordinary course of our business. Claims against us can be time-consuming, result in costly litigation, require significant management time and result in the diversion of significant operational resources.

In particular, we are subject to a number of judicial and administrative proceedings in the Brazilian court systems, including civil, labor and tax law claims and other proceedings. We recognize provisions for legal proceedings in our financial statements when (i) it is probable that an outflow of resources will be required to settle the obligation, and (ii) a reliable estimate can be made of the amount of the obligation. The assessment by our management of the likelihood of loss includes analysis by outside counsel of available evidence, the hierarchy of laws, available case law, recent court rulings and their relevance in the Brazilian legal system. Our provisions for probable losses arising from these matters are estimated and periodically adjusted by management. In making these adjustments, our management relies on the opinions of our external legal advisors.

As of December 31, 2019, we had a provision for legal proceedings of R$251 thousand recorded in our financial statements in connection with legal proceedings, based on the advice of our external legal counsel that the likelihood of loss in connection with such proceedings is probable. However, legal proceedings are inherently unpredictable and subject to significant uncertainties. If one or more cases were to result in a judgment against us in any reporting period for amounts that exceeded our management's expectations, the impact on our operating results or financial condition for that reporting period could be material. See "Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Our Business and Industry—Unfavorable decisions in our legal, arbitration or administrative proceedings may adversely affect us."

Civil Matters

As of December 31, 2019, we were a defendant to approximately 19 judicial and administrative proceedings of a civil nature for which we did not record any provision based on the advice of our external legal counsel that the likelihood of loss in connection with these proceedings was not probable. The civil claims to which we are a party generally relate to consumer claims, including those related to the early termination of certain of our agreements, among others. We believe these proceedings are unlikely to have a material adverse impact, individually, or in the aggregate, on our results of operations or financial condition.

As of December 31, 2019, we were party to one administrative proceeding filed by the prosecutor's offices in the State of Ceará resulting from a complaint filed by a lawyer on behalf of students in one of our partner schools alleging that the students are required to purchase our educational material from such partner schools at prices higher than those charged by certain of our other partner schools, with no option to purchase such educational material at bookstores or other points of sale. We have filed our defenses, which are currently under review.

To the extent the prosecutors' offices decide to proceed with the administrative proceeding in the State of Ceará, it may file a public civil claim or require the parties to enter into a settlement agreement (*Termo de Ajustamento de Conduta* - TAC), requiring the partner schools to adjust its commercial practices as they relate to the sale of educational material. As of December 31, 2019, we cannot estimate the amount of any eventual fine or any claim for damages, or collective non-material damages that may be imposed on us as a result of this proceeding.

Labor Matters

As of December 31, 2019, we were party to approximately six labor-related judicial and administrative proceedings for which we did not record any provision based on the advice of our external legal counsel that the likelihood of loss in connection with these proceedings was not probable. In general, the labor claims to which we are a party were filed by former employees or third-party employees seeking our joint and/or subsidiary liability for the acts of our suppliers and service providers. The principal claims involved in these labor suits relate to overtime, salary equalization termination fees, and indemnities based on Brazilian labor laws. We believe these proceedings are unlikely to have a material adverse impact, individually or in the aggregate, on our results of operations or financial condition.

Tax and Social Security Matters

As of December 31, 2019, we were party to 9 administrative tax and social security proceeding for which we did not record any provision based on the advice of our external legal counsel that the likelihood of loss in connection with this proceeding was not probable.

Request for Arbitration

On September 19, 2019, Mr. Ulisses Borges Cardinot, a 48.52% 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, EAS Educação S.A. and Arco Educação S.A.

This request for arbitration purporting to assert Mr. Cardinot's rights under the Investment Agreement (for more information regarding the Investment Agreement, see "Item 4.A. History and development of the company—Acquisitions—Acquisition of International School") is still at an early stage; therefore, it is not possible to confirm which claims will be asserted by Mr. Cardinot in the course of the proceedings. Mr. Cardinot, however, has asserted that, among others, he is entitled to receive shares of Arco Platform and the purchase price due pursuant to the Investment Agreement is materially higher. On October 10, 2019, we filed our response to the request for arbitration, denying Mr. Cardinot's claims and affirming that Arco Platform and Arco Educação cannot be parties to the arbitration since they are not parties to the Investment Agreement.

We intend to vigorously defend ourselves against the existing claims and any additional claims that may be asserted against us in the future by Mr. Cardinot. If an unfavorable decision in the arbitration were to occur, it could result in a material adverse impact on our financial position and results of operations in the period in which the decision occurs, or in future periods, and on the price of our Class A common shares.

B. Significant changes

None.

ITEM 9. THE OFFER AND LISTING

A. Offering and listing details

On September 28, 2018, we completed our initial public offering. On October 24, 2019, we completed a follow-on offering. Our common shares have been listed on the Nasdaq Global Select Market since September 26, 2018 under the symbol "ARCE."

B. Plan of distribution

Not applicable.

C. Markets

For a description of our publicly traded common shares, see "—A. Offering and listing details."

D. Selling shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share capital

Not applicable.

B. Memorandum and articles of association

Our shareholders adopted the Amended and Restated Memorandum and Articles of Association included as Exhibit 3.1 to the Amendment No. 2 to our registration statement on Form F-1 (File no. 333-227007), filed with the SEC on September 12, 2018.

Share Capital

The Memorandum and Articles of Association authorize two classes of common shares: Class A common shares, which are entitled to one vote per share, and Class B common shares, which are entitled to 10 votes per share and to maintain a proportional ownership interest in the event that additional Class A common shares are issued. Any holder of Class B common shares may convert his or her shares at any time into Class A common shares on a share-for-share basis. The rights of the two classes of common shares are otherwise identical, except as described below. The implementation of this dual class structure was required by Oto Brasil de Sá Cavalcante and Ari de Sá Cavalcante Neto, our principal shareholders, as a condition of undertaking the initial public offering of our common shares. See "—Anti-Takeover Provisions in our Articles of Association—Two Classes of Shares."

As of December 31, 2019, Arco had a total issued share capital of U.S.$2,746.95, divided into 54,939,088 common shares of a nominal or par value of U.S.$0.00005. Those common shares are divided into 27,538,240 issued Class A common shares and 27,400,848 Class B common shares.

Treasury Shares

As of December 31, 2019, Arco had no shares in treasury.

Issuance of Shares

Except as expressly provided in Arco's Articles of Association, Arco's board of directors has general and unconditional authority to allot, grant options over, offer or otherwise deal with or dispose of any unissued shares in the company's capital without the approval of our shareholders (whether forming part of the original or any increased share capital), either at a premium or at par, with or without preferred, deferred or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise and to such persons, on such terms and conditions, and at such times as the directors may decide, but so that no share shall be issued at a discount, except in accordance with the provisions of the Companies Law. In accordance with its Articles of Association, Arco shall not issue bearer shares.

Arco's Articles of Association provide that at any time that there are Class A common shares in issue, additional Class B common shares may only be issued pursuant to (1) a share split, subdivision of shares or similar transaction or where a dividend or other distribution is paid by the issue of shares or rights to acquire shares or following capitalization of profits, (2) a merger, consolidation, or other business combination involving the issuance of Class B common shares as full or partial consideration, or (3) an issuance of Class A common shares, whereby holders of the Class B common shares are entitled to purchase a number of Class B common shares that would allow them to maintain their proportional ownership interests in Arco (following an offer by Arco to each holder of Class B common shares to issue to such holder, upon the same economic terms and at the same price, such number of Class B common shares as would ensure such holder may maintain a proportional ownership interest in Arco pursuant to Arco's Articles of Association). In light of: (a) the above provisions; (b) the fact that future transfers by holders of Class B common shares will generally result in those shares converting to Class A common shares, subject to limited exceptions as provided in the Memorandum and Articles of Association; and (c) the ten-to-one voting ratio between our Class B common shares and Class A common shares, means that holders of our Class B common shares will in many situations continue to maintain control of all matters requiring shareholder approval. This concentration of ownership and voting power will limit or preclude your ability to influence corporate matters for the foreseeable future. For more information see "—Preemptive or Similar Rights."

Arco's Articles of Association also provide that the issuance of non-voting common shares requires the affirmative vote of a majority of the of then-outstanding Class A common shares.

Fiscal Year

Arco's fiscal year begins on January 1 of each year and ends on December 31 of the same year.

Voting Rights

The holders of the Class A common shares and Class B common shares have identical rights, except that (i) the holder of Class B common shares is entitled to 10 votes per share, whereas holders of Class A common shares are entitled to one vote per share, (ii) Class B common shares have certain conversion rights and (iii) the holder of Class B common shares is entitled to maintain a proportional ownership interest in the event that additional Class A common shares are issued. For more information see "—Preemptive or Similar Rights" and "—Conversion." The holders of Class A common shares and Class B common shares vote together as a single class on all matters (including the election of directors) submitted to a vote of shareholders, except as provided below and as otherwise required by law.

Arco's Articles of Association provide as follows regarding the respective rights of holders of Class A common shares and Class B common shares:

(i) class consents from the holders of Class A common shares or Class B common shares, as applicable, shall be required for any variation to the rights attached to their respective class of shares, however, the Directors may treat any two or more classes of shares as forming one class if they consider that all such classes would be affected in the same way by the proposal;

(ii) the rights conferred on holders of Class A common shares shall not be deemed to be varied by the creation or issue of further Class B common shares and vice versa; and

(iii) the rights attaching to the Class A common shares and the Class B common shares shall not be deemed to be varied by the creation or issue of shares with preferred or other rights, including, without limitation, shares with enhanced or weighted voting rights.

As set forth in the Articles of Association, the holders of Class A common shares and Class B common shares, respectively, do not have the right to vote separately if the number of authorized shares of such class is increased or decreased. Rather, the number of authorized Class A common shares and Class B common shares may be increased or decreased (but not below the number of shares of such class then outstanding) by the affirmative vote of the holders of a majority of the voting power of the issued and outstanding Class A common shares and Class B common shares, voting together in a general meeting.

Preemptive or Similar Rights

The Class A common shares and Class B common shares are not entitled to preemptive rights upon transfer and are not subject to conversion (except as described below under "—Conversion"), redemption or sinking fund provisions.

The Class B common shares are entitled to maintain a proportional ownership interest in the event that additional Class A common shares are issued. As such, except for certain exceptions, if Arco issues Class A common shares, it must first make an offer to each holder of Class B common shares to issue to such holder, upon the same economic terms and at the same price, such number of Class B common shares as would ensure such holder may maintain a proportional ownership interest in Arco. This right to maintain a proportional ownership interest may be waived by the holders of a majority of the Class B common shares.

Conversion

The outstanding Class B common shares are convertible at any time as follows: (1) at the option of the holder, a Class B common share may be converted at any time into one Class A common share or (2) upon the election of the holders of a majority of the then outstanding Class B common shares, all outstanding Class B common shares may be converted into a like number of Class A common shares. In addition, each Class B common share will convert automatically into one Class A common share upon any transfer, whether or not for value, except for certain transfers described in the Articles of Association, including transfers to affiliates, transfers to and between the Founding Shareholders, their family members and their respective heirs and successors, trusts solely for the benefit of the shareholder or their affiliates, and partnerships, corporations and other entities exclusively owned by the shareholder or their affiliates and certain transfers to organizations that are exempt from taxation under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Furthermore, each Class B common share will convert automatically into one Class A common share and no Class B common shares will be issued thereafter if, at any time, the total number of the issued and outstanding Class B common shares is less than 10% of the total number of shares outstanding.

No class of Arco's common shares may be subdivided or combined unless the other class of common shares is concurrently subdivided or combined in the same proportion and in the same manner.

Equal Status

Except as expressly provided in Arco's Articles of Association, Class A common shares and Class B common shares have the same rights and privileges and rank equally, share ratably and are identical in all respects as to all matters. In the event of any merger, consolidation, scheme, arrangement or other business combination requiring the approval of our shareholders entitled to vote thereon (whether or not Arco is the surviving entity), the holders of Class A common shares shall have the right to receive, or the right to elect to receive, the same form of consideration as the holders of Class B common shares, and the holders of Class A common shares shall have the right to receive, or the right to elect to receive, at least the same amount of consideration on a per share basis as the holders of Class B common shares. In the event of any (1) tender or exchange offer to acquire any Class A common shares or Class B common shares by any third-party pursuant to an agreement to which Arco is a party, or (2) any tender or exchange offer by Arco to acquire any Class A common shares or Class B common shares, the holders of Class A common shares shall have the right to receive, or the right to elect to receive, the same form of consideration as the holders of Class B common shares, and the holders of Class A common shares shall have the right to receive, or the right to elect to receive, at least the same amount of consideration on a per share basis as the holders of Class B common shares.

Record Dates

For the purpose of determining shareholders entitled to notice of, or to vote at any general meeting of shareholders or any adjournment thereof, or shareholders entitled to receive dividend or other distribution payments, or in order to make a determination of shareholders for any other purpose, Arco's board of directors may set a record date which shall not exceed forty (40) clear days prior to the date where the determination will be made.

General Meetings of Shareholders

As a condition of admission to a shareholders' meeting, a shareholder must be duly registered as a shareholder of Arco at the applicable record date for that meeting and, in order to vote, all calls or installments then payable by such shareholder to Arco in respect of the shares that such shareholder holds must have been paid.

Subject to any special rights or restrictions as to voting then attached to any shares, at any general meeting every shareholder who is present in person or by proxy (or, in the case of a shareholder being a corporation, by its duly authorized representative not being himself or herself a shareholder entitled to vote) shall have one vote per Class A common share and 10 votes per Class B common share.

As a Cayman Islands exempted company, Arco is not obliged by the Companies Law to call annual general meetings; however, the Articles of Association provide that in each year the company will hold an annual general meeting of shareholders, at a time determined by the board of directors, provided that the board of directors of Arco has the discretion whether or not to hold an annual general meeting in 2020. For the annual general meeting of shareholders the agenda will include, among other things, the presentation of the annual accounts and the report of the directors. In addition, the agenda for an annual general meeting of shareholders will only include such items as have been included therein by the board of directors.

Also, Arco may, but is not required to (unless required by the laws of the Cayman Islands), hold extraordinary general meetings during the year. General meetings of shareholders are generally expected to take place in São Paulo, Brazil, but may be held elsewhere if the directors so decide.

The Companies Law provides shareholders a limited right to request a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting in default of a company's Articles of Association. However, these rights may be provided in a company's Articles of Association. Arco's Articles of Association provide that upon the requisition of one or more shareholders representing not less than one-third of the voting rights entitled to vote at general meetings, the board will convene an extraordinary general meeting and put the resolutions so requisitioned to a vote at such meeting. The Articles of Association provide no other right to put any proposals before annual general meetings or extraordinary general meetings.

Subject to regulatory requirements, the annual general meeting and any extraordinary general meetings must be called by not less than ten (10) clear days' notice prior to the relevant shareholders meeting and convened by a notice discussed below. Alternatively, upon the prior consent of all holders entitled to receive notice, with regards to the annual general meeting, and the holders of 95% in par value of the shares entitled to attend and vote at an extraordinary general meeting, that meeting may be convened by a shorter notice and in a manner deemed appropriate by those holders.

Arco will give notice of each general meeting of shareholders by publication on its website and in any other manner that it may be required to follow in order to comply with Cayman Islands law, Nasdaq and SEC requirements. The holders of registered shares may be given notice of a shareholders' meeting by means of letters sent to the addresses of those shareholders as registered in our shareholders' register, or, subject to certain statutory requirements, by electronic means.

Holders whose shares are registered in the name of DTC or its nominee, which we expect will be the case for all holders of Class A common shares, will not be a shareholder or member of the company and must rely on the procedures of DTC regarding notice of shareholders' meetings and the exercise of rights of a holder of the Class A common shares.

A quorum for a general meeting consists of any one or more persons holding or representing by proxy not less than one-third of the aggregate voting power of all shares in issue and entitled to vote upon the business to be transacted.

A resolution put to a vote at a general meeting shall be decided on a poll. An ordinary resolution to be passed by the shareholders at a general meeting requires the affirmative vote of a simple majority of the votes cast by, or on behalf of, the shareholders entitled to vote, present in person or by proxy and voting at the meeting. A special resolution requires the affirmative vote on a poll of no less than two-thirds of the votes cast by the shareholders entitled to vote who are present in person or by proxy at a general meeting. Both ordinary resolutions and special resolutions may also be passed by a unanimous written resolution signed by all the shareholders of our Company, as permitted by the Companies Law and our Articles of Association.

Pursuant to Arco's Articles of Association, general meetings of shareholders are to be chaired by the chairman of our board of directors or in his absence the vice-chairman of the board of directors. If the chairman or vice-chairman of our board of directors is absent, the directors present at the meeting shall appoint one of them to be chairman of the general meeting. If neither the chairman nor another director is present at the general meeting within 15 minutes after the time appointed for holding the meeting, the shareholders present in person or by proxy and entitled to vote may elect any one of the shareholders to be chairman. The order of business at each meeting shall be determined by the chairman of the meeting, and he or she shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts and things as are necessary or desirable for the proper conduct of the meeting, including, without limitation, the establishment of procedures for the maintenance of order and safety, limitations on the time allotted to questions or comments on the affairs of the Company, restrictions on entry to such meeting after the time prescribed for the commencement thereof, and the opening and closing of the polls.

Liquidation Rights

If Arco is voluntarily wound up, the liquidator, after taking into account and giving effect to the rights of preferred and secured creditors and to any agreement between Arco and any creditors that the claims of such creditors shall be subordinated or otherwise deferred to the claims of any other creditors and to any contractual rights of set-off or netting of claims between Arco and any person or persons (including without limitation any bilateral or any multi-lateral set-off or netting arrangements between the company and any person or persons) and subject to any agreement between Arco and any person or persons to waive or limit the same, shall apply Arco's property in satisfaction of its liabilities *pari passu* and subject thereto shall, subject to the rights attaching to any share, distribute the property pari passu amongst the shareholders in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively.

Changes to Capital

Pursuant to the Articles of Association, Arco may from time to time by ordinary resolution:

- increase its share capital by such sum, to be divided into shares of such amount, as the resolution shall prescribe;
- consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares;
- convert all or any of its paid-up shares into stock and reconvert that stock into paid-up shares of any denomination;
- subdivide its existing shares or any of them into shares of a smaller amount, provided that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived; or
- cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so canceled.

Arco's shareholders may by special resolution, subject to confirmation by the Grand Court of the Cayman Islands on an application by the Company for an order confirming such reduction, reduce its share capital or any capital redemption reserve in any manner permitted by law.

In addition, subject to the provisions of the Companies Law and our Articles of Association, Arco may:

- issue shares on terms that they are to be redeemed or are liable to be redeemed;
- purchase its own shares (including any redeemable shares); and
- make a payment in respect of the redemption or purchase of its own shares in any manner authorized by the Companies Law, including out of its own capital.

Transfer of Shares

Subject to any applicable restrictions set forth in the Articles of Association, any shareholder of Arco may transfer all or any of his or her common shares by an instrument of transfer in the usual or common form or in the form prescribed by the Nasdaq or any other form approved by the Company's board of directors.

The Class A common shares are traded on the Nasdaq in book-entry form and may be transferred in accordance with Arco's Articles of Association and Nasdaq's rules and regulations.

However, Arco's board of directors may, in its absolute discretion, decline to register any transfer of any common share which is either not fully paid up to a person of whom it does not approve or is issued under any share incentive scheme for employees which contains a transfer restriction that is still applicable to such common share. The board of directors may also decline to register any transfer of any common share unless:

- a fee of such maximum sum as the Nasdaq may determine to be payable or such lesser sum as the board of directors may from time to time require is paid to Arco in respect thereof;
- the instrument of transfer is lodged with Arco, accompanied by the certificate (if any) for the common shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of shares;
- the instrument of transfer is properly stamped, if required;
- the common shares transferred are free of any lien in favor of Arco; and
- in the case of a transfer to joint holders, the transfer is not to more than four joint holders.

If the directors refuse to register a transfer they are required, within two months after the date on which the instrument of transfer was lodged, to send to the transferee notice of such refusal.

Share Repurchase

The Companies Law and the Articles of Association permit Arco to purchase its own shares, subject to certain restrictions. The board of directors may only exercise this power on behalf of Arco, subject to the Companies Law, the Articles of Association and to any applicable requirements imposed from time to time by the SEC, the Nasdaq, or by any recognized stock exchange on which our securities are listed.

Dividend Rights

See "Item 8A. Consolidated Statements and Other Financial Information—Dividends and Dividend Policy" for further information regarding dividend rights.

Appointment, Disqualification and Removal of Directors

Arco is managed by its board of directors. The Articles of Association provide that, unless otherwise determined by a special resolution of shareholders, the board of directors will be composed of four to 11 directors, with the number being determined by a majority of the directors then in office. There are no provisions relating to retirement of directors upon reaching any age limit. The Articles of Association also provide that, while Arco's shares are admitted to trading on Nasdaq, the board of directors must always comply with the residency and citizenship requirements of the U.S. securities laws applicable to foreign private issuers.

The Articles of Association provide that directors shall be elected by an ordinary resolution of our shareholders, which requires the affirmative vote of a simple majority of the votes cast on the resolution by the shareholders entitled to vote who are present, in person or by proxy, at the meeting. Each director shall be appointed and elected for such term as the resolution appointing him or her may determine or until his or her removal or vacation of office in accordance with the Articles of Association.

Any vacancies on the board of directors that arise other than upon the removal of a director by resolution passed at a general meeting can be filled by the remaining directors (notwithstanding that they may constitute less than a quorum). Any such appointment shall be as an interim director to fill such vacancy until the next annual general meeting of shareholders.

Additions to the existing board (within the limits set pursuant to the Articles of Association) may be made by ordinary resolution of the shareholders.

Grounds for Removing a Director

A director may be removed with or without cause by ordinary resolution. The notice of general meeting must contain a statement of the intention to remove the director and must be served on the director not less than ten calendar days before the meeting. The director is entitled to attend the meeting and be heard on the motion for his removal.

The office of a director will be vacated automatically if he or she (1) becomes prohibited by law from being a director, (2) becomes bankrupt or makes an arrangement or composition with his creditors, (3) dies or is in the opinion of all his co-directors, incapable by reason of mental disorder of discharging his duties as director, (4) resigns his office by notice to us or (5) has for more than six months been absent without permission of the directors from meetings of the board of directors held during that period, and the remaining directors resolve that his or her office be vacated.

Proceedings of the Board of Directors

The Articles of Association provide that Arco's business is to be managed and conducted by the board of directors. The quorum necessary for the board meeting shall be a simple majority of the directors then in office (subject to there being a minimum of two directors present) and business at any meeting shall be decided by a majority of votes. In the case of an equality of votes, the chairman shall have a casting vote.

Subject to the provisions of the Articles of Association, the board of directors may regulate its proceedings as they determine is appropriate. Board meetings shall be held at least once every calendar quarter and shall take place either in São Paulo, Brazil or at such other place as the directors may determine.

Subject to the provisions of the Articles of Association, to any directions given by ordinary resolution of the shareholders and the listing rules of the Nasdaq, the board of directors may from time to time at its discretion exercise all powers of Arco, including, subject to the Companies Law, the power to issue debentures, bonds and other securities of the company, whether outright or as collateral security for any debt, liability or obligation of our company or of any third-party.

Inspection of Books and Records

Holders of Arco shares will have no general right under Cayman Islands law to inspect or obtain copies of the list of shareholders or corporate records of the Company. However, the board of directors may determine from time to time whether and to what extent Arco's accounting records and books shall be open to inspection by shareholders who are not members of the board of directors. Notwithstanding the above, the Articles of Association provide shareholders with the right to receive annual financial statements. Such right to receive annual financial statements may be satisfied by publishing the same on the company's website or filing such annual reports as we are required to file with the SEC.

Register of Shareholders

The Class A common shares are held through DTC, and DTC or Cede & Co., as nominee for DTC, will be recorded in the shareholders' register as the holder of our Class A common shares.

Under Cayman Islands law, Arco must keep a register of shareholders that includes:

- the names and addresses of the shareholders, a statement of the shares held by each member, and of the amount paid or agreed to be considered as paid, on the shares of each member;
- the date on which the name of any person was entered on the register as a member; and
- the date on which any person ceased to be a member.

Under Cayman Islands law, the register of shareholders of Arco is *prima facie* evidence of the matters set out therein (i.e., the register of shareholders will raise a presumption of fact on the matters referred to above unless rebutted) and a shareholder registered in the register of shareholders is deemed as a matter of Cayman Islands law to have *prima facie* legal title to the shares as set against his or her name in the register of shareholders. Once the register of shareholders has been updated, the shareholders recorded in the register of shareholders should be deemed to have legal title to the shares set against their name.

If the name of any person is incorrectly entered in or omitted from the register of shareholders, or if there is any default or unnecessary delay in entering on the register the fact of any person having ceased to be a shareholder of Arco, the person or member aggrieved (or any shareholder of Arco, or Arco itself) may apply to the Cayman Islands Grand Court for an order that the register be rectified, and the Court may either refuse such application or it may, if satisfied of the justice of the case, make an order for the rectification of the register.

Exempted Company

Arco is an exempted company with limited liability under the Companies Law. The Companies Law distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except for the exemptions and privileges listed below:

- an exempted company does not have to file an annual return of its shareholders with the Registrar of Companies;
- an exempted company's register of shareholders is not open to inspection;
- an exempted company does not have to hold an annual general meeting;
- an exempted company may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);

- an exempted company may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- an exempted company may register as a limited duration company; and
- an exempted company may register as a segregated portfolio company.

"Limited liability" means that the liability of each shareholder is limited to the amount unpaid by the shareholder on the shares of the company (except in exceptional circumstances, such as involving fraud, the establishment of an agency relationship or an illegal or improper purpose or other circumstances in which a court may be prepared to pierce or lift the corporate veil).

Arco is subject to reporting and other informational requirements of the Exchange Act, as applicable to foreign private issuers. Except as otherwise disclosed in this annual report, Arco intends to continue to comply with the Nasdaq rules in lieu of following home country practice.

Anti-Takeover Provisions in our Articles of Association

Some provisions of the Articles of Association may discourage, delay or prevent a change in control of Arco or management that shareholders may consider favorable. In particular, the capital structure of Arco concentrates ownership of voting rights in the hands of the Founding Shareholders. These provisions, which are summarized below, are expected to discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of Arco to first negotiate with the board of directors. However, these provisions could also have the effect of discouraging others from attempting hostile takeovers and, as a consequence, they may also inhibit temporary fluctuations in the market price of the Class A common shares that often result from actual or rumored hostile takeover attempts. These provisions may also have the effect of preventing changes in the management of Arco. It is possible that these provisions could make it more difficult to accomplish transactions that shareholders may otherwise deem to be in their best interests.

Two Classes of Common Shares

The Class B common shares of Arco are entitled to 10 votes per share, while the Class A common shares are entitled to one vote per share. Since it owns of all of the Class B common shares of Arco, the Founding Shareholders currently have the ability to elect all directors and to determine the outcome of most matters submitted for a vote of shareholders. This concentrated voting control could discourage others from initiating any potential merger, takeover, or other change of control transaction that other shareholders may view as beneficial.

So long as the Founding Shareholders have the ability to determine the outcome of most matters submitted to a vote of shareholders as well as the overall management and direction of Arco, third parties may be deterred in their willingness to make an unsolicited merger, takeover, or other change of control proposal, or to engage in a proxy contest for the election of directors. As a result, the fact that Arco has two classes of common shares may have the effect of depriving you as a holder of Class A common shares of an opportunity to sell your Class A common shares at a premium over prevailing market prices and make it more difficult to replace the directors and management of Arco.

Preferred Shares

Arco's board of directors is given wide powers to issue one or more classes or series of shares with preferred rights. Such preferences may include, for example, dividend rights, conversion rights, redemption privileges, enhanced voting powers and liquidation preferences.

Despite the anti-takeover provisions described above, under Cayman Islands law, Arco's board of directors may only exercise the rights and powers granted to them under the Articles of Association, for what they believe in good faith to be in the best interests of Arco.

Protection of Non-Controlling Shareholders

The Grand Court of the Cayman Islands may, on the application of shareholders holding not less than one-fifth of the shares of Arco in issue, appoint an inspector to examine the Company's affairs and report thereon in a manner as the Grand Court shall direct.

Subject to the provisions of the Companies Law, any shareholder may petition the Grand Court of the Cayman Islands which may make a winding-up order, if the court is of the opinion that this winding up is just and equitable.

Notwithstanding the U.S. securities laws and regulations that are applicable to Arco, general corporate claims against Arco by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by Arco's Articles of Association.

The Cayman Islands courts ordinarily would be expected to follow English case law precedents, which permit a minority shareholder to commence a representative action against Arco, or derivative actions in Arco's name, to challenge (1) an act which is *ultra vires* or illegal, (2) an act which constitutes a fraud against the minority and the wrongdoers themselves control Arco, and (3) an irregularity in the passing of a resolution that requires a qualified (or special) majority.

Registration Rights and Restricted Shares

Although no shareholders of Arco have formal registration rights, they or entities controlled by them or their permitted transferees will be able to sell their shares in the public market from time to time pursuant to an exemption from registration, subject to certain limitations on the timing, amount and method of those sales imposed by regulations promulgated by the SEC.

C. Material contracts

See "Item 7. Major Shareholders and Related Party Transactions—B. Related party transactions." Except as otherwise disclosed in this annual report on Form 20-F (including the Exhibits), we are not currently, and have not been in the last two years, party to any material contract, other than contracts entered into in the ordinary course of business.

D. Exchange controls

The Cayman Islands currently has no exchange control restrictions.

E. Taxation

The following summary contains a description of certain Cayman Islands and U.S. federal income tax consequences of the acquisition, ownership and disposition of our Class A common shares. It does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase the Class A common shares, is not applicable to all categories of investors, some of which may be subject to special rules, and does not address all of the Cayman Islands and U.S. federal income tax considerations applicable to any particular holder. The summary is based upon the tax laws of the Cayman Islands and regulations thereunder and on the United States and regulations thereunder as of the date hereof, which are subject to change.

Prospective purchasers of our Class A common shares should consult their own tax advisors about the particular Cayman Islands and U.S. federal, state, local and other tax consequences to them of the acquisition, ownership and disposition of our Class A common shares.

Cayman Islands Tax Considerations

The Cayman Islands laws currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty or withholding tax applicable to us or to any holder of Class A common shares. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or after execution brought within the jurisdiction of the Cayman Islands. No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands. The Cayman Islands is not party to any double tax treaties which are applicable to any payments made by or to our company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

As a Cayman Islands exempted company with limited liability, we have received an undertaking as to tax concessions pursuant to Section 6 of the Tax Concessions Law (2018 Revision). This undertaking provides that, for a period of 20 years from the date of issue of the undertaking (April 16, 2018), no law thereafter enacted in the Cayman Islands imposing any taxes to be levied on profits, income, gains or appreciation will apply to us or our operations.

Payments of dividends and capital in respect of our Class A common shares will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of a dividend or capital to any holder of our Class A common shares, nor will gains derived from the disposal of our Class A common shares be subject to Cayman Islands income or corporation tax.

There is no income tax treaty or convention currently in effect between the United States and the Cayman Islands.

Material U.S. Federal Income Tax Considerations for U.S. Holders

In the opinion of Davis Polk & Wardwell LLP, the following summary describes the material U.S. federal income tax consequences of the acquisition, ownership and disposition of our Class A common shares, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person's decision to acquire such securities.

This summary applies only to U.S. Holders (as defined below) that hold our Class A common shares as capital assets for tax purposes. In addition, it does not describe all of the tax consequences that may be relevant in light of a U.S. Holder's particular circumstances, including alternative minimum tax consequences, the potential application of the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), known as the Medicare contribution tax, and tax consequences applicable to U.S. Holders subject to special rules, such as:

- certain financial institutions;
- insurance companies;
- real estate investment trusts or regulated investment companies;
- dealers or traders in securities that use a mark-to-market method of tax accounting;
- persons holding common shares as part of a hedging transaction, straddle, wash sale, conversion transaction or other integrated transaction or persons entering into a constructive sale with respect to the common shares;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- tax-exempt entities, including an "individual retirement account" or "Roth IRA;"
- persons that own or are deemed to own ten percent or more of our Class A common shares, by vote or value;
- persons holding our Class A common shares in connection with a trade or business conducted outside of the United States; or
- partnerships or other entities or arrangements treated as partnerships for U.S. federal income tax purposes.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds our Class A common shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships holding our Class A common shares and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of owning and disposing of the Class A common shares.

This discussion is based on the Code, administrative pronouncements, judicial decisions, final, temporary and proposed Treasury regulations, all as of the date hereof, any of which is subject to change or differing interpretations, possibly with retroactive effect.

A “U.S. Holder” is a holder who, for U.S. federal income tax purposes, is a beneficial owner of our Class A common shares and is:

- an individual that is a citizen or resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

U.S. Holders should consult their tax advisers concerning the U.S. federal, state, local and non-U.S. tax consequences of owning and disposing of our Class A common shares in their particular circumstances.

This discussion assumes that we are not, and will not become, a passive foreign investment company (a “PFIC”), as described below.

Taxation of Distributions

As discussed under “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Dividends and Dividend Policy”, we do not currently intend to pay dividends. In the event that we do pay dividends, and subject to the discussion below under “—Passive Foreign Investment Company Rules,” distributions paid on our Class A common shares, other than certain pro rata distributions of common shares, will be treated as dividends to the extent paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Because we do not maintain calculations of our earnings and profits under U.S. federal income tax principles, we expect that distributions generally will be reported to U.S. Holders as dividends. Subject to applicable limitations, dividends paid to certain non-corporate U.S. Holders may be eligible for taxation as “qualified dividend income” and therefore may be taxable at rates applicable to long-term capital gains so long as our Class A common shares are listed and trade on Nasdaq or are readily tradable on another established securities market in the United States. U.S. Holders should consult their tax advisers regarding the availability of the reduced tax rate on dividends in their particular circumstances.

The amount of the dividend will generally be treated as foreign-source dividend income to U.S. Holders and will not be eligible for the dividends-received deduction generally available to U.S. corporations under the Code. Dividends will be included in a U.S. Holder’s income on the date of the U.S. Holder’s receipt of the dividend.

Sale or Other Disposition of Common Shares

Subject to the discussion below under “—Passive Foreign Investment Company Rules,” for U.S. federal income tax purposes, gain or loss realized on the sale or other disposition of our Class A common shares will be capital gain or loss, and will be long-term capital gain or loss if the U.S. Holder held the Class A common shares for more than one year. The amount of the gain or loss will equal the difference between the U.S. Holder’s tax basis in the Class A common shares disposed of and the amount realized on the disposition, in each case as determined in U.S. dollars. This gain or loss will generally be U.S.-source gain or loss for foreign tax credit purposes. The deductibility of capital losses is subject to various limitations.

Passive Foreign Investment Company Rules

A non-U.S. corporation will be a PFIC for any taxable year in which either (i) 75% or more of its gross income consists of “passive income,” or (ii) 50% or more of the average quarterly value of its assets consist of assets that produce, or are held for the production of, “passive income.” For this purpose, subject to certain exceptions, passive income includes interest, dividends, rents, and gains from transactions in commodities. A non-U.S. corporation will be treated as owning its proportionate share of the assets and earning its proportionate share of the income of any other corporation in which it owns, directly or indirectly, more than 25% (by value) of the stock.

Based on our current operations, income, assets and certain estimates and projections, including as to the relative values of our assets, we believe that we were not a PFIC for U.S. federal income tax purposes for our taxable year ended December 31, 2019. However, because PFIC status depends on the composition of a company’s income and assets and the market value of its assets from time to time, there can be no assurance that we will not be a PFIC for any taxable year. If we were a PFIC for any year during which a U.S. Holder holds our Class A common shares, we generally would continue to be treated as a PFIC with respect to that U.S.

Holder for all succeeding years during which the U.S. Holder holds the Class A common shares, even if we ceased to meet the threshold requirements for PFIC status.

If we were a PFIC for any taxable year during which a U.S. Holder held our Class A common shares (assuming such U.S. Holder has not made a timely election described below), gain recognized by a U.S. Holder on a sale or other disposition (including certain pledges) of the Class A common shares would be allocated ratably over the U.S. Holder's holding period for the common shares. The amounts allocated to the taxable year of the sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed on the tax on such amount. Further, to the extent that any distribution received by a U.S. Holder on its Class A common shares exceeds 125% of the average of the annual distributions on such common shares received during the preceding three years or the U.S. Holder's holding period, whichever is shorter, that distribution would be subject to taxation in the same manner as gain, described immediately above. If we are a PFIC in any year, certain elections may be available that would result in alternative tax consequences (such as mark-to-market treatment) of owning and disposing the Class A common shares. U.S. Holders should consult their tax advisers to determine whether any of these elections would be available and, if so, what the consequences of the alternative treatments would be in their particular circumstances.

In addition, if we were a PFIC or, with respect to a particular U.S. Holder, were treated as a PFIC for the taxable year in which we paid a dividend or for the prior taxable year, the preferential dividend rates discussed above with respect to dividends paid to certain non-corporate U.S. Holders would not apply.

If a U.S. Holder owns Class A common shares during any year in which we are a PFIC, the holder generally must file an annual report containing such information as the U.S. Treasury may require on IRS Form 8621 (or any successor form) with respect to us, generally with the holder's federal income tax return for that year.

U.S. Holders should consult their tax advisers concerning our potential PFIC status and the potential application of the PFIC rules.

Information Reporting and Backup Withholding

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting, and may be subject to backup withholding, unless (i) the U.S. Holder is a corporation or other exempt recipient or (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding.

Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against such holder's U.S. federal income tax liability and may entitle it to a refund, provided that the required information is timely furnished to the IRS. U.S. Holders should consult their tax advisers regarding the application of the U.S. information reporting and backup withholding rules.

Information with Respect to Foreign Financial Assets

Certain U.S. Holders who are individuals (and, under recent Treasury regulations, certain entities) may be required to report information on their U.S. federal income tax returns relating to an interest in our common shares, subject to certain exceptions (including an exception for common shares held in accounts maintained by certain U.S. financial institutions). U.S. Holders should consult their tax advisers regarding the effect, if any, of this requirement on their ownership and disposition of the common shares.

F. Dividends and paying agents

Not applicable.

G. Statement by experts

Not applicable.

H. Documents on display

We are subject to the informational requirements of the Exchange Act. Accordingly, we are required to file reports and other information with the SEC, including annual reports on Form 20-F and reports on Form 6-K. You may inspect and copy reports and other information filed with the SEC at the Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet website that contains reports and other information about issuers, like us, that file electronically with the SEC. The address of that website is www.sec.gov.

I. Subsidiary information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks associated with foreign exchange and interest rates. In accordance with our policies, we seek to manage our exposure to these various market-based risks.

We monitor market, credit and operational risks in line with the objectives in capital management, supported by the oversight of our Board of Directors, in decisions related to capital management and to ensure their consistency with our objectives and assessment of risks. Information relating to quantitative and qualitative disclosures about these market risks is described below.

Foreign Exchange Risk

Our results are not subject to significant fluctuations resulting from the effects of the volatility of any exchange rate. As of December 31, 2019, we have cash and cash equivalents and financial investments denominated in U.S. dollars in the amount of R$25 million.

Liquidity Risk

We regularly review the liquidity risk and maintain appropriate reserves, including bank credit facilities with first tier financial institutions. We also continuously monitor projected and actual cash flows and the combination of maturity profiles of the financial assets and liabilities.

The main requirements for financial resources used by us arise from the need to make payments for printing educational content, freight expenses, operating expenses, labor and social obligations and other operating disbursements. See "Item 5. F—Tabular disclosure of contractual obligations" for a table summarizing our contractual obligations as of December 31, 2019.

Financial Counterparty Risk

The financial counterparty risk arises from the possibility that we may incur losses due to the default of our counterparties. We adopt as practice the analysis of the financial and equity situation of our counter parts in order to control this risk.

Counterparty credit limits, which take published credit ratings and other factors into account, are set to cover our total aggregate exposure to a single financial institution. Exposures and limits applicable to each financial institution are approved by our treasury within guidelines approved by the board and are reviewed on a regular basis.

Interest Rate Risk

Interest rate risk represents the chance that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Our exposure to this risk relates primarily to our investments with floating interest rates. We are primarily exposed to fluctuations in CDI interest rates on financial investments. Our exposure to cash, bank deposits and cash equivalents and financial investments indexed to the CDI totaled R$603.4 million as of December 31, 2018. See note 27 to our audited consolidated financial statements for a sensitivity analysis of the impact of a hypothetical 10% change in the CDI on our cash and cash equivalents and financial investments as of December 31, 2018.

For further information on our market risks, see note 25 to our audited consolidated financial statements.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt securities

Not applicable.

B. Warrants and rights

Not applicable.

C. Other securities

Not applicable.

D. American depositary shares

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

A. Defaults

No matters to report.

B. Arrears and delinquencies

No matters to report.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

A. Material modifications to instruments

Not applicable.

B. Material modifications to rights

Not applicable.

C. Withdrawal or substitution of assets

Not applicable.

D. Change in trustees or paying agents

Not applicable.

E. Use of proceeds

On September 25, 2018, the registration statement on Form F-1 (File No 333-7007) relating to our initial public offering of our class A common shares was declared effective by the SEC. On September 25, 2018, we commenced our initial public offering. On September 28, 2018 we closed our initial public offering, pursuant to which we issued and sold 12,777,777 Class A common shares. Goldman Sachs & Co. LLC, Morgan Stanley & Co. LLC, Itau BBA USA Securities, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated acted as the representatives of the underwriters in our initial public offering. The 12,777,777 registered Class A common shares were sold to the public at a price of US$17.50 per Class A common share, for an aggregate price of US$223,611,098 (which included the full exercise of the option to purchase additional shares by the underwriters). We incurred approximately US$6.6 million in expenses related to our initial public offering and paid approximately US$13.4 million in underwriting discounts and commissions.

On October 21, 2019, a shelf registration statement on Form F-3 (File No 333-23421) was declared effective by the SEC. On October 25, 2019, we filed with the SEC the final prospectus supplement related to our follow-on public offering of our class A common shares, or the follow-on. Goldman Sachs & Co. LLC, Morgan Stanley & Co. LLC and Itau BBA USA Securities, Inc. acted as the representatives of the underwriters in our follow-on. In connection with the follow-on, we issued and sold 3,450,656 Class A common shares and the selling shareholders offered and sold an additional 4,268,847 Class A common shares to the public at a price of US$43.00 per Class A common shares, for an aggregate price of US$331,938,629. We received net proceeds of US$143.9 million, after deducting USS$3.7 million in underwriting discounts and commissions. On November 26, 2019, an additional 661,112 Class A common shares were sold by General Atlantic Arco (Bermuda), L.P. following the exercise by the underwriters of their option to purchase additional shares.

ITEM 15. CONTROLS AND PROCEDURES

A. Disclosure controls and procedures

We have evaluated, with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures as of December 31, 2019. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were ineffective as of December 31, 2019, due to the material weaknesses mentioned in item 3.D - Risk Factors, to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

B. Management's annual report on internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Exchange Act Rule 13a-15(f). Internal control over financial reporting is a process designed by, or under the supervision of, our chief executive officer and chief financial officer and effected by our Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatement. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2019. In making its assessment of internal control over financial reporting, management used the criteria described in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

Based on this assessment, management has concluded that the Company did not maintain effective internal controls over general IT regarding their enterprise resource planning systems (ERP) as of December 31, 2019. This is the same material weakness previously identified in the Company's 2018 Annual Report on Form 20-F filed on April 17, 2019. The Company has recently implemented controls over the IT environment, hired experienced personnel and implemented policies and procedures, however these controls were not fully implemented as of December 31, 2019. The material weakness identified is described in Item 3. D—Risk Factors.

The control deficiency described above could result in a misstatement that would result in a material misstatement of the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, our management has determined that such control deficiency constitutes a material weakness.

Management expects that the design and implementation of additional IT general controls and the remediation plan to be fully completed during 2020, however we cannot provide any assurance that these remediation efforts will be successful or that the company's internal control over financial reporting will be effective as a result of these efforts.

C. Attestation report of the registered public accounting firm

This Annual Report does not include an attestation report of our registered public accounting firm due to a transition period established by rules of the SEC for emerging growth companies.

D. Changes in internal control over financial reporting

The Company has recently implemented controls over the IT environment, hired experienced personnel and implemented policies and procedures, however these controls were not fully implemented as of December 31, 2019. The material weakness identified is described in Item 3. D—Risk Factors.

ITEM 16. RESERVED

ITEM 16A. Audit committee financial expert

The audit committee, which consists of Alberto Menache, Edward Ruiz and Pablo Doberti assists our board of directors in overseeing our accounting and financial reporting processes and the audits of our financial statements. In addition, the audit committee is directly responsible for the appointment, compensation, retention and oversight of the work of our independent registered public accounting firm. Edward Ruiz serves as Chairman of the audit committee. The audit committee consists exclusively of members of our board of directors who are financially literate, and Edward Ruiz is considered an "audit committee financial expert" as defined by the SEC. Our board of directors has determined that Alberto Menache, Edward Ruiz and Pablo Doberti satisfy the "independence" requirements set forth in Rule 10A-3 under the Exchange Act. For more information, see "Item 6. Directors, Senior Management and Employees—C. Board Practices—Committees of the Board of Directors—Audit Committee."

ITEM 16B. Code of ethics

On September 11, 2018, our Board of Directors adopted a code of business conduct and ethics (the "Code of Ethics") applicable to the board of directors and all employees of Arco. On November 21, 2019 our Board of Directors approved an amendment to the Code of Ethics applicable to the board of directors and all employees of Arco. An English translation of the Code of Ethics is included to this annual report as Exhibit 14.1.

Since its effective date on September 11, 2018, we have not waived compliance with the Code of Ethics.

ITEM 16C. Principal accountant fees and services

Audit and Non-Audit Fees

The following table sets forth the fees billed to us by our independent registered public accounting firm during the years ended December 31, 2019 and 2018. Our independent registered public accounting firm was Ernst & Young Auditores Independentes S.S. for the years ended December 31, 2019, 2018 and 2017, and KPMG Auditores Independentes for the years ended 2016 and 2015.

	2019	**2018**
	(in thousands of *reais*)	
Audit fees (1)	5,588.7	7.898,1
Audit related fees (2)	804.7	172.0
Tax fees (3)	—	73.5
All other fees (4)	709.0	—
Total	**7,102.4**	**8,143.7**

(1) "Audit fees" include fees for (i) the audit of our annual consolidated financial statements, prepared in accordance with IFRS, as issued by the IASB; (ii) the audit of financial statements of the Company's subsidiaries; (iii) the review of our interim financial statements for the three-month period ended March 31, 2019, for the six-month periods ended June 30, 2019 and for the nine-month periods September 30, 2019; (iv) the preparation and issuance of comfort letter in connection with Arco's offerings; (v) the preparation and issuance of consent letter in connection with Arco's registration statement pertaining to the Restricted Share Grant Plan.

(2) "Audit-related fees" are in 2019 assessment services of internal controls in order to issue recommendation letter including deficiencies in design or implementation and in 2018 fees billed for IPO readiness assessment.

(3) "Tax fees" are fees billed for professional services for tax compliance, tax advice and tax planning.

(4) All other fees are related to are fees billed for K-12 market assessment service in Brazil.

ITEM 16D. Exemptions from the listing standards for audit committees

Under the listed company audit committee rules of Nasdaq and the SEC, we must comply with Exchange Act Rule 10A-3, which requires that we establish an audit committee composed of members of the Board of Directors that meets specified requirements. The composition of our audit committee complies with the requirements of Nasdaq rules.

ITEM 16E. Purchases of equity securities by the issuer and affiliated purchasers

None.

ITEM 16F. Change in registrant's certifying accountant

Not applicable.

ITEM 16G. Corporate governance

Foreign Private Issuer Status

Nasdaq listing rules include certain accommodations in the corporate governance requirements that allow foreign private issuers, such as us, to follow "home country" corporate governance practices in lieu of the otherwise applicable corporate governance standards of Nasdaq. The application of such exceptions requires that we disclose each noncompliance with Nasdaq listing rules that we do not follow and describe the Cayman Islands corporate governance practices we do follow in lieu of the relevant Nasdaq corporate governance standard. As a foreign private issuer, we currently rely, and will continue to rely, on the foreign private issuer exemption with respect to the following rules:

- Nasdaq Rule 5605(b), which requires that independent directors comprise a majority of a company's board of directors. As allowed by the laws of the Cayman Islands, independent directors do not comprise a majority of our board of directors.

- Nasdaq Rule 5605(e)(1), which requires that a company have a nominations committee comprised solely of "independent directors" as defined by Nasdaq. As allowed by the laws of the Cayman Islands, we do not have a nominations committee nor do we have any current intention to establish one.

- Nasdaq Rule 5605(d) & (e), which require that compensation for our executive officers and selection of our director nominees be determined by a majority of independent directors. As allowed by the laws of the Cayman Islands, we do not have a nomination and corporate governance committee or remuneration committee nor do we have any current intention to establish either.

Principal Differences between Cayman Islands and U.S. Corporate Law

The Companies Law was modeled originally after similar laws in England and Wales but does not follow subsequent statutory enactments in England and Wales. In addition, the Companies Law differs from laws applicable to U.S. corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Law applicable to Arco and the laws applicable to companies incorporated in the United States and their shareholders.

Mergers and Similar Arrangements

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies.

For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company and (b) a "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies in the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of the shareholders of each constituent company; and (b) such other authorization, if any, as may be specified in such constituent company's Articles of Association. The plan must be approved by the directors of each constituent company and filed with the Registrar of Companies together with a declaration as to: (1) the solvency of the consolidated or surviving company, (2) the merger or consolidation is bona fide and not intended to defraud unsecured creditors of the constituent companies; (3) no petition or other similar proceeding has been filed and remains outstanding and no order or resolution to wind up the company in any jurisdiction, (4) no receiver, trustee, administrator or similar person has been appointed in any jurisdiction and is acting in respect of the constituent company, its affairs or property, (5) no scheme, order, compromise or similar arrangement has been entered into or made in any jurisdiction with creditors; (6) a list of the assets and liabilities of each constituent company; (7) the non-surviving constituent company has retired from any fiduciary office held or will do so; (8) that the constituent company has complied with any requirements under the regulatory laws, where relevant; and (9) an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and published in the Cayman Islands Gazette.

Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, may be determined by the Cayman Islands' court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

In addition, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement in question is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder would have the right to express to the court the view that the transaction should not be approved, the court can be expected to approve the arrangement if it satisfies itself that:

- Arco is not proposing to act illegally or *ultra vires* and the statutory provisions as to majority vote have been complied with;
- the shareholders have been fairly represented at the meeting in question;
- the arrangement is such that may be reasonably approved by an intelligent and honest man of that class acting in respect of his interest; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law or that would amount to a "fraud on the minority."

When a takeover offer is made and accepted by holders of 90.0% in value of the shares affected within four months, the offeror may, within a two-month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection may be made to the Grand Court of the Cayman Islands but is unlikely to succeed unless there is evidence of fraud, bad faith or collusion.

If the arrangement and reconstruction are thus approved, any dissenting shareholders would have no rights comparable to appraisal rights, which might otherwise ordinarily be available to dissenting shareholders of U.S. corporations and allow such dissenting shareholders to receive payment in cash for the judicially determined value of their shares.

Shareholders' Suits

Class actions are not recognized in the Cayman Islands, but groups of shareholders with identical interests may bring representative proceedings, which are similar. However, a class action suit could nonetheless be brought in a U.S. court pursuant to an alleged violation of U.S. securities laws and regulations.

In principle, Arco itself would normally be the proper plaintiff and as a general rule, whilst a derivative action may be initiated by a minority shareholder on behalf of Arco in a Cayman Islands court, such shareholder will not be able to continue those proceedings without the permission of a Grand Court judge, who will only allow the action to continue if the shareholder can demonstrate that Arco has a good case against the Defendant, and that it is proper for the shareholder to continue the action rather than the Company's board of directors. Examples of circumstances in which derivative actions would be permitted to continue are where:

- a company is acting or proposing to act illegally or beyond the scope of its authority;
- the act complained of, although not beyond the scope of its authority, could be effected duly if authorized by more than a simple majority vote that has not been obtained; and
- those who control the company are perpetrating a "fraud on the minority."

Corporate Governance

Cayman Islands law restricts transactions between a company and its directors unless there are provisions in the Articles of Association which provide a mechanism to alleviate possible conflicts of interest. Additionally, Cayman Islands law imposes on directors' duties of care and skill and fiduciary duties to the companies which they serve. Under Arco's Articles of Association, a director must disclose the nature and extent of his interest in any contract or arrangement, and following such disclosure and subject to any separate requirement under applicable law or the listing rules of the Nasdaq, and unless disqualified by the chairman of the relevant meeting, the interested director may vote in respect of any transaction or arrangement in which he or she is interested. The interested director shall be counted in the quorum at such meeting and the resolution may be passed by a majority of the directors present at the meeting.

Subject to the foregoing and our Articles of Association, our directors may exercise all the powers of Arco to vote compensation to themselves or any member of their body in the absence of an independent quorum. Our Articles of Association provide that, in the event a Compensation Committee is established, it shall be made up of such number of independent directors as is required from time to time by the Nasdaq rules (or as otherwise may be required by law). We currently have no intention to establish a Compensation Committee.

As a foreign private issuer, we are permitted to follow home country practice in lieu of certain Nasdaq corporate governance rules, subject to certain requirements. We currently rely, and will continue to rely, on the foreign private issuer exemption with respect to the following rules:

- Nasdaq Rule 5605(b), which requires that independent directors comprise a majority of a company's board of directors. As allowed by the laws of the Cayman Islands, independent directors do not comprise a majority of our board of directors.

- Nasdaq Rule 5605(e)(1), which requires that a company have a nominations committee comprised solely of "independent directors" as defined by Nasdaq. As allowed by the laws of the Cayman Islands, we do not have a nominations committee nor do we have any current intention to establish one.

- Nasdaq Rule 5605(d) & (e), which require that compensation for our executive officers and selection of our director nominees be determined by a majority of independent directors. As allowed by the laws of the Cayman Islands, we do not have a nomination and corporate governance committee or remuneration committee nor do we have any current intention to establish either.

Borrowing Powers

Arco's directors may exercise all the powers of Arco to borrow money and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof and to issue debentures, debenture stock, mortgages, bonds and other such securities whether outright or as security for any debt, liability or obligation of Arco or of any third-party. Such powers may be varied by a special resolution of shareholders (requiring a two-thirds majority vote).

Indemnification of Directors and Executive Officers and Limitation of Liability

The Companies Law does not limit the extent to which a company's Articles of Association may provide for indemnification of directors and officers, except to the extent that it may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Arco's Articles of Association provide that we shall indemnify and hold harmless our directors and officers against all actions, proceedings, costs, charges, expenses, losses, damages, liabilities, judgments, fines, settlements and other amounts incurred or sustained by such directors or officers, other than by reason of such person's dishonesty, willful default or fraud, in or about the conduct of our company's business or affairs (including as a result of any mistake of judgment) or in the execution or discharge of his duties, powers, authorities or discretions, including without prejudice to the generality of the foregoing, any costs, expenses, losses or liabilities incurred by such director or officer in defending (whether successfully or otherwise) any civil, criminal or other proceedings concerning Arco or our affairs in any court whether in the Cayman Islands or elsewhere. This standard of conduct is generally the same as permitted under the Delaware General Corporation Law for a Delaware corporation.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to Arco's directors, officers or persons controlling the Company under the foregoing provisions, we have been informed that, in the opinion of the SEC, this indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Directors' Fiduciary Duties

As a matter of Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company. Accordingly, directors owe fiduciary duties to their companies to act bona fide in what they consider to be the best interests of the company, to exercise their powers for the purposes for which they are conferred and not to place themselves in a position where there is a conflict between their personal interests and their duty to the company. Accordingly, a director owes a company a duty not to make a profit based on his or her position as director (unless the company permits him or her to do so) and a duty not to put himself or herself in a position where the interests of the company conflict with his or her personal interest or his or her duty to a third-party. However, this obligation may be varied by the company's Articles of Association, which may permit a director to vote on a matter in which he has a personal interest provided that he has disclosed that nature of his interest to the board of directors. Arco's Articles of Association provides that a director must disclose the nature and extent of his or her interest in any contract or arrangement, and following such disclosure and subject to any separate requirement under applicable law or the listing rules of the Nasdaq, and unless disqualified by the chairman of the relevant meeting, such director may vote in respect of any transaction or arrangement in which he or she is interested and may be counted in the quorum at the meeting.

A director of a Cayman Islands company also owes to the company duties to exercise independent judgment in carrying out his functions and to exercise reasonable skill, care and diligence, which has both objective and subjective elements. Recent Cayman Islands case law confirmed that directors must exercise the care, skill and diligence that would be exercised by a reasonably diligent person having the general knowledge, skill and experience reasonably to be expected of a person acting as a director. Additionally, a director must exercise the knowledge, skill and experience which he or she actually possesses.

A general notice may be given to the board of directors to the effect that (1) the director is a member or officer of a specified company or firm and is to be regarded as interested in any contract or arrangement which may after the date of the notice be made with that company or firm; or (2) he or she is to be regarded as interested in any contract or arrangement which may after the date of the notice to the board of directors be made with a specified person who is connected with him or her, will be deemed sufficient declaration of interest. This notice shall specify the nature of the interest in question. Following the disclosure being made pursuant to Arco's Articles of Association and subject to any separate requirement under applicable law or the listing rules of the Nasdaq, and unless disqualified by the chairman of the relevant meeting, a director may vote in respect of any transaction or arrangement in which he or she is interested and may be counted in the quorum at the meeting.

In comparison, under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself or herself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director act in a manner he or she reasonably believes to be in the best interests of the corporation. He or she must not use his or her corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, a director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation.

Shareholder Proposals

Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. The Delaware General Corporation Law does not provide shareholders an express right to put any proposal before the annual meeting of shareholders, but Delaware corporations generally afford shareholders an opportunity to make proposals and nominations provided that they comply with the notice provisions in the certificate of incorporation or bylaws. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

The Companies Law provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's Articles of Association. Arco's Articles of Association provide that upon the requisition of one or more shareholders representing not less than one-third of the voting rights entitled to vote at general meetings, the board will convene an extraordinary general meeting and put the resolutions so requisitioned to a vote at such meeting. The Articles of Association provide no other right to put any proposals before annual general meetings or extraordinary general meetings.

Cumulative Voting

Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. As permitted under Cayman Islands law, Arco's Articles of Association do not provide for cumulative voting. As a result, the shareholders of Arco are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

Removal of Directors

The office of a director shall be vacated automatically if, among other things, he or she (1) becomes prohibited by law from being a director, (2) becomes bankrupt or makes an arrangement or composition with his creditors, (3) dies or is in the opinion of all his co-directors, incapable by reason of mental disorder of discharging his duties as director (4) resigns his office by notice to us or (5) has for more than six months been absent without permission of the directors from meetings of the board of directors held during that period, and the remaining directors resolve that his/her office be vacated.

Transaction with Interested Shareholders

The Delaware General Corporation Law provides that; unless the corporation has specifically elected not to be governed by this statute, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that this person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target's outstanding voting shares or who or which is an affiliate or associate of the corporation and owned 15% or more of the corporation's outstanding voting shares within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which the shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware corporation to negotiate the terms of any acquisition transaction with the target's board of directors.

Cayman Islands law has no comparable statute. As a result, Arco cannot avail itself of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that the board of directors owe duties to ensure that these transactions are entered into bona fide in the best interests of the company and for a proper corporate purpose and, as noted above, a transaction may be subject to challenge if it has the effect of constituting a fraud on the minority shareholders.

Dissolution; Winding Up

Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. If the dissolution is initiated by the board of directors, it may be approved by a simple majority of the corporation's outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board. Under Cayman Islands law, a company may be wound up by either an order of the courts of the Cayman Islands or by a special resolution of its members or, if the company resolves by ordinary resolution that it be wound up because it is unable to pay its debts as they fall due. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so.

Under the Companies Law, Arco may be dissolved, liquidated or wound up by a special resolution of shareholders (requiring a two-thirds majority vote). Arco's Articles of Association also give its board of directors authority to petition the Cayman Islands Court to wind up Arco.

Variation of Rights of Shares

Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of that class, unless the certificate of incorporation provides otherwise. Under Arco's Articles of Association, if the share capital is divided into more than one class of shares, the rights attached to any class may only be varied with the written consent of the holders of two-thirds of the shares of that class or the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class.

Also, except with respect to share capital (as described above), alterations to Arco's Articles of Association may only be made by special resolution of shareholders (requiring a two-thirds majority vote).

Amendment of Governing Documents

Under the Delaware General Corporation Law, a corporation's certificate of incorporation may be amended only if adopted and declared advisable by the board of directors and approved by a majority of the outstanding shares entitled to vote, and the bylaws may be amended with the approval of a majority of the outstanding shares entitled to vote and may, if so provided in the certificate of incorporation, also be amended by the board of directors. Under Cayman Islands law, Arco's Articles of Association generally (and save for certain amendments to share capital described in this section) may only be amended by special resolution of shareholders (requiring a two-thirds majority vote).

Rights of Non-Resident or Foreign Shareholders

There are no limitations imposed by Arco's Articles of Association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on Arco's shares. In addition, there are no provisions in the Articles of Association governing the ownership threshold above which shareholder ownership must be disclosed.

ITEM 16H. Mine safety disclosure

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have responded to Item 18 in lieu of this item.

ITEM 18. FINANCIAL STATEMENTS

Financial Statements are filed as part of this annual report, see pages F-1 to F-85 to this annual report.

ITEM 19. EXHIBITS

The following documents are filed as part of this annual report:

Exhibit No.	Exhibit
2.1	Description of Securities registered under Section 12 of the Exchange Act.*
3.1	Memorandum and Articles of Association of Arco (incorporated herein by reference to Exhibit 3.1 to the Amendment No. 2 to our registration statement on Form F-1 (File No. 333-227007) filed with the SEC on September 17, 2018).
10.1	Form of indemnification agreement (incorporated herein by reference to Exhibit 10.1 to our registration statement on Form F-1 (File No. 333-227007) filed with the SEC on August 24, 2018).
12.1	Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002 of the Chief Executive Officer.*
12.2	Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002 of the Chief Financial Officer.*
13.1	Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer.*
13.2	Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer.*
14.1	English translation of the Code of Ethics of Arco.*
21.1	List of subsidiaries.*
23.1	Consent of Ernst & Young Auditores Independentes S.S.*
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Arco Platform Limited

March 31, 2020

By:	/s/ Ari de Sá Cavalcante Neto
Name:	Ari de Sá Cavalcante Neto
Title:	CEO
By:	/s/ David Peixoto dos Santos
Name:	David Peixoto dos Santos
Title:	CFO

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Audited Annual Consolidated Financial Statements	Page
Management's Report on Internal Control over Financial Reporting	F-2
Report of Independent Registered Public Accounting Firm	F-3
Consolidated Statements of Financial Position as of December 31, 2019 and 2018	F-4
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) for the Years Ended December 31, 2019, 2018 and 2017	F-5
Consolidated Statements of Changes in Equity for the Years Ended December 31, 2019, 2018 and 2017	F-6
Consolidated Statements of Cash Flows for the Years ended December 31, 2019, 2018 and 2017	F-8
Notes to the Consolidated Financial Statements for the Years Ended December 31, 2019, 2018 and 2017	F-9

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting and for assessing the effectiveness of internal control over financial reporting.

Our internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and our Chief Financial Officer and Chief Accounting Officer, and effected by our board of directors, management and other employees, and is designed to provide reasonable assurance regarding the reliability of financial reporting and of the preparation of our consolidated financial statements for external purposes, in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness of internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with our policies or procedures may deteriorate.

Our management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2019, based upon the criteria established in Internal Controls—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of Treadway Commission (COSO). Based on this assessment and criteria, management has concluded that the Company did not maintain effective internal controls over general IT regarding their enterprise resource planning systems (ERP) as of December 31, 2019. The Company has recently implemented controls over the IT environment, hired experienced personnel and implemented policies and procedures, however these controls were not fully implemented as of December 31, 2019.

The control deficiency described above could result in a misstatement that would result in a material misstatement of the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, our management has determined that such control deficiency constitutes a material weakness.

Management expects that the design and implementation of additional IT general controls and the remediation plan to be fully completed during 2020, however we cannot provide any assurance that these remediation efforts will be successful or that the company's internal control over financial reporting will be effective as a result of these efforts.

This management's report was not subject to attestation by our registered public accounting firm pursuant to the rules of the Securities and Exchange Commission.

March 31, 2020

/s/ Ari de Sá Cavalcante Neto
Ari de Sá Cavalcante Neto
Chief Executive Officer

/s/ David Peixoto dos Santos
David Peixoto dos Santos
Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Arco Platform Limited

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of Arco Platform Limited (the Company) as of December 31, 2019 and 2018, the related consolidated statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board - IASB.

Adoption of IFRS 16

As discussed in Note 2.5 to the consolidated financial statements, the Company changed its method for recognizing leases in 2019, due to the adoption of IFRS 16 – Lease using the modified retrospective method of adoption.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ ERNST & YOUNG
Auditores Independentes S.S.

We have served as the Company's auditor since 2017.

Fortaleza, Brazil
March 16, 2020

Arco Platform Limited

Consolidated statements of financial position
As of December 31, 2019 and 2018
(In thousands of Brazilian reais, unless otherwise stated)

	Notes	2019	2018
Assets			
Current assets			
Cash and cash equivalents	5	48,900	12,301
Financial investments	6	574,804	806,789
Trade receivables	7	329,428	136,611
Inventories	8	40,106	15,131
Recoverable taxes	9	15,612	11,227
Financial instruments from acquisition of interests	16	3,794	-
Related parties	10	1,298	-
Other assets		14,630	6,091
Total current assets		**1,028,572**	**988,150**
Non-current assets			
Financial instruments from acquisition of interests	16	32,152	26,630
Deferred income tax	24	156,748	99,460
Recoverable taxes	9	6,613	1,033
Financial investments	6	4,690	4,370
Related parties	10	14,813	1,226
Other assets		14,399	1,060
Investments and interests in other entities	11	48,574	11,862
Property and equipment	12	21,328	13,347
Right-of-use assets	13	21,631	-
Intangible assets	14	1,811,903	187,740
Total non-current assets		**2,132,851**	**346,728**
Total assets		**3,161,423**	**1,334,878**
Liabilities			
Current liabilities			
Trade payables		34,521	14,845
Labor and social obligations	18	68,511	15,888
Taxes and contributions payable		7,508	2,555
Income taxes payable		52,038	17,294
Advances from customers		25,626	5,997
Lease liabilities	13	6,845	-
Loans and financing	15	98,561	-
Financial instruments from acquisition of interests	16	-	51
Accounts payable to selling shareholders	17	117,959	830
Other liabilities		607	428
Total current liabilities		**412,176**	**57,888**
Non-current liabilities			
Labor and social obligations	18	2,801	-
Lease liabilities	13	19,012	-
Financial instruments from acquisition of interests	16	33,940	25,046
Provision for legal proceedings	28	251	131
Deferred income tax	24	-	1,378
Accounts payable to selling shareholders	17	1,098,273	180,551
Other liabilities		160	-
Total non-current liabilities		**1,154,437**	**207,106**
Total liabilities		**1,566,613**	**264,994**
Equity	19		
Share capital		11	10
Capital reserve		1,607,622	1,089,505
Share-based compensation reserve		84,546	67,350
Accumulated losses		(97,369)	(86,687)
Equity attributable to equity holders of the parent		1,594,810	1,070,178
Non-controlling interests		-	(294)
Total equity		**1,594,810**	**1,069,884**
Total liabilities and equity		**3,161,423**	**1,334,878**

The accompanying notes are part of the consolidated financial statements.

Arco Platform Limited

Consolidated statements of income (loss) and comprehensive income (loss)
For the years ended December 31, 2019, 2018 and 2017
(In thousands of Brazilian reais, except earnings per share)

	Notes	2019	2018	2017
Net revenue	21	572,837	380,981	244,382
Cost of sales	22	(117,258)	(80,745)	(58,517)
Gross profit		**455,579**	**300,236**	**185,865**
Selling expenses	22	(199,780)	(113,270)	(65,314)
General and administrative expenses	22	(191,438)	(129,754)	(48,931)
Other income (expenses), net		(6,287)	4,856	3,299
Operating profit		**58,074**	**62,068**	**74,919**
Finance income	23	72,047	36,618	12,531
Finance costs	23	(170,855)	(198,795)	(20,389)
Finance result	23	(98,808)	(162,177)	(7,858)
Share of loss of equity-accounted investees	11	(1,800)	(792)	(705)
Profit (loss) before income taxes		**(42,534)**	**(100,901)**	**66,356**
Income taxes - income (expense)				
Current		(46,850)	(26,553)	(31,010)
Deferred		79,953	44,538	8,294
	24	33,103	17,985	(22,716)
Profit (loss) for the year		**(9,431)**	**(82,916)**	**43,640**
Other comprehensive income for the year		-	-	-
Total comprehensive income (loss) for the year		**(9,431)**	**(82,916)**	**43,640**
Profit (loss) attributable to				
Equity holders of the parent		(9,431)	(82,380)	44,255
Non-controlling interests		-	(536)	(615)
Basic earnings per share - in Brazilian *reais*	20			
Class A		(0.18)	(1.64)	0.88
Class B		(0.18)	(1.64)	0.88
Diluted earnings per share - in Brazilian *reais*	20			
Class A		(0.18)	(1.64)	0.85
Class B		(0.18)	(1.64)	0.85

The accompanying notes are part of the consolidated financial statements.

Arco Platform Limited

Consolidated statements of changes in equity
For the years ended December 31, 2019, 2018 and 2017
(In thousands of Brazilian reais, unless otherwise stated)

	Attributable to equity holders of the parent								
			Earnings reserves						
	Share capital	Capital reserve	Legal reserve	Retained earnings reserve	Share-based compensation reserve	Retained earnings	Total	Non-controlling interests	Total equity
Balances at December 31, 2016	**48,517**	**81,914**	**5,952**	**99,506**	**5,163**	**-**	**241,052**	**116**	**241,168**
Profit (loss) for the year	-	-	-	-	-	44,255	44,255	(615)	43,640
Total comprehensive income	-	-	-	-	-	44,255	44,255	(615)	43,640
Dividends paid	-	-	-	(57,210)	-	-	(57,210)	-	(57,210)
Capital increase	7,380	78,768	-	-	-	-	86,148	-	86,148
Non-controlling interest increase	-	-	-	-	-	-	-	610	610
Share-based compensation plan	-	-	-	-	1,890	-	1,890	-	1,890
Legal reserve	-	-	2,213	-	-	(2,213)	-	-	-
Minimum mandatory dividends	-	-	-	-	-	(10,511)	(10,511)	-	(10,511)
Earnings retention	-	-	-	31,531	-	(31,531)	-	-	-
Balances at December 31, 2017	**55,897**	**160,682**	**8,165**	**73,827**	**7,053**	**-**	**305,624**	**111**	**305,735**
Change in accounting policy (Note 2.5)	-	-	-	-	-	(4,307)	(4,307)	-	(4,307)
Balances at January 1, 2018	**55,897**	**160,682**	**8,165**	**73,827**	**7,053**	**(4,307)**	**301,317**	**111**	**301,428**
Loss for the year	-	-	-	-	-	(82,380)	(82,380)	(536)	(82,916)
Total comprehensive loss	-	-	-	-	-	(82,380)	(82,380)	(536)	(82,916)
Corporate reorganization	(55,890)	63,444	(8,165)	(73,827)	-	-	(74,438)	-	(74,438)
GA Holding – tax benefit on tax deductible goodwill	-	46,314	-	-	-	-	46,314	-	46,314
Capital increase – Alfaco	-	3,091	-	-	-	-	3,091	-	3,091
Issuance of common shares in initial public offering	3	895,179	-	-	-	-	895,182	-	895,182
Share issuance costs	-	(79,205)	-	-	-	-	(79,205)	-	(79,205)
Non-controlling interest	-	-	-	-	-	-	-	131	131
Share-based compensation plan	-	-	-	-	60,297	-	60,297	-	60,297
Balances at December 31, 2018	**10**	**1,089,505**	**-**	**-**	**67,350**	**(86,687)**	**1,070,178**	**(294)**	**1,069,884**

The accompanying notes are part of the consolidated financial statements.

Arco Platform Limited

Consolidated statements of changes in equity
For the years ended December 31, 2019, 2018 and 2017
(In thousands of Brazilian reais, unless otherwise stated)

	Attributable to equity holders of the parent						
	Share capital	**Capital reserve**	**Share-based compensation reserve**	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total equity**
Balances at December 31, 2018	**10**	**1,089,505**	**67,350**	**(86,687)**	**1,070,178**	**(294)**	**1,069,884**
Change in accounting policy (Note 2.5)	-	-	-	(1,251)	(1,251)	-	(1,251)
Balances at January 1, 2019	**10**	**1,089,505**	**67,350**	**(87,938)**	**1,068,927**	**(294)**	**1,068,633**
Loss for the year	-	-	-	(9,431)	(9,431)	-	(9,431)
Total comprehensive loss	-	-	-	(9,431)	(9,431)	-	(9,431)
Corporate reorganization (Note 2.2)	-	(36,624)	-	-	(36,624)	-	(36,624)
Tax benefit on tax deductible goodwill – reversion (Note 19d)	-	(46,314)	-	-	(46,314)	-	(46,314)
Capital increase (Note 19a)	1	13,829	-	-	13,830	-	13,830
Issuance of common shares in follow-on public offering (Note 1)	-	589,602	-	-	589,602	-	589,602
Share issuance costs (Note 1)	-	(18,223)	-	-	(18,223)	-	(18,223)
Non-controlling interest	-	-	-	-	-	294	294
Share-based compensation plan (Note 18)	-	-	33,043	-	33,043	-	33,043
Restricted stocks transferred	-	15,847	(15,847)	-	-	-	-
Balances at December 31, 2019	**11**	**1,607,622**	**84,546**	**(97,369)**	**1,594,810**	**-**	**1,594,810**

The accompanying notes are part of the consolidated financial statements.

Arco Platform Limited

Consolidated statements of cash flows
For the years ended December 31, 2019, 2018 and 2017
(In thousands of Brazilian reais, unless otherwise stated)

	2019	2018	2017
Operating activities			
Profit (loss) before income taxes	(42,534)	(100,901)	66,356
Adjustments to reconcile profit (loss) before income taxes			
Depreciation and amortization	48,314	19,594	14,288
Inventory reserves	8,476	7,252	4,481
Allowance for doubtful accounts	17,392	9,588	5,227
Loss on sale/disposal of property and equipment and intangible	3,499	138	664
Fair value change in financial instruments from acquisition interests	(473)	(659)	6,657
Changes in accounts payable to selling shareholders	89,403	130,378	-
Share of loss of equity-accounted investees	1,800	792	705
Changes in fair value of step acquisitions	(3,708)	-	(1,184)
Share-based compensation plan	33,043	60,297	1,890
Interest accretion on acquisition liabilitiy	42,206	8,704	11,179
Income from non-cash equivalents	(45,797)	-	-
Interest on lease liabilities	1,489	-	-
Provision for legal proceedings	120	131	-
Provision for payroll taxes (restricted stock units)	8,333	-	-
Foreign exchange loss	555	34,435	-
Gain on sale of investment	(3,286)	-	-
Other financial cost/revenue, net	(1,360)	-	-
	157,472	**169,749**	**110,263**
Changes in assets and liabilities			
Trade receivables	(136,407)	(57,020)	(24,347)
Inventories	(14,637)	(3,563)	(8,914)
Recoverable taxes	(8,494)	(3,807)	(2,777)
Other assets	(16,035)	(2,254)	(320)
Trade payables	8,455	10,256	(1,512)
Labor and social obligations	15,950	7,169	3,081
Taxes and contributions payable	1,951	1,476	553
Advances from customers	19,997	99	3,950
Other liabilities	(268)	(3,342)	(654)
Cash generated from operations	**27,984**	**118,763**	**79,323**
Income taxes paid	(34,747)	(26,639)	(16,673)
Interest paid on lease liabilities	(852)	-	-
Net cash flows from (used in) operating activities	**(7,615)**	**92,124**	**62,650**
Investing activities			
Acquisition of property and equipment	(10,991)	(6,854)	(5,314)
Payment of investments and interests in other entities	(41,853)	(2,000)	(19,900)
Acquisition of subsidiaries, net of cash acquired	(798,885)	-	(28,347)
Payment of accounts payable to selling shareholders	-	(14,756)	-
Acquisition of intangible assets	(43,102)	(29,403)	(6,047)
Purchase of financial investments	277,389	(727,951)	(17,361)
Loans to related parties	(14,000)	-	(300)
Net cash flows used in investing activities	**(631,442)**	**(780,964)**	**(77,269)**
Financing activities			
Capital increase	13,830	3,091	86,148
Capital increase - proceeds from public offering	589,602	895,182	-
Share issuance costs	(18,897)	(78,531)	-
Payment of lease liabilities	(4,407)	-	-
Payment of loans and financing	(563)	-	-
Loans and financing	97,574	-	-
Payment to owners to acquire entity's shares	(928)	-	-
Dividends paid	-	(85,000)	(75,053)
Net cash flows from financing activities	**676,211**	**734,742**	**11,095**
Foreign exchange effects on cash and cash equivalents	(555)	(34,435)	-
Increase (decrease) in cash and cash equivalents	**36,599**	**11,467**	**(3,524)**
Cash and cash equivalents at the beginning of the year	12,301	834	4,358
Cash and cash equivalents at the end of the year	48,900	12,301	834
Increase (decrease) in cash and cash equivalents	**36,599**	**11,467**	**(3,524)**

The accompanying notes are part of the consolidated financial statements.

Notes to the 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 EAS Educação S.A. ("EAS"), which provides educational content from basic to secondary education ("K-12 curriculum").

Since 2015, the Company has been investing in technology and its printed methodology evolved to an educational platform, capable of delivering the entire K-12 curriculum content.

The Company offers a complete pedagogical methodology using technology features to deliver educational content to improve the learning process. The Company's activities comprise the editing, publishing, advertising and sale of educational content for private schools.

The Company has an asset-light, highly scalable business model that emphasizes operational efficiency and profitability. Arco operates through long-term service contracts with private schools. These contracts generally have initial terms that average three years, pursuant to which educational content is provided in printed and digital format to private schools. The revenue is driven by the number of enrolled students at each customer using the solutions and the agreed upon price per student per year, all in accordance with the terms and conditions set forth in each contract. As a result, the Company benefits from high visibility in its net revenue and operating margin, which is calculated by dividing the operating profit by net revenue over a given period.

The address of the Company's principal executive office is 2840 Rua Augusta, 11th Floor, Consolação, São Paulo, Brazil.

These consolidated financial statements were authorized for issue by the Board of Directors on March 16, 2020.

Follow-on public offering

On October 29, 2019, Arco completed a follow-on public offering. The public offering of 7,719,503 Class A common shares, consisted of 4,268,847 Class A common shares offered by certain selling shareholders of Arco (the "Selling Shareholders"), including General Atlantic Arco (Bermuda), L.P. ("GA"), and 3,450,656 Class A common shares offered by Arco. In addition, the underwriters purchased 661,112 Class A common shares, under the 30-day option agreement with GA to purchase up to 1,157,925 additional Class A common shares at the public offering price, less underwriting discounts and commissions. Arco did not receive any proceeds from the sale of Class A common shares by the Selling Shareholders.

The public offering price was US$43.00 per common share, for gross proceeds of US$331.9 million, for both, the selling shareholders and the Company. The Company received net proceeds of US$143,908 (or R$574,767), after deducting US$3,709 (or R$14,835)) in underwriting discounts and commissions. In addition, the Company incurred in the amount of R$ 3,387 for audit, consulting and legal services related to the offering.

2 Significant accounting policies

2.1 Basis for preparation of the consolidated financial statements

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets, derivative financial instruments and contingent consideration from business combinations that have been measured at fair value.

Arco is a holding company and considers the currency of the local environment of the operational companies in Brazil as its functional currency, as this is the environment which drives the dividend income it receives, which is its primary source of revenue.

Therefore, the functional currency of the Company is the Brazilian *real* and the consolidated financial statements are presented in Brazilian *reais* ("BRL" or "R$"). All amounts are rounded to the nearest thousands, except when otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period.

2.2 Significant events during the year

During the year ended December 31, 2019, the Company had the following changes in its corporate organization:

(a) Internal restructurings

Escola de Aplicação São José dos Campos Ltda.

On January 2, 2019, the Company agreed to sell its shares of Escola de Aplicação São José dos Campos Ltda., which is part of the Company's Core segment, to its minority shareholders. The transaction price of R$ 3,741 will be received in 16 quarterly installments from January 2022 to October 2025, adjusted by the IGP-M (Brazilian general market price index issued by the FGV – "Fundação Getúlio Vargas"). The gain on sale of investment was R$ 3,286, and is classified in Other income (expenses) net in the statement of income.

SAE Digital S.A.

On February 1, 2019, EAS spun-off its investment in SAE Digital to a new holding company, which was subsequently merged by SAE Digital and its shares were issued to Arco Brazil. When EAS acquired SAE Digital, goodwill was treated as not deductible. However, after this transaction, SAE Digital has the tax benefit of the deductibility of the goodwill, which will generate a future tax benefit and a deferred tax asset of R$ 5,135. The deductible goodwill amounts to R$ 14,597. The net effect of R$ 9,462 was accounted for in equity.

Novagaúcha Editora e Livraria Ltda.

On March 31, 2019, Novagaúcha Editora e Livraria Ltda. was merged by Barra Américas Editora Ltda. The goodwill of this transaction is R$ 4,330 and was charged to equity. No tax benefit was generated in this transaction.

NS Ventures Participações Ltda. and NS Educação Ltda.

On May 1, 2019, continuing the corporate restructuring, SAE Digital merged NS Educação Ltda. ("NS Educação") and NS Ventures Participações S.A. ("NS Ventures"). In 2017, when NS Ventures acquired a 30% interest in SAE Digital and a 100% interest in NS Educação, the goodwill was treated as not deductible; however, after this transaction, SAE Digital has the tax benefit of the deductibility of the goodwill, which will generate a future tax benefit and a deferred tax asset of R$ 11,762. The deductible goodwill amounts to R$ 34,594. The net effect of R$ 22,832 was accounted for in equity.

NLP Soluções Educacionais Ltda.

NLP Soluções Educacionais Ltda. ("Pleno") is a subsidiary founded in 2019 through the contribution of 100% of the share capital of EAS Educação S.A. which is the subsidiary of Arco Brazil, its parent company. Pleno's corporate purpose is to provide content to develop socio-emotional skills.

(b) Acquisition of investments

Nave à Vela Ltda.

In May 2019, the Company acquired a 13.2% interest in Nave à Vela Ltda. ("Nave") and such investment was accounted for under the equity method through October 2019, when the Company acquired control and Nave became a consolidated subsidiary of the Company with 51.0% interest in the share capital of Nave. See Note 4b.

EEM Licenciamento de Programas Educacionais Ltda.

On April 29, 2019, the Company acquired the control of EEM Licenciamento de Programas Educacionais Ltda. ("EEM") by acquiring 100% of its outstanding ordinary shares and voting interests as described in Note 4a.

Sistema Positivo de Ensino

On May 7, 2019, the Company announced that it entered into a definitive agreement to acquire Sistema Positivo de Ensino ("Positivo"), one of the largest K-12 content providers to private schools in Brazil. Positivo is composed of seven entities as follows: Positivo Soluções Didáticas Ltda., Editora Piá Ltda., Osterreich Investimentos – Participações Societárias S.A., Mendel Investimentos – Participações Societárias S.A., Torino Investimentos – Participações Societárias S.A., Remare Investimentos – Participações Societárias S.A., Fahe Investimentos – Participações Societárias S.A.

On November 1, 2019 the Company concluded the transaction through its subsidiary EAS and, on the same date, acquired control of Positivo. See Note 4c.

Geekie Desenvolvimento de Softwares S.A.

In 2019, Arco acquired an additional 31% interest in the share capital of Geekie through a capital increase and the purchase of minority shareholders increasing its total interest to 37.5% as descried in Note 11.

2.3 Basis of consolidation and investments in associates and joint ventures

The consolidated financial statements comprise the financial statements of the Company as of December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017.

The table below is a list of the Company's subsidiaries, associates and joint venture:

Name	Principal activities	Country	Investment type	Direct and indirect interest 2019	2018	2017
Arco Educação S.A.	Holding	Brazil	Subsidiary	100.0%	100.0%	-
EAS Educação S.A.	Educational content	Brazil	Subsidiary	100.0%	100.0%	100.0%
Barra Américas Editora Ltda.	Educational content	Brazil	Subsidiary	100.0%	100.0%	100.0%
Distribuidora de Material Didático Desterro Ltda.	Educational content	Brazil	Subsidiary	100.0%	100.0%	100.0%
Novagaúcha Editora e Livraria Ltda.	Educational content	Brazil	Subsidiary	-	100.0%	100.0%
SAS Sistema de Ensino Ltda.	Educational content	Brazil	Subsidiary	100.0%	100.0%	100.0%
Arco Ventures S.A.	Educational content	Brazil	Subsidiary	100.0%	100.0%	100.0%
SAS Livrarias Ltda.	Educational content	Brazil	Subsidiary	100.0%	100.0%	100.0%
SAE Digital S.A.	Educational content	Brazil	Subsidiary	100.0%	100.0%	100.0%
Escola de Aplicação São José dos Campos Ltda.	Educational services	Brazil	Subsidiary	-	69.6%	69.6%
International School Serviços de Ensino, Treinamento e Editoração, Franqueadora S.A.	Educational content	Brazil	Subsidiary	51.5%	51.5%	51.5%
NS Ventures Participações Ltda.	Educational content	Brazil	Subsidiary	-	100.0%	100.0%
NS Educação Ltda.	Educational content	Brazil	Subsidiary	-	100.0%	100.0%
Nave à Vela Ltda.	Educational content	Brazil	Subsidiary	51.0%	-	-
EEM Licenciamento de Programas Educacionais Ltda.	Educational technology	Brazil	Subsidiary	100.0%	-	-
NLP Soluções Educacionais Ltda.	Educational content	Brazil	Subsidiary	100.0%	-	-
Sistema Positivo de Ensino	Educational content	Brazil	Subsidiary	100.0%	-	-
WPensar S.A.	Educational technology	Brazil	Joint venture	25.0%	25.0%	25.0%
Geekie Desenvolvimento de Softwares S.A.	Educational technology	Brazil	Associate	37,5%	8.05%	6.5%

Control is achieved when the Company is exposed to, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in
the consolidated financial statements from the date the Company gains control until the date the Company ceases control of the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Company's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Company loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, and any resulting gain or loss is recognized in profit or loss.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statements of income (loss) and comprehensive income (loss), changes in equity and financial position, respectively.

2.4 Summary of significant accounting policies

This note provides a description of the significant accounting policies adopted in the preparation of these consolidated financial statements in addition to other policies that have been disclosed in other notes to these consolidated financial statements. These policies have been consistently applied to all periods presented, unless otherwise stated.

a) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Company elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in general and administrative expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognized in the statement of income (loss) in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Company re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each segment that is expected to benefit from the combination.

Where goodwill has been allocated to a segment and part of the operation within that segment is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the segment unit retained.

The current Brazilian tax law allows the deductibility of the acquisition date goodwill and fair value of net assets acquired when a corporate reorganization occurs after acquisition by the Company (i.e. when the Company merges or spins off the businesses acquired). Until such action occurs, the tax and accounting bases of the net assets acquired are the same as of the acquisition date and no deferred tax effects are recognized.

Certain acquired subsidiaries utilize the presumed profit regime as described in Note 24.a to calculate income taxes. Under this regime, there is no difference between the carrying amount and related tax basis of assets and liabilities and therefore no deferred income taxes were recorded in these financial statements at acquisition date or any subsequent periods.

b) Investment in associates and joint venture

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Company's investments in its associate and joint venture are accounted for using the equity method.

Under the equity method of accounting, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint ventures is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of income (loss) reflects the Company's share of the results of operations of the associate or joint venture. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Company recognizes its share of any changes, when applicable, in the statement of changes in equity.

Unrealized gains and losses resulting from transactions between the Company and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Company's share of profit or loss of an associate and a joint venture is shown on the face of the statement of income (loss) outside operating profit and represents profit or loss after tax of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognizes the loss within share of profit (loss) of equity-accounted investees in the statement of income (loss).

c) Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

d) Fair value measurement

The Company measures financial instruments such as certain financial investments and derivatives at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, the Company analyzes the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Company's accounting policies. For this analysis, the Company verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The Company also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

e) Financial instruments – initial recognition and measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

f) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price under IFRS 15.

For a financial asset to be classified and measured at amortized cost or fair value through other comprehensive income (OCI), it should give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortized cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified as: amortized cost or fair value through profit or loss. There are no financial assets designated as fair value through OCI.

Financial assets at amortized cost

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Company's financial assets at amortized cost include trade receivables and certain financial investments.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss. This category includes derivative instruments.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Company's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement-and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Disclosures for significant assumptions - Note 3
- Trade receivables, including contract assets - Note 7

The Company recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 360 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

g) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade payables, loans and borrowings, financial instruments from acquisition of interests and accounts payable to selling shareholders.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortized cost (loans and borrowings)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the statement of income (loss).

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

Financial liabilities at amortized cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of income (loss).

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of income (loss).

h) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

i) Derivative financial instruments

Initial recognition and subsequent measurement

The Company has derivative financial instruments from call and put options from acquisitions of subsidiaries, associates and joint venture. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are recorded directly to finance result.

j) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term financial investments with an original maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term financial investments, as they are considered an integral part of the Company's cash management.

k) Inventories

Inventories are measured at the lower of cost and net realizable value. The costs of inventories are based on the average cost method and include costs incurred on the purchase of inventories, editorial production costs and other costs incurred in bringing them to their current location and condition. Costs of purchased inventory are determined after deducting any discounts and recoverable taxes.

Educational content in progress is considered as inventories in progress and comprises the costs incurred to create unfinished educational content. This amount is measured based on the allocation of hours incurred by editorial production employees in the preparation of educational content.

The inventory reserve for educational material is calculated based on their expected net realizable value. Inventory reserve corresponds to a reserve for inventory obsolescence and is recorded in cost of sales. It is estimated based on the amount of educational materials from prior collections which are no longer used for sale and educational materials which the Company expects will not be sold based on the actual sales. In determining the inventory reserve, the Company considers management's current assessment of the marketplace, industry trends and projected product demand as compared to the number of units currently in stock.

l) Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Machinery and equipment	10%
Vehicles	20%
Furniture and fixtures	10%
IT equipment	20%
Facilities	10%
Leasehold improvements	20% to 33%

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income (loss) when the asset is derecognized.

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

m) Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term, as follows:

Buildings	1 to 10 years
Equipment	4 years

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. Right-of use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of properties (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

n) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles are not capitalized, and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The Company capitalizes the costs directly related with the development of the educational platforms used to deliver content. These costs are substantially comprised of technology related services and payroll expenses, recorded as internally developed software in the educational platform accounting ledger. Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognized in statement of income (loss) as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

Costs associated with maintaining internally developed software are recognized as an expense as incurred.

The useful lives of intangible assets are assessed as finite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income (loss) in the expense category that is consistent with the function of the intangible assets.

An intangible asset is derecognized upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income (loss).

o) Impairment of non-financial asset

Further disclosures relating to impairment of non-financial assets are also provided in the following notes:

- Disclosures for significant assumptions - Note 3
- Property and equipment - Note 12
- Intangible assets - Note 14
- Goodwill and intangible assets with indefinite lives - Note 14

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognized in the statement of income (loss) in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income (loss).

Goodwill is tested for impairment annually as at December 31 and when circumstances indicate that the carrying value may be impaired. An operating segment is the lowest level within the Company at which the goodwill is monitored for internal management purposes and therefore impairment tests of goodwill have been carried out at each operating segment level. Impairment is determined for goodwill by assessing the recoverable amount of each operating segment to which the goodwill relates. When the recoverable amount is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

p) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the statement of income (loss) net of any reimbursement, when applicable.

q) Cash dividend

The Company recognizes a liability to pay a dividend when the distribution is authorized, and the distribution is no longer at the discretion of the Company. The distribution is authorized when it is required to pay a dividend of the profit for the year in accordance with the Company's Articles of Association or is approved by the shareholders. A corresponding amount is recognized directly in equity.

r) Labor and social obligations

Labor and social obligations are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

s) Share-based payments

Certain key executives of the Company receive remuneration in the form of share-based compensation, whereby the executives render services as consideration for equity instruments (equity-settled transactions).

The expenses of equity-settled transactions are determined by the fair value at the date when the grant is made using an appropriate valuation model. That expense is recognized in general and administrative expenses, together with a corresponding increase in equity (share-based compensation reserve), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of income (loss) for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Company's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognized for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognized is the grant date fair value of the unmodified award, provided the original vesting terms of the award are met. An additional expense, measured as at the date of modification, is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

t) Revenue from contracts with customers

Revenue from sale of education content

The Company sells educational content to private schools, which is delivered through printed and digital formats to private school. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services., i.e., at the moment it delivers the content to private schools in printed and digital format. The technology is provided solely in support of the best use of its content. Both printed and digital content are the same.

The digital content, including its features, is provided with the purpose of supporting the printed content, and it includes video lessons, online homework and assessments that are not customized and have no stand-alone value if used separately or outside of the main context. The digital content and related features are an evolution from a totally printed methodology to a broader approach and will continue to evolve and change in the coming years but are currently still deeply entwined with the printed content.

The Company generates substantially all its revenue from contracts that have an average term of three years, pursuant to which the Company provides educational content in printed and digital format to private schools. The Company's revenue is driven by the number of enrolled students at each customer using the solutions and the agreed price per student per year, all in accordance with the terms and conditions set forth in each contract. Each contract contemplates penalties ranging between 20% to 100% of the remaining total value of the contract in the event of termination. However, the content already delivered to the private schools is not returned to the Company unless the return conditions in the following paragraph are met.

Pursuant to the terms of the contracts with the schools, they are required, by the end of November of each year, to provide the Company with an estimate of the number of enrolled students that will access the content in the next school year (which typically starts in February of the following year), allowing the Company to start the delivery of its educational content. Since the contracts with the schools allows product returns or increase in the number of enrolled students up to a certain limit, the Company recognizes revenue for the amount that is expected to be received based on past experience, assuming that the other conditions for revenue recognition are met. A right of return asset (and corresponding adjustment to cost of sales) is also recognized for the right to recover the goods from the customer.

The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods and any potential decreases in value. The Company updates the measurement of the asset for any revisions to the expected level of returns and any additional decreases in the value of the returned products.

Interest income

For all financial instruments measured at amortized cost, interest income is recorded using the EIR method. The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income includes also gain from financial investments classified as financial assets at fair value through profit or loss. Interest income is included in finance income in the statement of income (loss).

u) Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint venture, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint venture, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

The Company offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.5 Changes in accounting policies and disclosures

Except for new standards IFRS 16 and IFRIC 23, which are discussed below, the other amendments to standards that apply from January 1, 2019 are primarily clarifications and none required a change in the Company's accounting policies.

Additionally, the Company has not early adopted any new standards, amendments or interpretations that are effective after December 31, 2019. It does not expect that these standards, amendments or interpretations will have a material effect on the Company's financial statements.

New and amended IFRS standards and interpretations that are effective beginning on January 1, 2019

IFRS 16 *Leases*

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized in retained earnings at the date of initial application. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adoption IFRS 16 as at January 1, 2019 is as follows:

Assets	
Right-of-use assets	18,225
Deferred tax assets	613
Total assets	**18,838**
Liabilities	
Lease liabilities	20,089
Total liabilities	**20,089**
Total adjustment on equity:	
Retained earnings	(1,251)

a) Nature of the effect of adoption of IFRS16

The Company has lease contracts for properties. Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. The Company did not have finance leases as of December 31, 2018. In an operating lease, the leased property was not capitalized, and the lease payments were recognized as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under Other assets and Trade payables, respectively. Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Company.

The Company recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognized based on the carrying amount as if the standard had always been applied. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:

- ✓ Used an intrinsic discount rate, according to the characteristics for each lease;
- ✓ Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- ✓ Applied the short-term leases and low-value assets exemptions to leases at the date of initial application;
- ✓ Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- ✓ Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The lease liabilities as at January 1, 2019 can be reconciled to the operating lease commitments as at December 31, 2018 as follows:

Operating lease commitments as at December 31, 2018	**27,397**
Weighted average incremental borrowing rate as at January 1, 2019	11.04%
Discounted operating lease commitments at January 1, 2019	20,642
Less:	
Commitments related to sale of Escola de Aplicação São José dos Campos Ltda.	(553)
Lease liabilities as at January 1, 2019	**20,089**

The Company has the option, under some of its leases to lease the assets for additional terms. The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

IFRIC Interpretation 23 - Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The Company applies significant judgement in identifying uncertainties over income tax treatments.

Upon adoption of the Interpretation, the Company considered whether it has any uncertain tax positions. The Company applied the interpretation and concluded, based on its tax compliance that it is probable that its tax treatments will be accepted by the taxation authorities and did not have a significant impact on the consolidated financial statements.

3 Significant accounting judgements, estimates and assumptions

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. Accounting estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are recognized prospectively.

Other disclosures relating to the Company's exposure to risks and uncertainties includes:

- Capital management - Note 27
- Financial instruments risk management – Notes 26 and 27
- Sensitivity analyses disclosures - Note 27

Estimates and assumptions

The key assumptions about the future and other key sources of estimated uncertainty as of the reporting date that include a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances that arise and that are beyond the Company's control. Such changes are reflected in the assumptions where they occur.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit ("CGU") or group of CGU exceeds its recoverable amount, defined as the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on data available from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a discounted cash flow model ("DCF" model). The cash flows are derived from the budget for the next five years and do not include restructuring activities to which the Company has not yet committed or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as to expected future cash-inflows and the growth rate used for extrapolation purposes. The Company determined that its operating segment is the cash generating unit. These estimates are most relevant to goodwill that are recognized by the Company. The key assumptions used to determine the recoverable amount for the different operating segments, including a sensitivity analysis, are disclosed and further explained in Note 14.

Provision for expected credit losses of trade receivables and contract assets

The Company uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for customer. The provision matrix is initially based on the Company's historical observed default rates. The Company calibrates the matrix to adjust the historical credit loss experience with forward-looking information.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Company's trade receivables and contract assets is disclosed in Note 7.

Share-based payment

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. For the measurement of the fair value of equity-settled transactions, the Company uses the Black & Scholes model. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 18b.

Taxes

Deferred tax assets are recognized for deductible temporary differences and unused tax credits from net operating losses carryforward to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

The Company has R$ 4,066 (2018: R$ 10,427) of unrecognized unused tax loss carryforwards as of December 31, 2019 related to a subsidiary that has a history of losses. Such unused tax loss carryforwards do not expire and may not be used to offset taxable income of other subsidiaries of the Company. See Note 24.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs into these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required to estimate fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. See Note 26 for further disclosures.

Contingent consideration, resulting from business combinations, is valued at fair value as of the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently remeasured at each reporting date. This determination of fair value is based on discounted cash flows. The key assumptions taken into consideration are the probability of meeting each performance target and the discount factor (see Notes 6 and 26 for additional information).

Any contingent consideration is classified as financial instruments from acquisition of interests (see Note 16).

4 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				
	2019			2017	
	EEM	Nave	Positivo	NS Educação	International School
Assets					
Cash and cash and equivalents	219	1,565	37,635	1	689
Trade receivables	126	896	72,780	-	10,576
Inventories	-	897	13,664	-	1,837
Recoverable taxes	12	7	99	-	173
Deferred taxes	-	-	7,518	-	-
Other assets	14	284	1,526	-	470
Property and equipment	80	292	4,760	-	323
Right-of-use assets	-	-	5,241	-	-
Intangible assets	5,866	19,009	773,134	9,707	29,736
	6,317	22,950	916,357	9,708	43,804
Liabilities					
Trade payables	(48)	(271)	(12,463)	-	(2,327)
Labor and social obligations	(240)	(1,444)	(29,607)	-	(696)
Taxes and contributions payable	(109)	(50)	(2,937)	-	(119)
Income taxes payable	-	(2)	(22,643)	-	(410)
Leases	-	-	(5,374)	-	-
Loans and financing	(548)	-	-	-	-
Other liabilities	(156)	(546)	-	-	(340)
	(1,101)	(2,313)	(73,024)	-	(3,892)
Total identifiable net assets at fair value	**5,216**	**20,637**	**843,333**	**9,708**	**39,912**
Goodwill arising on acquisition	13,069	37,557	830,028	28,826	27,598
Purchase consideration transferred	**18,285**	**58,194**	**1,673,361**	**38,534**	**67,510**
Cash paid	16,355	21,098	800,851	29,037	-
Capital contribution	-	-	-	-	5,300
Forward contract of controlling interest at acquisition	-	29,728	-	-	30,144
Retained payments	1,930	-	872,510	-	-
Deferred payments	-	-	-	9,497	-
Fair value of previously held interest in a step acquisition	-	7,368	-	-	32,066
Analysis of cash flows on acquisition:					
Transaction costs of the acquisition (included in cash flows from operating activities)	(649)	(467)	(27,389)	(498)	(85)
Cash paid and subscribed capital net of cash acquired with the subsidiary (included in cash flows from investing activities)	(16,136)	(19,533)	(763,216)	(29,036)	689

(a) EEM Licenciamento de Programas Educacionais S.A. ("Escola em Movimento")

On April 29, 2019, the Company agreed to acquire control of Escola em Movimento, by acquiring 100% of its outstanding ordinary shares and voting interests. The Company acquired Escola em Movimento to expand both its existing product portfolio and customer base. The acquisition was subject to CADE's approval, the Brazilian anti-trust agency, which was a condition precedent for closing the acquisition. CADE approved the acquisition in May 2019, and the transaction closing date occurred on June 4, 2019.

Escola em Movimento is an application developer that enhances communication between schools and parents.

The purchase consideration transferred was R$ 18,285. The amount of R$ 16,095 was paid on the acquisition date; R$260 was paid on September 29, 2019 and R$ 1,930 has been retained for the period of 2 years as a guarantee for the payment of any contingent liabilities that may arise. Any remaining balance will be transferred to the former owners of the acquired entity. The amount will be released in two equal annual installments R$ 965, adjusted by the Brazilian basic interest rate (SELIC).

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

Goodwill

The goodwill recorded on the acquisition was R$ 13,069 and it is expected to be deductible for tax purposes after the Company merges the acquiree. For the purpose 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 Escola em Movimento 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$ 649 were expensed and are included in general and administrative expenses on December 31, 2019.

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 method** The 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.
Software	**Replacement cost** The method considers the amount that an entity would have to pay to replace at the present time, according to its current worth.

Trademarks	**Relief-from-royalty method** The relief-from-royalty method considers the discount estimated royalty payments that are expected to be avoided as a result of the trademarks being owned.
Non-compete agreement	**With-and-without method** The 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.

From the date of acquisition, EEM contributed with R$ 2,395 of net revenue and with R$ 2,918 of loss before income taxes for the year ended December 31, 2019 to the Company. If the combination had taken place at the beginning of the year ended December 31, 2019, net revenue would have been R$ 574,391 and loss before income taxes for the Company would have been R$ 43,095.

(b) Nave à Vela Ltda. ("Nave)

Nave à Vela ("Nave") is a 2019 Arco Platform acquisition. Based on the trend that education focuses more on the development of competence-based learning than the traditional content knowledge-based, Arco decided to invest in Nave. Nave offers a competence-based learning solution, with a proprietary, high-quality content and methodology fully integrated with K12 curriculum.

Arco bought as a first step a 13,2% stake in the target entity in May 2019 for R$ 4,200. Included in the original purchase agreement, Arco agreed to acquire 100% of Nave over the next three years in three tranches (subject to price adjustments, net of debt at each closing date). Pursuant to the investment and share purchase agreement for the acquisition of Nave, Arco purchased an additional 37.8% on October 29, 2019.

The Company therefore owned 51% interest and concluded it had control and consolidated Nave as a majority owned subsidiary.

The purchase consideration transferred was R$ 58,194, which is composed for R$ 21,098 paid at the acquisition date, R$ 29,728 regarding a forward contract that will be paid over the next 2 years and R$ 7,368 regarding a fair value of previously held interest in a step acquisition. At the date of acquisition, the carrying amount of the investment previously held interest was R$ 3,660, resulting in a gain in step acquisition of R$ 3,708. The price of the exercise of the option is variable and conditioned to the performance of the entity, the price of the option is based on a revenue multiple.

The breakdown purchase consideration is as follows:

	At acquisition date
Cash paid	21,098
Fair value of previously held investment	7,368
Fair value of forward contract	29,728
Consideration transferred	**58,194**

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 acquired on the acquisition was R$ 37,557 and is expected to be deductible for tax purposes after the Company merges the acquiree. For the purpose of impairment testing, the goodwill has been allocated to the Supplemental operating segment.

The goodwill recognized is primarily attributable to the expected synergies and other benefits from combining the assets and activities of Nave 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$ 467 were expensed and are included in general and administrative expenses on December 31, 2019.

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 method** The 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.
Trademarks	**Relief-from-royalty method** The relief-from-royalty method considers the discount estimated royalty payments that are expected to be avoided as a result of the trademarks being owned.

Non-compete agreement	**With-and-without method** The 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.
Educational system	**Relief-from-royalty method** The relief-from-royalty method considers the discount estimated royalty payments that are expected to be avoided as a result of the educational system being owned.

From the date of acquisition, Nave contributed with R$ 7,147 of net revenue and with R$ 3,379 of profit before income taxes for the year ended December 31, 2019 to the Company. If the combination had taken place at the beginning of the year ended December 31, 2019, net revenue would have been R$ 580,276 and loss before income taxes for the Company would have been R$ 44,603.

(c) Sistema Positivo de Ensino ("Positivo")

On May 7, 2019, the Company announced that it entered into a definitive agreement to acquire Sistema Positivo de Ensino (Positivo), one of the largest K-12 content providers to private schools in Brazil.

The transaction was subject to customary closing conditions, including antitrust and other regulatory approvals in Brazil. After the final antitrust approval from Brazil's Administrative Council for Economic Defense – CADE, which occurred on October 23, 2019, Arco concluded the transaction on November 1, 2019. Accordingly, in that date, the Company, through its subsidiary EAS, acquired control of Positivo.

On November 1, 2019, the Company updated the amount of the contract by CDI from March 31 to October 31, 2019, to R$ 1,745,160. The 50% due on the closing date of the transaction, was reduced by restricted values (movements outside the normal course of business), corresponding to R$ 71,729. The acquisition has been approved by the Boards of Directors of both Arco and Positivo.

The amount of R$ 800,851 was paid on the acquisition date, and net of the restricted values, this amount corresponds to 50% of the purchase. The remaining 50% will be paid over 5 years, 20% payable in 2021 and 2022, and 30% payable in 2023 and 2024, all adjusted by the Brazilian Interbank Certificate of Deposit rate (CDI).

To guarantee the remaining debt, the Company signed a guarantee letter with Bradesco bank.

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

Goodwill

The goodwill recorded on the acquisition was R$ 830,028 and it is expected to be deductible for tax purposes after the Company merges the acquiree. For the purpose of impairment testing, the goodwill has been allocated to the Core operating segment regarding operations of educational content and to the Supplemental operating segment for the activities from Positvo English School, the bilingual content.

The goodwill recognized is primarily attributable to the expected synergies and other benefits from combining the assets and activities of Positivo 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$ 27,389 were expensed and are included in general and administrative expenses on December 31, 2019.

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 method** The 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.
Trademarks	**Relief-from-royalty method** The relief-from-royalty method considers the discount estimated royalty payments that are expected to be avoided as a result of the trademarks being owned.
Non-compete agreement	**With-and-without method** The 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.

Educational system	Relief-from-royalty method
	The relief-from-royalty method considers the discount estimated royalty payments that are expected to be avoided as a result of the educational system being owned.
Educational platform	**Relief-from-royalty method** The 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.

From the date of acquisition, Positivo contributed with R$ 80,100 of net revenue and with R$ 25,641 of profit before income taxes for the year ended December 31, 2019 to the Company. If the combination had taken place at the beginning of the year ended December 31, 2019, net revenue would have been R$ 884,504 and profit before income taxes for the Company would have been R$ 78,128.

(d) NS Educação Ltda. ("NS Educação")

On September 28, 2017, the Company acquired control of NS Educação Ltda. ("NS Educação") by acquiring 100% of its shares. NS Educação is a private company which sells educational content under the trademark "Universitário". NS Educação is a content provider to middle class private schools in Brazil and represented an opportunity for the Company to achieve a greater scale and improve its margin.

The purchase consideration transferred amounted to R$ 38,534, comprised of cash consideration in the amount of R$ 29,037, which was paid on the date of acquisition and a deferred payment in the amount of R$ 7,302, which has been retained in an escrow account for the period of 5 years as a guarantee for the payment of any contingent liabilities that may arise. Any remaining balance will be transferred to the former owners of the acquired entity. The amount will be released in annual installments adjusted by the interest from Interbank certificates of deposit ("CDI").

The equivalent of 5% of the original purchase price was determined as an "acquisition price adjustment", which was calculated based on the difference between the revenue from 2017 less the projected revenue for that year multiplied by 2.50. The purchase price adjustment totaled R$ 2,195.

Goodwill

Goodwill recorded on the acquisition is R$ 28,826 and it is expected to be deductible for tax purposes after the Company merges the acquiree. For the purpose of impairment testing, goodwill has been allocated to the Core operating segment.

Transaction costs

Transaction costs of R$ 498 were expensed and are included in general and administrative expenses for the year ended December 31, 2017.

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 list	**Multi-period excess earning method** The 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.
Educational system	**Multi-period excess earning method** The method considers the present value of net cash flows expected to be generated by educational system, by excluding any cash flows related to contributory assets.
Trademarks	**Relief-from-royalty method** The relief-from-royalty method considers the discount estimated royalty payments that are expected to be avoided as a result of the trademarks being owned.
Non-compete agreement	**With-and-without method** The 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.

From the date of acquisition, NS Educação had no revenue due to the implementation process and seasonality and contributed with a loss before income taxes of R$ 1,050 for the year ended December 31, 2017. If the acquisition had taken place at the beginning of the year December 31, 2017, net revenue of the Company would have been R$ 258,848 and profit before income taxes for the Company would have been R$ 70,357.

(e) International School Serviços de Ensino, Treinamento e Editoração, Franqueadora S.A. ("International School")

International School represented an opportunity for the Company to enter the English as a second language and bilingual teaching market. The acquisition is intended purpose to provide additional value-added content to the Company's customers. International School has a proprietary English content solution developed for in-school programs for private schools and a professional staff that is highly qualified to develop the product and provide support to International School's customers.

On December 21, 2015, the Company acquired 40% of the outstanding voting shares of International School for an amount of R$ 12,300. At that date, the Company entered into an agreement through which it had a call and the sellers had a put to acquire the remaining 60% of the seller's shares. The price would be calculated using a multiple of 10x EBITDA related to the year ending December 31, 2019 and the call and put options would be exercised between January 1, 2020 and April 30, 2020. The put and call was considered symmetrical but did not give the control over the remaining shares. The Company did not have at that time (i) power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; (iii) the ability to use its power over the investee to affect the amount of the investor's returns.

In addition, the contract agreement established that the Company would only have control over the remaining 60% shares when the option was exercised. Therefore, the Company did not consolidate the investment in International School and the put and call was accounted as a forward contract marked at fair value. As of December 31, 2016, the investment was accounted for as an equity method investment and a goodwill of R$4,200 was recorded as part the investment.

On January 23, 2017, the Company acquired an additional 11.48% interest in International School, through the capitalization of advances for future capital increases amounting to R$ 5,300, that the Company paid in cash in 2016. This resulted in the dilution of the other shareholders and increasing its ownership from 40% to 51.48% and in obtaining control of International School. The financial statements of International School were consolidated from the date the Company acquired control and the acquisition was accounted for as a business combination.

On January 23, 2017, upon acquiring control of International School, the Company and the former controlling shareholder agreed to amend the exercise dates of the call and put options originally issued in 2015. In accordance with the investment agreement, as amended, the shareholders agreed that the put and call options on the 25% of the remaining interest held by the non-controlling shareholders would be exercised in the period between January 1, 2020 and April 30, 2020 and the International School audit report released up to March 31, 2020. The put and call on the remaining 23.52% would be exercised in the period between January 1, 2021 and April 30, 2021.

Additionally, the exercise price and purchase mechanics were also amended as follows:

i) The exercise price for the 25% interest was determined to be 30% x 10 x EBITDA for the 2019 school year (that comprises the twelve-month period between October and September), discounting any debts, cash and the difference of the capital contribution made in the acquisition amount and also the amount that should have been contributed by the selling shareholder at the time of the acquiree's capital increase (equivalent to R$ 3,180); and

ii) The exercise price for the remaining 23.52% was determined to be 30% x 10 x EBITDA for the 2020 school year discounting any debts and cash values; and

iii) Anticipation of the purchase mechanics in case of an initial public offering of EAS.

The terms of the options were assessed to determine whether or not they expose the Company to the risks and rewards associated with the actual ownership of such shares during the period of the option contract. Because the terms of the put and call options are symmetrical, the Company concluded that it is virtually certain that either the Company or the non-controlling shareholder would exercise the option because it will be in the economic interests of one of them to do so.

The Company accounted for the call and put options under the anticipated-acquisition method, and the non-controlling interest subject to the put or call options is deemed to have been acquired at the date of acquisition of the control. Accordingly, upon obtaining control, the Company also consolidated the interest currently legally held by the non-controlling shareholder and recognized a financial liability that would be eventually settled when the put or call option is exercised.

The financial liability was recorded at the present value of the estimated amount payable to the non-controlling shareholder upon the exercise of the put or call options and discounted to present value using an estimated interest rate of 21.0%. See note 28 for more information regarding the acquisition of the remaining share interest in International School.

Goodwill

A business combination achieved in stages is accounted for using the acquisition method at the acquisition date. Goodwill is calculated at the date when control is acquired. To calculate goodwill, the previously held interest was remeasured to fair value at the acquisition date, and a gain was recognized in the statement of income in other operating income (expense) for an amount of R$ 1,184 at that date. The fair value of the previously held interest then forms one of the components that is used to calculate goodwill, along with consideration and non-controlling interest, less the fair value of identifiable net assets.

The purchase consideration transferred totaled R$ 67,510, which breakdown is as follows:

	At acquisition date
Capitalization of advances for future capital increases	5,300
Fair value of previously held investment	32,066
Fair value of forward contract	30,144
Consideration transferred	**67,510**

The table below demonstrates the calculation of goodwill:

	At acquisition date
Cash consideration and fair value of the forward contract	35,444
Fair value of previously held investment	32,066
Fair value of identified assets acquired and liabilities assumed	(39,912)
Goodwill	**27,598**

Goodwill arising on this acquisition is not expected to be deductible for tax purposes. For the purpose of impairment testing, goodwill has been allocated to the Supplemental operating segment.

Transactions costs

Transaction costs of R$ 85 were expensed and are included in general and administrative expenses for the year ended December 31, 2017.

Measurement of fair value

As of the acquisition date, the fair value of trade receivables acquired equals its carrying amount.

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

Asset acquired	Valuation technique
Customer list	**Multi-period excess earning method** The 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.
Educational system	**Multi-period excess earning method** The method considers the present value of net cash flows expected to be generated by educational system, by excluding any cash flows related to contributory assets.
Trademarks	**Relief-from-royalty method** The relief-from-royalty method considers the discount estimated royalty payments that are expected to be avoided as a result of the trademarks being owned.

From the date of acquisition, International School contributed with R$ 25,382 of net revenue and with R$ 7,465 of profit before income taxes for the year ended December 31, 2017 to the Company. If the acquisition had taken place at the beginning of the year ended December 31, 2017, net revenue would have been R$ 244,426 and profit before income taxes for the Company would have been R$ 67,024. See Note 28 for further information.

5 Cash and cash equivalents

	2019	2018
Cash and bank deposits	2,838	366
Cash equivalents and bank deposits in foreign currency (a)	23,346	3,615
Cash equivalents (b)	22,716	8,320
	48,900	**12,301**

(a) Short-term deposits (mainly follow-on proceeds) maintained in U.S. dollar.

(b) Cash equivalents correspond to financial investments in Bank Certificates of Deposit ("CDB") of highly rated financial institutions. As of December 31, 2019, the average interest on these CDB are equivalent to 30.0% (2018: 61.7%) of the Interbank Certificates of Deposit ("CDI"). These funds are available for immediate use and have insignificant risk of changes in value.

6 Financial investments

	2019	2018
Financial investments (a)	577,398	810,812
Financial investments in foreign currency	1,629	-
Other	467	347
	579,494	**811,159**
Current	574,804	806,789
Non-current	4,690	4,370

(a) Financial investments correspond to investments in non-exclusive funds managed by highly rated financial institutions. As of December 31, 2019, the average interest on these funds are equivalent to 99.86% (2018: 100.9%) of the CDI. The average CDI rate during the nine-month period was 0.48% per month.

7 Trade receivables

	2019	2018
From sales of educational content	354,968	146,114
From related parties (Note 10)	4,511	3,916
	359,479	150,030
(-) Allowance for doubtful accounts	(30,051)	(13,419)
	329,428	**136,611**

As of December 31, 2019, and 2018, the aging of trade receivables was as follows:

	2019	2018
Neither past due nor impaired	299,159	127,387
Past due	60,320	22,643
1 to 60 days	18,931	8,931
61 to 90 days	6,865	3,868
91 to 120 days	6,414	1,978
121 to 180 days	9,904	3,173
More than 180 days	18,206	4,693
	359,479	**150,030**

The movement in the allowance for doubtful accounts for the years ended December 31, 2019 and 2018, was as follows:

	2019	2018	2017
Balance at beginning of the year	(13,419)	(10,290)	(5,386)
Change in accounting policy – IFRS 9	-	-	(5,757)
Additions	(17,392)	(9,588)	(5,227)
Receivables written off during the period as uncollectible	760	6,459	6,080
Balance at end of year	**(30,051)**	**(13,419)**	**(10,290)**

8 Inventories

	2019	2018
Educational content	24,535	8,335
Educational content in progress (a)	12,837	6,205
Consumables and supplies	835	286
Inventories held by third parties	1,899	305
	40,106	**15,131**

(a) 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 years ended December 31, 2019, 2018 and 2017 was as follows:

	2019	2018	2017
Balance at beginning of the year	(4,403)	(2,047)	(1,073)
Inventory reserve	(8,476)	(7,252)	(4,481)
Write-off of inventories against reserve	6,362	4,896	3,507
Balance at end of year	**(6,517)**	**(4,403)**	**(2,047)**

9 Recoverable taxes

	2019	2018
Withholding Income Tax (IRRF) on financial investments (a)	637	5,291
Recoverable IRPJ and CSLL	17,456	5,520
Recoverable PIS and COFINS	2,501	1,223
Other recoverable taxes	1,631	226
	22,225	12,260
Current	15,612	11,227
Non-current	6,613	1,033

(a) Withholding income tax (IRRF) will be utilized to offset federal taxes payable.

10 Related parties

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

	2019	2018
Assets		
Trade receivables		
Livraria ASC Ltda. and Educadora ASC Ltda. (a)	4,511	3,916
	4,511	**3,916**
Other assets		
General Atlantic Arco (Bermuda), L.P. (b)	4,109	-
	4,109	-
Loans to related parties		
WPensar S.A. (c)	1,298	1,226
Loans - Geekie (d)	4,231	-
Debentures – Geekie (d)	10,582	-
	16,111	**1,226**
Current	1,298	-
Non-current	14,813	1,226
Advances from customers		
Livraria ASC Ltda. and Educadora ASC Ltda. (a)	(1)	-
	(1)	-

	2019	2018	2017
Net revenue			
Livraria ASC Ltda. and Educadora ASC Ltda. (a)	8,805	8,234	8,895
Expenses			
ASC Empreendimentos Ltda. and OSC Empreendimentos Ltda. (e)	(8)	(13)	(21)
Finance income			
WPensar S.A. (c)	72	-	-
Geekie (d)	813	-	-
	885	**-**	**-**

(a) 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. The price applied is equivalent to that practiced in the market, being competitive transactions.

(b) The amount refers to underwriting discounts and commissions incurred for issuing shares with the follow-on public of Class A shares of the selling shareholder GA, as described in Note 1.

(c) The amounts receivable from WPensar S.A. are related to loan agreements and are indexed to the Brazilian *Sistema Especial de Liquidação e Custódia* (SELIC) interest rate and have a due date in July 2020. During 2019, the Company recognized R$ 72 of interest income.

(d) On January 17, 2019, the Company entered into an agreement with its associated company, Geekie Desenvolvimento de Softwares S.A. ("Geekie") buying 100,000 debentures issued at same date at par value of R$ 100.00 (hundred reais) each, totaling R$ 10,000. During 2019, the Company recognized R$ 582 of interest income. The debentures are due in June 2022 and bear interest of 110% of the CDI. The debentures are convertible in shares at the option of Arco at maturity similar to same terms of the call and put options presented in the investment agreement.

On the same date, the Company lent R$ 4,000 to Geekie Partners S.A., the controlling shareholder of Geekie, through a loan agreement with payment due in June 2022, interest of 110% of the CDI, and with their entire interest on Geekie's shares as collateral to the transaction. During 2019, the Company recognized R$ 231 of interest income.

The transactions totaled R$ 14,000 and are intended to support Geekie's working capital needs.

(e) Arco Ventures S.A. leases a facility from OSC Empreendimentos Ltda., which are entities under common control of the Company's controlling shareholder. The agreement was terminated in February 2020.

Key management personnel compensation

Key management personnel compensation comprised the following:

	2019	2018	2017
Short-term employee benefits	13,732	9,436	5,321
Stock options	-	59,747	1,359
Restricted stock units	66,429	-	-
	80,161	**69,183**	**6,680**

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 18b).

11 Investments and interests in other entities

(a) Investments

WPensar S.A. ("WPensar")

In April 2015, the Company acquired a 25% interest of WPensar, a company engaged in the development and licensing of software, specifically, school management systems. The Company executed a shareholders' agreement to share control of WPensar with the other shareholders, recognizing this investment as a joint venture. This investment helped the Company to identify new potential businesses, to enhance its overall growth strategy and to create synergies.

This investment is not a business combination since the Company did not acquire control of WPensar.

In addition, the Company has a call option to acquire the remaining 75% interest in WPensar with an exercise period beginning on July 10, 2020 through July 10, 2021. In addition, the other shareholders have a put option to sell their interest of 75% with an exercise period beginning on July 10, 2021 through July 10, 2022.

The exercise price for the put and call options is calculated by the average of the last three months of the EBITDA multiple that Arco's stock is being traded, less net debt. If the Company exercises the call option, the settlement can be performed up to 50% in shares of EAS.

The call and put options were recorded at their fair value, calculated through the multiple scenarios method – Monte Carlo. Any adjustment to the fair value is recognized as finance income/costs in the statement of income (loss). The Company paid an acquisition price of R$ 5,000 for the interest in WPensar, of which R$ 4,777 refers to the consideration transferred as capital contribution and R$ 223 to the initial recognition of the above said asymmetrical put and call options instrument.

Geekie Desenvolvimento de Softwares S.A. ("Geekie")

In December 2016, the Company acquired a 6.54% interest in Geekie, an entity that provides technology for adaptive assessment and learning products and engages in the production, development and licensing of software tailored to the specific requirements of education sector customers. Based on the agreement signed by Geekie's shareholders, the Company exercises significant influence over the investment, as the Company: (i) has representation on the board of directors; (ii) participates on strategic decision making regarding all relevant matters; (iii) must approve all products launched by Geekie; and (iv) provides essential technical information (Geekie's products are based on the Company's educational content).

The agreed amount of R$ 8,000 was paid in January 2017, of which R$ 4,000 was a capital contribution and R$ 4,000 was paid to the selling shareholders.

The Company agreed with the selling shareholders that if in June 2018 the cash and cash equivalents of Geekie are lower than a threshold of R$ 5,000, the Company will have to subscribe capital in the amount of R$ 2,000.

On July 2, 2018, the extraordinary shareholders' meeting authorized the acquisition of additional 1.51% interest in the equity of Geekie, increasing the Company's share from 6.54% to 8.05% through a capital increase of R$ 2,000. The capital increase was fully paid on July 3, 2018. The additional investment did not change the Company's influence in Geekie and had the purpose to support its working capital needs.

On September 20, 2019, Arco acquired acquired 0.96% of interest in the share capital of Geekie through a capital increase of R$1,218 increasing our total interest to 9.01%. On October 14, 2019, Arco acquired an additional 1.92% interest in the share capital of Geekie through a capital increase of R$2,500 increasing our total interest to 10.92%. In addition, on October 25, 2019, Arco acquired an additional 18.44% interest in the share capital of Geekie from a minority shareholder for R$21,892 increasing our total interest to 29.36%. On November 15, 2019, Arco acquired an additional 1.17% interest in the share capital of Geekie through a capital increase of R$2,000 increasing our total interest to 30.53%. In December 2019, Arco acquired an additional 7.00% interest in the share capital of Geekie through a capital increase of R$ 4,282 and the purchase of minority shareholders for R$ 5,761 increasing its total interest to 37.53% as of December 31, 2019.

In addition, the Company has a call option to acquire the remaining 62.47% in Geekie that can be exercised in the period beginning on May 1, 2022, through May 31, 2022. The selling shareholders have a put option to sell their 62.47% interest in Geekie that can be exercised during the same period. The exercise price is determined by the greater of:

- The multiple of the Company's EBITDA for 2021 multiplied by Geekie's EBITDA, including any cash or debt; or
- 10 times Geekie´s EBITDA for 2021, less net debt.

If the Company decides to exercise the option to acquire the remaining interest, the settlement may be performed in up to 50% in shares of EAS.

The call and put options were recorded at fair value, calculated through the multiple scenarios method – Monte Carlo. Any adjustment to the fair value is recognized as finance income (costs) in the statement of income (loss).

(i) Investments and interests in other entities

Reconciliation of carrying amount:

	2019				2018
	WPensar	Geekie	Nave	Total	Total
At beginning of the period	3,237	8,625	-	11,862	12,654
Capital contributions	-	10,000	4,200	14,200	-
Acquisition from a minority shareholder	-	27,653	-	27,653	-
Gain of changes in ownership	-	319	-	319	-
Share of loss of equity-accounted investees	(188)	(1,072)	(540)	(1,800)	(792)
Consolidation on the acquisition of control	-	-	(3,660)	(3,660)	-
At end of the period	**3,049**	**45,525**	**-**	**48,574**	**11,862**
Percentage of ownership	25.0%	37.5%	51.0%		

(ii) Selected financial information for associates and joint ventures

	Geekie	WPensar
December 31, 2019		
Current assets	8,444	1,619
Non-current assets	17,983	1,687
Current liabilities	5,042	268
Non-current liabilities	10,964	1,240
Equity	10,421	1,798
Net revenue	14,266	4,200
Costs and expenses (*)	(25,848)	(3,985)
Profit (loss) for the year	(11,582)	215
December 31, 2018		
Current assets	5,215	1,625
Non-current assets	12,174	1,414
Current liabilities	7,681	286
Non-current liabilities	-	1,170
Equity	9,708	1,583
Net revenue	11,084	3,965
Costs and expenses (*)	(18,299)	(4,015)
Loss for the year	(7,215)	(50)
December 31, 2017		
Current assets	8,937	1,615
Non-current assets	11,503	1,394
Current liabilities	5,276	284
Non-current liabilities	-	1,091
Equity	15,164	1,634
Net revenue	14,329	3,687
Costs and expenses (*)	(15,865)	(3,598)
Profit (loss) for the year	(1,536)	89

(*) Comprise costs, selling and administrative expenses, finance result, other expenses and income tax and social contribution.

12 Property and equipment

Reconciliation of carrying amount:

	Machinery and equipment	Vehicles	Furniture and fixtures	IT equipment	Facilities	Leasehold improvements	Others	Total
Cost								
As of December 31, 2017	**843**	**191**	**1,758**	**3,047**	**313**	**4,387**	**2,387**	**12,926**
Additions	87	-	589	2,096	12	258	3,812	6,854
Disposals	(34)	-	(51)	(63)	-	(7)	-	(155)
As of December 31, 2018	**896**	**191**	**2,296**	**5,080**	**325**	**4,638**	**6,199**	**19,625**
Additions	215	-	636	2,529	45	4,663	2,903	10,991
Disposals	(17)	(70)	(895)	(3,061)	(290)	(184)	(1,076)	(5,593)
Business combination	213	-	517	2,775	-	1,627	-	5,132
Sale of Escola de Aplicação São José dos Campos Ltda.	(50)	-	(201)	(51)	-	(710)	-	(1,012)
Write-offs	-	-	-	-	-	-	(792)	(792)
As of December 31, 2019	**1,257**	**121**	**2,353**	**7,272**	**80**	**10,034**	**7,234**	**28,351**
Depreciation								
As of December 31, 2017	**(170)**	**(120)**	**(324)**	**(1,187)**	**(65)**	**(790)**	**(1,191)**	**(3,847)**
Depreciation charge for the year	(84)	(24)	(203)	(740)	(35)	(484)	(878)	(2,448)
Disposals	-	-	-	17	-	-	-	17
As of December 31, 2018	**(254)**	**(144)**	**(527)**	**(1,910)**	**(100)**	**(1,274)**	**(2,069)**	**(6,278)**
Depreciation charge for the period	(91)	(24)	(254)	(1,211)	(34)	(1,161)	(1,580)	(4,355)
Depreciation of disposals	114	68	368	1,709	108	60	972	3,399
Sale of Escola de Aplicação São José dos Campos Ltda.	10	-	34	17	-	150	-	211
As of December 31, 2019	**(221)**	**(100)**	**(379)**	**(1,395)**	**(26)**	**(2,225)**	**(2,677)**	**(7,023)**
Net book value								
As of December 31, 2018	**642**	**47**	**1,769**	**3,170**	**225**	**3,364**	**4,130**	**13,347**
As of December 31, 2019	**1,036**	**21**	**1,974**	**5,877**	**54**	**7,809**	**4,557**	**21,328**

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 years ended December 31, 2019, 2018 and 2017.

13 Leases

The balance sheet shows the following amounts relating to leases:

	2019
Right-of-use assets	
Properties	21,518
Machinery and equipment	113
	21,631

	2019
Lease liabilities *	
Current	6,845
Non-current	19,012
	25,857

* For the adjustments recognized on adoption of IFRS 16 on January 1, 2019, see Note 2.5.

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

	Right-of-use assets – Properties	Lease Liabilities
As at January 1, 2019	**18,225**	**(20,089)**
Additions	4,502	(4,502)
Lease modification	(338)	338
Depreciation expense	(5,999)	-
Business combination	5,241	(5,374)
Interest expense	-	(1,489)
Payments of lease liabilities	-	4,407
Interest paid	-	852
As at December 31, 2019	**21,631**	**(25,857)**
Average annual depreciation rate	23,7%	

The Company recognized rent expense from short-term leases and low-value assets of R$ 2,613 for the year period ended December 31, 2019.

14 Intangible assets and goodwill

	Goodwill	Rights on contracts	Customer relationships	Educational system	Copyrights	Software license	Trademarks	Educational platform	Non-compete agreement	In Progress	Total
Cost											
As of December 31, 2017	**89,634**	**15,263**	**23,045**	**36,656**	**4,948**	**1,393**	**19,115**	**3,942**	**1,097**	**-**	**195,093**
Acquisitions	-	-	-	-	7,744	1,415	62	17,969	-	2,213	29,403
As of December 31, 2018	**89,634**	**15,263**	**23,045**	**36,656**	**12,692**	**2,808**	**19,177**	**21,911**	**1,097**	**2,213**	**224,496**
Corporate restructuring (Note 2.2)	(53,521)	-	-	-	-	-	-	-	-	-	(53,521)
Acquisitions	-	-	-	-	8,377	4,441	-	23,634	309	6,341	43,102
Disposals	-	-	-	-	-	-	-	(1,841)	-	-	(1,841)
Acquisitions through business combinations	880,654	-	183,926	214,567	-	11,163	336,121	24,728	6,897	20,607	1,678,663
Transfer	-	-	-	-	-	-	-	19,555	-	(19,555)	-
As of December 31, 2019	**916,767**	**15,263**	**206,971**	**251,223**	**21,069**	**18,412**	**355,298**	**87,987**	**8,303**	**9,606**	**1,890,899**
Amortization											
As of December 31, 2017	**-**	**(2,767)**	**(4,924)**	**(6,127)**	**(1,321)**	**(273)**	**(2,670)**	**(1,473)**	**(55)**	**-**	**(19,610)**
Amortization	-	(1,182)	(2,636)	(6,589)	(2,618)	(375)	(1,140)	(2,387)	(219)	-	(17,146)
As of December 31, 2018	**-**	**(3,949)**	**(7,560)**	**(12,716)**	**(3,939)**	**(648)**	**(3,810)**	**(3,860)**	**(274)**	**-**	**(36,756)**
Amortization	-	(1,342)	(6,450)	(9,518)	(7,743)	(2,307)	(4,431)	(10,449)	(536)	-	(42,776)
Amortization of disposals	-	-	-	-	-	-	-	536	-	-	536
As of December 31, 2019	**-**	**(5,291)**	**(14,010)**	**(22,234)**	**(11,682)**	**(2,955)**	**(8,241)**	**(13,773)**	**(810)**	**-**	**(78,996)**
Net book value											
As of December 31, 2018	**89,634**	**11,314**	**15,485**	**23,940**	**8,753**	**2,160**	**15,367**	**18,051**	**823**	**2,213**	**187,740**
As of December 31, 2019	**916,767**	**9,972**	**192,961**	**228,989**	**9,387**	**15,457**	**347,057**	**74,214**	**7,493**	**9,606**	**1,811,903**

(a) Goodwill

The carrying amount of goodwill by operating segment was:

	2019	2018
Core	755,539	62,036
Supplemental	161,228	27,598
	916,767	**89,634**

Impairment test for goodwill

The Company performed its annual impairment test on December 31, 2019 and 2018. The Company tests at least annually the recoverability of the carrying amount of each operating segment. The process of estimating these values involves the use of assumptions, judgments and estimates of future cash flows that represent the Company's best estimate.

Goodwill is monitored by management at the level of cash generating unit, which is the same of the two operating segments. The Core and Supplemental operating segments had an important cash flow improvement as they have increased their number of students and achieved greater scale that positively impact the gross margin.

The Company's management estimates future gross margin based on past performance and its expectations of market developments. The discount rates used are pre-tax and reflect the specific risks associated with the segment being tested.

The value-in-use calculation is based on cash flow projections and financial budgets approved by management for a period of five years. Cash flows beyond the five-year period were extrapolated using an estimated growth rate. The growth rate does not exceed the average long-term rate for the industry. The value-in-use of the Core operating segment calculated for 2019 was R$ 2,130,003 (R$ 721,271 in 2018), and the carrying amount was R$ 1,846,915. The value-in-use of the Supplemental operating segment for 2019 was R$ 854,855 (R$ 195,023 in 2018), and the carrying amount was R$ 34,889.

The value-in-use calculations were based on the discounted cash flow model and are based on the following assumptions for those segments:

	Budget period				Growth rate beyond budget period		Discount rate	
	Gross margin		Growth rate					
	2019	2018	2019	2018	2019	2018	2019	2018
Core	76.7%	78.8%	11.1%	21.1%	4.3%	4.0%	12.7%	15.7%
Supplemental	81.0%	87.4%	18.3%	33.0%	4.3%	4.0%	14.5%	17.6%

Significant estimate: impact of possible changes in key assumptions

A decrease of 120 basis points in management estimated gross margin used in the value-in-use calculation for the Core operating segment as of December 31, 2019 (75.5% instead of 76.7%), would have not resulted in the recognition of an impairment of goodwill. Also, the Company performed the same sensitivity analysis for the Supplemental operating segment (79.8% instead of 81.0%) and concluded it would have not resulted in the recognition of an impairment of goodwill.

In addition, an increase of 120 basis points in management's estimated discount rate applied to the cash flow projections of the Core operating segment for the year ended December 31, 2019 (13.8% instead of 12.7%), would have not resulted in the recognition of an impairment of goodwill.

Also, the Company performed the same sensitivity analysis for the Supplemental operating segment (15.7% instead of 14.5%) and concluded it would have not resulted in the recognition of an impairment of goodwill.

There was no goodwill impairment for the years ended December 31, 2019, 2018 and 2017.

(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.

The estimated useful lives of intangible assets for the years ended December 31, 2019, 2018 and 2017 are as follows:

	Years
Rights on contracts	10
Customer relationships	5 to 16
Educational system	3 to 10
Copyrights	3
Software license	2 a 5
Trademarks	10 to 20
Educational platform	3 a 10
Non-compete agreement	2 a 5

For the years ended December 31, 2019, 2018 and 2017 there were no indicators that the Company's intangible assets with definite lives might be impaired.

15 Loans and financing

	Interest rate	Maturity	2019
Bank loan	100% CDI + 0.7% pa	October/2020	98,561

On October 25, 2019, the Company entered into a loan agreement in the amount of R$ 100,000, maturing in October 2020 (single installment), classified as short-term on the consolidated balance sheet. The loan is secured by guarantee letter.

Set out below the movements during the period:

	2019
Balance at beginning of the year	**-**
Additions	100,000
Business combination	548
Loan cost	(2,426)
Interest expense	1,002
Payment of loans and financing	(563)
Balance at end of year	**98,561**

16 Financial instruments from acquisition of interests

The breakdown of contingent consideration assets and liabilities and related derivative instruments from business combinations and acquisition of investments in associates and joint ventures is as follows:

	2019	2018
Assets		
Derivative financial instruments		
Investment in Geekie (Note 11)	32,152	23,346
Investment in WPensar (Note 11)	3,794	3,284
	35,946	**26,630**
Current	3,794	-
Non-current	32,152	26,630

	2019	2018
Liabilities		
Derivative financial instruments		
Investment in Geekie (Note 11)	(31,626)	(22,037)
Investment in WPensar (Note 11)	(2,314)	(3,006)
Deferred revenue in Escola de Aplicação São José dos Campos	-	(54)
	(33,940)	**(25,097)**
Current	-	(51)
Non-current	(33,940)	(25,046)

17 Accounts payable to selling shareholders

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

	2019	2018
Accounts payable to selling shareholders		
Acquisition of International School (a)	(297,722)	(174,410)
Acquisition of NS Educação Ltda. (b)	(6,461)	(6,971)
Acquisition of Escola em Movimento (c)	(1,992)	-
Acquisition of Nave à Vela (d)	(30,946)	-
Acquisition of Positivo (e)	(879,111)	-
	(1,216,232)	**(181,381)**
Current	(117,959)	(830)
Non-current	(1,098,273)	(180,551)

(a) The financial liability is recorded at the present value of the estimated amount payable to the non-controlling shareholder upon the exercise of the put or call options and discounted to present value using an estimated interest rate of 14.5% (17.6% in 2018). During 2019 the Company recognized R$ 33,909 of interest. The amount payable is estimated based on projected EBITDA for the 2019 and 2020 school year. During the fourth quarter of 2019, the Company had a better visibility about next year´s ACV bookings and its increase, it was necessary to perform a review on previous operations projections, that resulted in an increase on the projected EBITDA. Based on the new projected numbers for 2019 and 2020, the accounts payable increased by R$89,403. See Note 28 for more information.

(b) This amount was retained for any losses, 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).

(c) This amount was retained for any losses, which will be released in two annual installments on the first and second anniversary of the acquisition. The amount is being adjusted by the basic interest rate (SELIC).

(d) This amount is related to the remaining acquisition of 49% interest in Nave and will occur over the next two years (subject to price adjustments, net of debt at each closing date). This amount is recorded at the present value using an estimated interest rate of 14,54%. During 2019, the Company recognized R$ 1,218 of interest. The next tranche is payable on February 15, 2021, in this date Arco Ventures S.A. will acquire 24% interest, for the 24% of Nave's revenues from October 1, 2019 to September 30, 2020 multiplied by 5.3, net of debt. The last tranche is payable on February 15, 2022, in this date Arco Ventures S.A. will acquire 25% interest, for 25% of Nave's revenues from October 1, 2020 to September 30, 2021 multiplied by 3, net of debt.

(e) The amount of the contract is updated by CDI from November 1, 2019 to December 31, 2019.

18 Labor and social obligations

	2019	2018
Bonuses	28,045	2,897
Payroll and social charges	17,763	4,519
Payroll accruals	18,998	6,597
Other labor	6,506	1,875
	71,312	**15,888**
Current	68,511	15,888
Non-current	2,801	-

(a) 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$ 14,519, R$ 4,224 and R$ 850 for the years ended December 31, 2019, 2018, and 2017, respectively.

(b) Share-based compensation plan

Arco plan

Members of the Company's management participated in the EAS share-based compensation plan. In 2019, all directors exercised their stock options.

As of December 31, 2019, there were no outstanding share options (December 31, 2018: 1,091,039). There was no share-based compensation expense as of December 31, 2019.

The following table list the inputs to the model used for the Arco plan:

Dividend yield (%)	2.41
Expected volatility (%)	186.61
Risk-free interest rate (%)	8.01
Expected life of share options (years)	6.00
Weighted average share price (R$)	12.67
Model used	Black & Scholes

The following table illustrates the number and movements of share options during the period:

	Number of share options	Average exercise price per share option
Outstanding at December 31, 2018	1,091,039	12.56
Exercised	(1,091,039)	12.68
Outstanding at December 31, 2019	**-**	**-**

International School plan

International School has its own share options plan, approved by its shareholders on August 4, 2017. International School granted 294,735 share options on its own shares in 2017 to selected key executives. The share options plan was designed to attract and retain key executives.

The fair value of the share options was estimated at the grant date using the Black & Scholes pricing model, considering the terms and conditions on which the share options were granted.

The share options vest on January 1, 2020 and can be exercised from January 1, 2020 through April 30, 2020. The exercise price of the share options is R$1.37 and is adjusted by the Brazilian General Price Index-Market ("IGP-M") inflation rate. The Company accounts for the International School Plan as an equity-settled plan.

There were no share options granted, forfeited, exercised and expired in the year ended December 31, 2019 and 2018.

The compensation expense recognized for the International School Plan in the statement of income (loss) for the years ended December 31, 2019 and 2018 was R$ 549 and R$ 550, respectively.

The following table details the assumptions used to determine the fair value of the share options under the International School share option plans:

Date of grant	08/04/2017
Dividend yield (%)	0.00%
Expected volatility (%)	380.36%
Risk-free interest rate (%)	8.62%
Expected life of share options (years)	2.74
Weighted average share price (reais) on the grant date	10.65
Model used	Black & Scholes

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 EAS Educação, which will be available for sale by the beneficiaries annually, on their anniversary dates. The related compensation expense will be recognized over according to the following schedule. The restricted stock plan contemplates the issue of approximately 583,775 shares to be distributed to 24 beneficiaries.

Final vesting date	Quantity of stocks
28/09/2019	193,563
30/06/2020	3,086
28/09/2020	193,563
28/09/2021	193,563
Total	**583,775**

The participant's right to effectively receive ownership of the restricted shares will be conditioned to the participant's continuance 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, it will be considered as non-compliance with the "vesting" condition, not being a cancellation of the plan but a "forfeiture". 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 December 31, 2019:

	Number of share options
Outstanding at December 31, 2018	-
Granted	583,775
Exercised	(188,089)
Effectively forfeited	(36,913)
Estimated forfeited	(21,588)
Outstanding at December 31, 2019	**337,185**

The total compensation expense for the year ended December 31, 2019, including taxes and social charges, was R$ 66,429, (R$ 32,494 of principal and R$ 33,935 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 outstanding	Average fair value at grant date	Average
30/04/2019	542,760	310,516	68,800	126.76
30/06/2019	1,543	1,450	274	177.71
30/06/2019	1,543	1,450	319	206.66
15/10/2019	37,929	23,769	7,593	200.18
Total	**583,775**	**337,185**	**76,986**	

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.

19 Equity

a. Share capital

On October 29, 2019, 257,442 Class B common shares were transferred to Class A shares without changing the total number of shares.

As of December 31, 2019, Arco's share capital is represented by 54,939,088 common shares (December 31, 2018: 50,261,027) of par value of US$ 0.00005 each, comprised by 27,400,848 Class B common shares (December 31, 2018: 27,658,290) and 27,538,240 Class A common shares (December 31, 2018: 22,602,737).

In 2019, the directors exercised their stock options, resulting in a capital increase of R$13,830 and 1,091,039 of Class A common shares.

December 31, 2018 shares outstanding	**50,261,027**
Share-based compensation plan (Note 18)	1,091,039
Restricted Stock Units (Note 18)	188,089
Restricted Stock Unit withheld (a)	(51,723)
Underwritten public offering of Class A common shares (Note 1)	3,450,656
December 31, 2019 shares outstanding	**54,939,088**

(a) A portion of the shares was withheld to pay income taxes of the beneficiaries.

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.

b. Capital reserve

Capital reserve includes additional paid in capital amounts related to the difference between the subscription price that shareholders paid for the common shares and their nominal value.

c. Dividends

As determined by the Brazilian Corporate Law, Arco Brazil is required to pay a minimum dividend amounting to 25% of the profit of the year. Any amount in excess to 25% must be maintained in equity and after approval by the shareholders, the dividends can be considered formally declared.

There was no distribution of dividends for the years ended December 31, 2019 and 2018, due to losses of the years.

d. Tax benefit on tax deductible goodwill – reversion

In 2018, the Company recorded an amount of R$ 46,314 regarding tax benefit generated from the goodwill in the acquisition of EAS interest by GA Holding. This amount was recorded based on the intention to merge the investee with the acquirer in accordance with current Brazilian law. In 2019, based on internal restructurings, management no longer intends to merge the entity under Brazilian law and therefore reversed the total amount previously recorded related to the tax deductibility of goodwill on business combination. Following the initial recognition of the tax credit, the amount was reversed directly against equity.

20 Earnings (loss) per share (EPS)

Basic

Basic EPS is calculated by dividing profit (loss) 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 (loss) 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 (loss) attributable to equity holders of the parent and the share data used in the basic and diluted EPS computations:

	2019			2018			2017		
	Class A	Class B	Total	Class A	Class B	Total	Class A	Class B	Total
Profit (loss) attributable to equity holders of the parent	**(4,379)**	**(5,052)**	**(9,431)**	**(37,047)**	**(45,333)**	**(82,380)**	**19,902**	**24,353**	**44,255**
Weighted average number of common shares outstanding (thousand)	23,938	27,614		22,603	27,658		22,603	27,658	
Effects of dilution from:									
Share-based compensation plan (thousands)	337	-		153	-		931	-	
Basic earnings (loss) per share - R$	(0,18)	(0,18)		(1.64)	(1.64)		0.88	0.88	
Diluted earnings (loss) per share - R$	(0,18)	(0,18)		(1.64)	(1.64)		0.85	0.85	

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 earnings 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. However, due to the loss reported for the year ended December 31, 2019, these instruments issued have antidilutive effect and, therefore, were not considered in the weighted average number of outstanding shares for the computation of diluted loss per share.

21 Revenue

The Company's net revenue is as follows:

	2019	2018	2017
Educational content	625,150	407,599	277,596
Other	2,820	4,102	2,385
Deductions			
Taxes	(275)	(264)	(154)
Returns and discounts	(54,858)	(30,456)	(35,445)
Net revenue	**572,837**	**380,981**	**244,382**

	2019			2018			2017		
Segments	**Core**	**Supplemental**	**Total**	**Core**	**Supplemental**	**Total**	**Core**	**Supplemental**	**Total**
Type of goods or service									
Educational content	432,663	137,516	570,179	299,203	77,940	377,143	216,661	25,425	242,086
Other	46	2,612	2,658	3,828	10	3,838	2,296	-	2,296
Total net revenue from contracts with customers	432,709	140,128	572,837	303,031	77,950	380,981	218,957	25,425	244,382
Timing of revenue recognition									
Transferred at a point in time	432,709	140,128	572,837	303,031	77,950	380,981	218,957	25,425	244,382
Total net revenue from contracts with customers	**432,709**	**140,128**	**572,837**	**303,031**	**77,950**	**380,981**	**218,957**	**25,425**	**244,382**

The Company's revenues from contracts with customers are all in Brazil.

The Company recognized impairment losses on trade receivables arising from contracts with customers, included under selling expenses in the statement of income (loss) of R$ 17,392, R$ 9,588 and R$ 5,227 for the years ended December 31, 2019, 2018 and 2017, respectively.

Revenues tax benefits

The Company is not subjected to the payment of the social integration program tax (*Programa de Integração Social*, or PIS) and the social contribution on revenues tax (*Contribuição para o Financiamento da Seguridade Social*, or COFINS) on the sale of books. The sale of printed and digital books is also exempt from the Brazilian municipal taxes and from the Brazilian value added tax (*Imposto sobre Operações relativas à Circulação de Mercadorias e sobre Prestações de Serviços de Transporte Interestadual e Intermunicipal e de Comunicação*, or ICMS).

22 Expenses by nature

	2019	2018	2017
Content providing	61,953	41,551	34,452
Operations personnel	12,500	11,477	10,979
Inventory reserves	8,476	7,252	4,481
Freight	14,569	7,687	4,087
Depreciation and amortization	15,311	5,869	3,161
Other	4,449	6,909	1,357
Cost of sales	**117,258**	**80,745**	**58,517**
Sales personnel	87,352	49,041	26,721
Depreciation and amortization	23,573	11,939	9,799
Sales & marketing	31,208	17,931	9,319
Customer support	30,755	17,274	8,173
Allowance for doubtful accounts	17,392	9,588	5,227
Real estate rentals	1,728	1,923	1,751
Other	7,772	5,574	4,324
Selling expenses	**199,780**	**113,270**	**65,314**
Corporate personnel	53,443	39,382	24,633
Third party services	43,415	14,269	7,814
Real estate rents	2,613	3,429	1,625
Travel expenses	3,439	2,891	2,034
Tax expenses	2,331	2,858	1,716
Software licenses	1,487	1,098	1,128
Share-based compensation plan	66,978	60,297	1,890
Depreciation and amortization	9,430	1,786	1,328
Other	8,302	3,744	6,763
General and administrative expenses	**191,438**	**129,754**	**48,931**
Total	**508,476**	**323,769**	**172,762**

23 Finance result

	2019	2018	2017
Income from financial investments	18,443	11,633	11,415
Changes in fair value of financial investments (a)	28,886	4,322	-
Changes in fair value of derivative instruments (b)	18,599	19,839	258
Foreign exchange gains	1,745	138	-
Interest income	1,042	-	-
Other	3,332	686	858
Finance income	**72,047**	**36,618**	**12,531**
Changes in fair value of derivative instruments (b)	(18,126)	(19,180)	(6,915)
Changes in accounts payable to selling shareholders (Note 17)	(89,403)	(130,378)	-
Interest in acquisition of investments (c)	(42,206)	(9,781)	(11,179)
Financial discounts granted	(3,343)	(1,911)	(1,266)
Foreign exchange loss	(2,300)	(34,573)	-
Interest in lease liabilities	(1,489)	-	-
Other	(13,988)	(2,972)	(1,029)
Finance costs	**(170,855)**	**(198,795)**	**(20,389)**
Finance result	**(98,808)**	**(162,177)**	**(7,858)**

(a) Refers to gains on financial investments measured at FVPL.

(b) 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.

(c) Refer to interest expense on liabilities related to business combinations and investments in associates.

24 Income taxes

(a) Reconciliation of income taxes expense

	2019	2018	2017
Profit (loss) before income taxes	(42,534)	(100,901)	66,356
Combined statutory income taxes rate - %	34%	34%	34%
Income tax benefit (expense) at statutory rates	14,462	34,306	(22,561)
Reconciliation adjustments:			
Share of loss of equity-accounted investees (a)	(612)	(269)	(240)
Effect of presumed profit of subsidiaries (b)	18,593	11,080	907
Permanent differences (c)	-	(26,097)	-
Other additions (exclusions), net	660	(1,035)	(822)
	33,103	17,985	(22,716)
Current	(46,850)	(26,553)	(31,010)
Deferred	79,953	44,538	8.294
Income taxes benefit (expense)	33,103	17,985	(22,716)
Effective rate	77,8%	17.8%	34.2%

(a) Refers to the effect of 34% on the share of profit (loss) of investees for the year.

(b) Brazilian tax law establishes that companies that generate gross revenues of up to R$ 78,000 in the prior fiscal year may calculate income taxes as a percentage of gross revenue, using the presumed profit income tax regime. The Company's subsidiaries adopted this tax regime and the effect of the presumed profit of subsidiaries represents the difference between the taxation based on this method and the amount that would be due based on the statutory rate applied to the taxable profit of the subsidiaries.

(c) Refers mainly to permanent differences of non-deductible expenses from share-based compensation plan and foreign exchange loss and others.

(b) Deferred income taxes

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

	2017	Change in accounting practice	As of January 1, 2018	Profit or loss	Equity	2018	Change in accounting practice	As of January 1, 2019	Profit or loss	Business combination	Equity	2019
Deferred tax assets												
Tax losses carryforward	**3,607**	-	**3,607**	757	-	**4,364**	-	**4,364**	11,919	-	-	**16,283**
Temporary differences												
Financial instruments from acquisition of interests	**7,879**	-	**7,879**	51,287	-	**59,166**	-	**59,166**	47,563	-	-	**106,729**
Other temporary differences	**3,634**	1,450	**5,084**	1,501	-	**6,585**	613	**7,198**	14,610	7,517	-	**29,325**
Share base compensation	**2,217**	-	**2,217**	(2,217)	-	**-**	-	**-**	7,960	-	-	**7,960**
Tax benefit from tax deductible goodwill	**-**	-	**-**	-	46,314	**46,314**	-	**46,314**	(2,009)	-	(29,417)	**14,888**
Amortization of intangible assets	**1,205**	-	**1,205**	77	-	**1,282**	-	**1,282**	5,391	-	-	**6,673**
Total deferred tax assets	**18,542**	**1,450**	**19,992**	**51,405**	**46,314**	**117,711**	613	**118,324**	**85,434**	**7,517**	**(29,417)**	**181,858**
Deferred tax liabilities												
Financial instruments from acquisition of interests	**(12,414)**	**-**	**(12,414)**	(5,752)	-	**(18,166)**	-	**(18,166)**	(5,707)	-	-	**(23,873)**
Other temporary differences	**(348)**	**-**	**(348)**	(1,115)	-	**(1,463)**	-	**(1,463)**	226	-	-	**(1,237)**
Total deferred tax liabilities	**(12,762)**	**-**	**(12,762)**	**(6,867)**	**-**	**(19,629)**	-	**(19,629)**	**(5,481)**	**-**	**-**	**(25,110)**
Deferred tax assets (liabilities), net	**5,780**	**1,450**	**7,230**	**44,538**	**46,314**	**98,082**	613	**98,695**	**79,953**	**7,517**	**(29,417)**	**156,748**
Deferred tax assets	5,860		7,310			99,460		100,073				156,748
Deferred tax liabilities	(80)		(80)			(1,378)		(1,378)				-

As of December 31, 2019, the Company had unrecognized deferred income tax assets in the amount of R$ 1,382 (2018: R$ 3,545) with respect to tax loss carryforward. The net operating losses carried forward do not expire, however, their compensation is limited to 30% of the annual taxable income. The recognition of the deferred income tax assets is supported by the Company's forecasts of the future profitability and historical results.

25 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:

(i) **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;

(ii) **Supplemental**: The Supplemental Solutions business segment provide additional value-added content that private schools can opt, 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 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. Currently, the Company operates solely in Brazil and mainly all the assets, liabilities and results are allocated in Brazil. Also, based on the agreements signed with private schools as of December 31, 2019 and 2018, none of the customers individually represented more than 5% of total revenue.

	2019				
	Core	Supplemental	Total reportable segments	Adjustments and eliminations	Total
Revenue	433,372	139,465	572,837	-	572,837
Cost of sales	(97,513)	(19,745)	(117,258)	-	(117,258)
Gross profit	**335,859**	**119,720**	**455,579**	**-**	**455,579**
Selling expenses	-	-	-	-	(199,780)
General and administrative expenses	-	-	-	-	(191,438)
Other income (expenses), net	-	-	-	-	(6,287)
Operating profit	-	-	-	-	**58,074**
Finance income	-	-	-	-	72,047
Finance costs	-	-	-	-	(170,855)
Share of loss of equity-accounted investees	-	-	-	-	(1,800)
Loss before income taxes	-	-	-	-	**(42,534)**
Income taxes income	-	-	-	-	33,103
Loss for the year	-	-	-	-	**(9,431)**
Other disclosures	-	-	-	-	-
Depreciation and amortization	43,854	4,460	48,314	-	48,314
Investments in associates and joint ventures	48,574	-	48,574	-	48,574
Capital expenditures	45,851	8,242	54,093	-	54,093

	2018				
	Core	Supplemental	Total reportable segments	Adjustments and eliminations	Total
Revenue	303,031	77,950	380,981	-	380,981
Cost of sales	(70,903)	(9,842)	(80,745)	-	(80,745)
Gross profit	**232,128**	**68,108**	**300,236**	**-**	**300,236**
Selling expenses	(87,186)	(26,084)	(113,270)	-	(113,270)
Segment profit	**144,942**	**42,024**	**186,966**	**-**	**186,966**
General and administrative expenses	-	-	-	-	(129,754)
Other income (expenses), net	-	-	-	-	4,856
Operating profit	-	-	-	**-**	**62,068**
Finance income	-	-	-	-	36,618
Finance costs	-	-	-	-	(198,795)
Share of loss of equity-accounted investees	-	-	-	-	(792)
Loss before income taxes	-	-	-	-	**(100,901)**
Income taxes income	-	-	-	-	17,985
Loss for the year	-	-	-	**-**	**(82,916)**
Other disclosures					
Depreciation and amortization	17,997	1,597	19,594	-	19,594
Investments in associates and joint ventures	11,862	-	11,862	-	11,862
Capital expenditures	28,165	8,092	36,257	-	36,257

	2017				
	Core	Supplemental	Total reportable segments	Adjustments and eliminations	Total
Revenue	218,957	25,425	244,382	-	244,382
Cost of sales	(54,317)	(4,200)	(58,517)	-	(58,517)
Gross profit	**164,640**	**21,225**	**185,865**	**-**	**185,865**
Selling expenses	(56,318)	(8,996)	(65,314)	-	(65,314)
Segment profit	**108,322**	**12,229**	**120,551**	**-**	**120,551**
General and administrative expenses	-	-	-	-	(48,931)
Other income (expenses), net	-	-	-	-	3,299
Operating profit	**-**	**-**	**-**	**-**	**74,919**
Finance income	-	-	-	-	12,531
Finance costs	-	-	-	-	(20,389)
Share of loss of equity-accounted investees	-	-	-	-	(705)
Profit before income taxes	**-**	**-**	**-**	**-**	**66,356**
Income taxes expense	-	-	-	-	(22,716)
Profit for the year	**-**	**-**	**-**	**-**	**43,640**
Other disclosures					
Depreciation and amortization	12,650	1,638	14,288	-	14,288
Investments in associates and joint ventures	12,654	-	12,654	-	12,654
Capital expenditures	7,183	4,200	11,383	-	11,383

Capital expenditures consist of additions of property and equipment and intangible assets. There were no inter-segment revenues in the years ended December 31, 2019, 2018 and 2017.

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. 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
As of December 31, 2019					
Total assets	2,999,497	176,196	3,175,693	(14,270)	3,161,423
Total liabilities	1,535,695	45,188	1,580,883	(14,270)	1,566,613
As of December 31, 2018					
Total assets	1,273,107	62,006	1,335,113	(235)	1,334,878
Total liabilities	254,744	10,485	265,229	(235)	264,994

26 Financial instruments

The Company holds the following financial instruments:

Financial assets	Assets at FVPL	Assets at amortized cost	Total
December 31, 2019			
Cash and cash equivalents	48,900	-	48,900
Financial investments	498,584	80,910	579,494
Trade receivables	-	329,428	329,428
Financial instruments from acquisition of interests	35,946	-	35,946
Related parties	-	16,111	16,111
Other assets	-	4,109	4,109
	583,430	**430,558**	**1,013,988**

	Assets at FVPL	Assets at amortized cost	Total
December 31, 2018			
Cash and cash equivalents	12,301	-	12,301
Financial investments	2,370	808,789	811,159
Trade receivables	-	136,611	136,611
Financial instruments from acquisition of interests	26,630	-	26,630
Related parties	-	1,226	1,226
	41,301	**946,626**	**987,927**

Financial liabilities	Liabilities at FVPL	Liabilities at amortized cost	Total
December 31, 2019			
Trade payables	-	34,521	34,521
Financial instruments from acquisition of interests	33,940	-	33,940
Accounts payable to selling shareholders	328,668	887,564	1,216,232
Leases liabilities	-	25,857	25,857
Loans and financing	-	98,561	98,561
	362,608	**1,046,503**	**1,409,111**
December 31, 2018			
Trade payables	-	14,845	14,845
Financial instruments from acquisition of interests	25,097	-	25,097
Accounts payable to selling shareholders	-	181,381	181,381
	25,097	**196,226**	**221,323**

The Company's exposure to certain risks associated with the financial instruments is discussed in Note 27.

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.

(a) Financial instruments at fair value through profit or loss

Financial investments

The Company designated part of its financial investments as financial assets at fair value through profit or loss, related to investment fund which investments were entered to achieve 99.37% of the CDI. The Company designated these investments at fair value through profit or loss, given the swaps exist solely for the counterparty to deliver a fixed return on CDI. See Note 6 for more details on the financial investments.

Derivative instruments

The Company acquired entities under business combinations and through the acquisition of interests in associates and joint ventures. The share purchase agreements contain put and call options and forward contracts that are also measured at fair value through profit or loss.

As of and for the years ended December 31, 2019, 2018 and 2017 none of the Company's derivatives have been designated as hedges for accounting purposes.

(ii) Amounts recognized in profit or loss

Changes in fair values of financial instruments at fair value through profit or loss are recorded in finance income (costs) in profit or loss (gain of R$ 473, gain of R$ 659 and loss of R$ 6,657 for the years ended in December 31, 2019, 2018 and 2017, respectively).

(b) 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 are measured and recognized at fair value as follows:

	Hierarchy	2019	2018
Financial assets			
Cash and cash equivalents	Level 2	48,900	12,301
Financial investments	Level 2	498,584	2,370
Derivative financial instruments	Level 3	35,946	26,630
Financial liabilities			
Derivative financial instruments	Level 3	33,940	25,097
Accounts payable to selling shareholders	Level 3	328,668	-

As of December 31, 2019, and 2018, the Company assessed the fair values of its financial instruments. This assessment does not indicate fair values significantly different from the carrying amounts. 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 statements' periods presented herein.

(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 of the resulting fair value estimates are included in level 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 years ended December 31, 2019, 2018 and 2017.

Recurring fair value measurements	**Financial instruments from acquisition of interests (assets)**	**Financial instruments from acquisition of interests (liabilities)**	**Accounts payable to selling shareholders**
Balance as of December 31, 2016	**20,610**	**(30,076)**	**-**
Acquisitions	-	(364)	(30,144)
Disposals	(4,542)	19,852	-
Interest expense	-	-	(6,486)
Deferred revenue in Escola de Aplicação São José dos Campos	-	51	-
Losses recognized in statement of income	(3,557)	(3,100)	-
Balance as of December 31, 2017	**12,511**	**(13,637)**	**(36,630)**
Payment of capital increase in Geekie	-	2,000	-
Changes in accounts payable to selling shareholders	-	-	(129,430)
Interest expense	-	-	(8,350)
Deferred revenue in Escola de Aplicação São José dos Campos	-	50	-
Gains (losses) recognized in statement of income (loss)	14,119	(13,510)	-
Balance as of December 31, 2018	**26,630**	**(25,097)**	**(174,410)**
Acquisition of Nave à Vela	-	-	(58,194)
Payment of acquisition of Nave à Vela	-	-	21,098
Changes in accounts payable to selling shareholders	-	-	(89,403)
Interest expense	-	-	(35,127)
Deferred revenue in Escola de Aplicação São José dos Campos Ltda.	-	54	-
Fair value held in step acquisitions	-	-	7,368
Gains (loss) recognized in statement of income	9,316	(8,897)	-
Balance as of December 31, 2019	**35,946**	**(33,940)**	**(328,668)**

(iv) Transfers between levels 2 and 3

In the years ended December 31, 2019, 2018 and 2017, 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 and liabilities 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.

27 Risk

(a) Financial risk management

The Company monitors market, credit and operational risks in line with the objectives in capital management and counts with the support, monitoring and oversight of the Board of Directors in decisions related to capital management and its alignment with the objectives and risks. The Company monitors the effectiveness of the Company's risk management.

The sensitivity analyses in the following sections relate to the position as of December 31, 2019.

Capital management

The Company's objectives when managing capital are to:

- maximize shareholder value;
- safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or alter the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2019, 2018 and 2017.

(i) Foreign exchange risk

Exposure

The Company's exposure to foreign currency risk as of December 31, 2019 and December 31, 2018, was as follows:

	2019	2018
Cash and cash equivalents (Note 5)	23,346	3,615
Financial investments	1,629	-

The Company does not operate outside Brazil and does not have exposure to foreign exchange risk on commercial transactions, i.e., revenues or expenses.

Sensitivity analysis

The sensitivity analysis as of December 31, 2019 consider three scenarios of U.S. dollar exchange rate variation, as follows:

- Base scenario - exchange rate as of December 31, 2019 of R$ 4.0301 per US$ 1.00;
- Scenario I - a 10% increase in the U.S. dollar exchange rate to R$ 4.4331; and
- Scenario II - a 10% decrease in the U.S. dollar exchange rate to R$ 3.6271.

The table below set forth the sensitivity analysis as of December 31, 2019, for the amount of cash and cash equivalents and financial investments denominated in U.S. dollar of US$ 6,197 thousand:

	Base scenario	Scenario I	Scenario II
	Exchange rate: R$ 4.0301	Exchange rate: R$ 4.4331	Exchange rate: R$ 3.6271
Finance income (costs)	-	R$ 2,497	R$ (2,497)

(ii) Liquidity risk

Management of the Company has responsibility for mitigating liquidity risk. In order to achieve its goals, management regularly reviews the risk and maintains appropriate reserves, including bank credit facilities with first tier financial institutions. Management also continuously monitors projected and actual cash flows and the combination of the maturity profiles of the financial assets and liabilities.

The main requirements for financial resources used by the Company arise from the need to make payments for printing educational content, freight expenses, operating expenses, labor and social obligations and other operating disbursements.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted amounts:

As of December 31, 2019	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Trade payables	-	34,521	-	-	-	34,521
Lease liabilities	-	2,037	4,808	19,012	-	25,857
Loans and financing	-	-	98,561	-	-	98,561
Financial instruments from acquisition of interests	-	-	-	33,940	-	33,940
Accounts payable to selling Shareholders	-	-	117,959	1,098,273	-	1,216,232
	-	**36,558**	**221,328**	**1,151,225**	**-**	**1,409,111**

As of December 31, 2018	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Trade payables	-	14,845	-	-	-	14,845
Financial instruments from acquisition of interests	-	13	38	25,046	-	25,097
Accounts payable to selling Shareholders	-	-	830	180,551	-	181,381
	-	**14,858**	**868**	**205,597**	**-**	**221,323**

(iii) Financial counterparty risk

This risk arises from the possibility that the Company may incur losses due to the default of its counterparties. To mitigate these risks, the Company adopts as practice the analysis of the financial and equity situation of its counterparties.

Counterparty credit limits, which take published credit ratings and other factors into account, are set to cover the Company's total aggregate exposure to a single financial institution. Exposures and limits applicable to each financial institution are approved by our treasury within guidelines approved by the board and are reviewed on a regular basis.

(iv) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's investments with floating interest rates. The Company is mainly exposed to fluctuations in CDI interest rates on financial investments, related parties, accounts payable to selling shareholders and loans and financing.

Sensitivity analysis

The Company has a significant portion of its financial investments indexed to the CDI variation. According to the reference rates obtained from the website of the Brazilian Stock Exchange – B3 S.A. - Brasil, Bolsa, Balcão ("B3") and projected for 12 months, as of December 31, 2019 the CDI rate was 4.21%.

As of December 31, 2019, the Company's management estimated two scenarios of the CDI rates at +10% and -10%, which were used as a basis for the possible and remote scenarios, respectively. The table below shows a summary of the scenarios estimated by Management and the effect on profit before income taxes:

	Exposure	+10%	-10%
Cash, bank deposits and cash equivalents	25,554	108	(108)
Financial investments	577,865	2,433	(2,433)
Accounts payable to selling shareholders	879,111	3,701	(3,701)
Related parties	14,813	62	(62)
Loans and financing	98,561	415	(415)

The Company has derivatives (calls and put options) on non-controlling interests in associates and joint ventures acquired. The fair value of these derivatives is calculated using multiple scenarios and intrinsic methods. The major inputs are: exercise price, exercise date, volatility and gross profit of the associates and joint ventures.

The Company performed evaluation of their fair value at the end of each year in order to account for any changes to it, as disclosed in Note 26. These derivatives, which are not publicly traded, have specific conditions that do not enable the Company to present a sensitivity analysis in relation to specific interest rates or market indexes. Also, these derivatives are part of the Company's strategy to acquire companies directly related to its continuous growth and are considered by the Company as a deferred payment to the previous shareholders of the acquirees.

Changes in liabilities arising from financing activities

	January 1, 2017	Cash flows	Other	December 31, 2017	Cash flows	Other	December 31, 2018
Dividends payable	17,843	(75,053)	67,721	10,511	(85,000)	74,489	-
Total	17,843	(75,053)	67,721	10,511	**(85,000)**	**74,489**	**-**

	December 31, 2018	Change in accounting practice	As of January 1, 2019	Cash flows	Other	December 31, 2019
Leases	-	20,089	20,089	(5,259)	11,027	25,857
Loans and financing	-	-	-	97,011	1,550	98,561
Total	-	**20,089**	**20,089**	**91,752**	**12,577**	**124,418**

Other market risk

The Company has a significant portion of its accounts payable whose exercise price is determined by multiples of EBITDA discounted to present value for the acquisition of the remaining interest of International School as described in note 17.

Sensitivity analysis

As of December 31, 2019, the Company's management estimated two scenarios of the rates at +10% and -10% of revenue and +5% and -5% of Weighted Average Capital Cost (WACC), whose premises are used in the calculation of debt. The table below shows a summary of the scenarios estimated:

	10%	-10%
Revenue	23,413	(23,413)

	5%	-5%
WACC	3,510	(3,510)

28 Commitments and contingencies

(i) 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.

	Labor	Taxes	Total
Balance at December 31, 2017	-	-	-
Additions	17	124	141
Reversals	-	(10)	(10)
Balance at December 31, 2018	**17**	**114**	**131**
Additions	209	145	354
Reversals	(104)	(130)	(234)
Balance at December 31, 2019	**122**	**129**	**251**

As of December 31, 2019, the Company was party to lawsuits classified as possible losses totaling R$ 7,209 (2018: R$ 5,170), as shown below:

	2019	2018
Civil (a)	6,113	4,425
Labor (b)	1,096	745
Total	**7,209**	**5,170**

(a) The civil proceedings relate mainly to customer claims, including those related to the early termination of certain agreements, among others.

(b) 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, EAS Educação S.A. and Arco Educação S.A. This request for arbitration is purporting to assert the non-controlling shareholder's rights related to the calculation of the purchase price under the Investment Agreement; however, due to its early stage, it is not possible to confirm which claims will be asserted.

Due to 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. Thus, in light of the current early 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 payable to the non-controlling shareholder upon the exercise of the put option and discounted to present value. The provision is calculated based on the realized EBITDA for the school year of 2019 (first installment) and the projected EBITDA for school year of 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 installment would be paid in the first half of 2020 and the second installment in the first half of 2021. The Company performed a review of previous operations projections, and based on the new projected numbers, the liability increased by R$ 89,403 in 2019 and was recorded as financial expense as described in note 17a. During 2019, the Company recognized R$ 33,909 of interest related to the liability.

The Company's review of previous operations projections as described above was performed with no change to the accounting criteria applied to prior financial periods. The operation projections may vary in subsequent financial periods depending on the application of the agreement and the outcome of the arbitration, and the final basis of calculation of its financial liability and will be updated accordingly in its financial statements for future financial periods.

29 Transactions not involving cash

During the years ended December 31, 2019, 2018 and 2017, the Company carried out the following non-cash activities, which are not reflected in the statement of cash flows:

	2019	2018	2017
Share issuance costs – unpaid	-	674	-
Tax benefit from tax deductible goodwill (Note 19d)	(46,314)	46,314	-
Investing - accounts payable to selling shareholders	-	-	58,003
Investing - derivative financial instruments (Note 2.2)	14,597	-	-
Business combinations - derivative financial instruments (Note 2.2)	38,924	-	-
Lease adoption (Note 2.5)	1,251	-	-
Forward contract – Nave (Note 4)	29,728	-	-
Retained payments from business combination (Note 4)	874,440	-	-
Acquisition from business combination (Note 4)	39,419		

30 Subsequent events

Loan agreements

(a) Geekie Desenvolvimento de Softwares S.A.

On February 17, 2020, the investee Geekie entered into a loan agreement in the amount of R$1,500, maturing on April 15, 2021, and an interest rate of 7,82% p.a.

(b) Nave à Vela Ltda.

On the same date, the investee Nave entered into a loan agreement in the amount of R$2,000, maturing on March 8, 2022, and an interest rate of 8,08% p.a.

Acquisition of additional shares of Geekie

On March 4, 2020, Arco acquired an additional 10.51% interest in Geekie's share capital from minority shareholders for R$12,675 increasing our total interest to 48.04%.

Coronavirus

Since December 2019, a novel strain of coronavirus has spread in China, Italy, U.S., Brazil and other countries. Such events could cause disruption of regional or global economic activity, which could reduce the number of schools and students that use our products and adversely affect our operations and financial results. In addition, such events could cause the closing of schools, closing or reduction in production of our materials provided by third parties, stoppage or closing of transportation companies for undetermined periods, which could also adversely affect our operation and financial results.

The extent to which the coronavirus impacts our financial results and operations will depend on future developments, which are uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions to contain the coronavirus or treat its impact in Brazil, among others. Therefore, it is not possible to estimate the extent of potential impacts in our financial statements. We are continuously monitoring the situation very closely and actively evaluating the implications for our business and taking the measures to mitigate the potential risks.

***

Exhibit 2.1

DESCRIPTION OF SECURITIES
REGISTERED UNDER SECTION 12 OF THE EXCHANGE ACT

As of December 31, 2019 Arco Platform Limited ("we," "us," and "our") had the following series of securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common shares, par value US$0.00005 per share	ARCE	The Nasdaq Global Select Market

Arco Platform Limited was incorporated on April 12, 2018, as a Cayman Islands exempted company with limited liability duly registered with the Cayman Islands Registrar of Companies. Our corporate purposes are unrestricted and we have the authority to carry out any object not prohibited by any law as provided by Section 7(4) of Companies Law (as amended) of the Cayman Islands, or the Companies Law generally.

Our affairs are governed principally by: (1) Articles of Association; (2) the Companies Law; and (3) the common law of the Cayman Islands. As provided in our Memorandum and Articles of Association, subject to Cayman Islands law, we have full capacity to carry on or undertake any business or activity, do any act or enter into any transaction, and, for such purposes, full rights, powers and privileges. Our registered office is c/o Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

CLASS A COMMON SHARES

Item 9. General

9.A.3 Preemptive rights

See "—Item 10.B Memorandum and articles of association—Preemptive or Similar Rights" below.

9.A.5 Type and class of securities

As of December 31, 2019, Arco had a total issued share capital of U.S.$2,746.95, divided into 54,939,088 common shares of a nominal or par value of U.S.$0.00005. Those common shares are divided into 27,538,240 issued Class A common shares and 27,400,848 Class B common shares. All of our outstanding share capital is fully paid. Our Class A common shares are in book-entry form, registered in the name of each shareholder or its nominee.

Our authorized share capital is US$50,000, consisting of 1,000,000,000 shares of par value US$0.00005 each. Of those authorized shares, (i) 500,000,000 are designated as Class A common shares, (ii) 250,000,000 are designated as Class B common shares, and (iii) 250,000,000 are as yet undesignated and may be issued as common shares or shares with preferred rights.

The Memorandum and Articles of Association authorize two classes of common shares: Class A common shares, which are entitled to one vote per share, and Class B common shares, which are entitled to 10 votes per share and to maintain a proportional ownership interest in the event that additional Class A common shares are issued. Any holder of Class B common shares may convert his or her shares at any time into Class A common shares on a share-for-share basis. The rights of the two classes of common shares are otherwise identical, except as described in our Memorandum and Articles of Association. See "—Anti-Takeover Provisions in our Articles of Association—Two Classes of Shares."

Item 9.A.6. Limitations or qualifications

Not applicable.

Item 9.A.7. Other rights

Not applicable.

Item 10.B Memorandum and articles of association

The following information describes our Class A common shares and provisions set forth by our Memorandum and Articles of Association, the Companies Law; and the common law of the Cayman Islands. This description is only a summary. You should read and refer to our Memorandum and Articles of Association included as Exhibit 1.1 hereto.

Description of Our Memorandum and Articles of Association

History of Share Capital

On September 25, 2018, the registration statement on Form F-1 (File No 333-7007) relating to our initial public offering of our class A common shares was declared effective by the SEC. On September 25, 2018, we commenced our initial public offering. On September 28, 2018, we closed our initial public offering, pursuant to which we issued and sold 12,777,777 Class A common shares for an aggregate price of U.S.$223,611,098 (R$895.2 million).

On October 29, 2019, we completed a follow-on public offering, consisting of 3,450,656 Class A common shares issued and sold by us, and 4,268,847 Class A common shares sold by certain selling shareholders. The offering price was US$43.00 per Class A common share. We received net proceeds of US$143.9 million, after deducting US$3.7 million in underwriting discounts and commissions. On November 26, 2019, an additional 661,112 Class A common shares were sold by General Atlantic Arco (Bermuda), L.P. following the exercise by the underwriters of their option to purchase additional shares.

As of December 31, 2019, Arco had no shares in treasury.

General

Our shareholders adopted the Articles of Association included as Exhibit 3.1 to the Amendment No. 2 to our registration statement on Form F-1 (File no. 333-227007), filed with the SEC on September 12, 2018. The following summary is subject to and qualified in its entirety by Arco Platform Limted's memorandum and articles of association. This is not a summary of all the significant provisions of our Articles of Association, of the Companies Law or of the common law of the Cayman Islands and does not purport to be complete. Capitalized terms used but not defined herein have the meanings given to them in our annual report on Form 20-F for the fiscal year ended December 31, 2019.

Corporate Purposes

Our corporate purposes are unrestricted and we have the authority to carry out any object not prohibited by any law as provided by Section 7(4) of Companies Law (as amended) of the Cayman Islands, or the Companies Law generally.

Issuance of Shares

Except as expressly provided in Arco's Articles of Association, Arco's board of directors has general and unconditional authority to allot, grant options over, offer or otherwise deal with or dispose of any unissued shares in the company's capital without the approval of our shareholders (whether forming part of the original or any increased share capital), either at a premium or at par, with or without preferred, deferred or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise and to such persons, on such terms and conditions, and at such times as the directors may decide, but so that no share shall be issued at a discount, except in accordance with the provisions of the Companies Law. In accordance with its Articles of Association, Arco shall not issue bearer shares.

Arco's Articles of Association provide that at any time that there are Class A common shares in issue, additional Class B common shares may only be issued pursuant to (1) a share split, subdivision of shares or similar transaction or where a dividend or other distribution is paid by the issue of shares or rights to acquire shares or following capitalization of profits, (2) a merger, consolidation, or other business combination involving the issuance of Class B common shares as full or partial consideration, or (3) an issuance of Class A common shares, whereby holders of the Class B common shares are entitled to purchase a number of Class B common shares that would allow them to maintain their proportional ownership interests in Arco (following an offer by Arco to each holder of Class B common shares to issue to such holder, upon the same economic terms and at the same price, such number of Class B common shares as would ensure such holder may maintain a proportional ownership interest in Arco pursuant to Arco's Articles of Association). In light of: (a) the above provisions; (b) the fact that future transfers by holders of Class B common shares will generally result in those shares converting to Class A common shares, subject to limited exceptions as provided in the Memorandum and Articles of Association; and (c) the ten-to-one voting ratio between our Class B common shares and Class A common shares, means that holders of our Class B common shares will in many situations continue to maintain control of all matters requiring shareholder approval. This concentration of ownership and voting power will limit or preclude your ability to influence corporate matters for the foreseeable future. For more information see "—Preemptive or Similar Rights."

Arco's Articles of Association also provide that the issuance of non-voting common shares requires the affirmative vote of a majority of the of then-outstanding Class A common shares.

Voting Rights

The holders of the Class A common shares and Class B common shares have identical rights, except that (i) the holder of Class B common shares is entitled to 10 votes per share, whereas holders of Class A common shares are entitled to one vote per share, (ii) Class B common shares have certain conversion rights and (iii) the holder of Class B common shares is entitled to maintain a proportional ownership interest in the event that additional Class A common shares are issued. For more information see "—Preemptive or Similar Rights" and "—Conversion." The holders of Class A common shares and Class B common shares vote together as a single class on all matters (including the election of directors) submitted to a vote of shareholders, except as provided below and as otherwise required by law.

Arco's Articles of Association provide as follows regarding the respective rights of holders of Class A common shares and Class B common shares:

(i) class consents from the holders of Class A common shares or Class B common shares, as applicable, shall be required for any variation to the rights attached to their respective class of shares, however, the Directors may treat any two or more classes of shares as forming one class if they consider that all such classes would be affected in the same way by the proposal;

(ii) the rights conferred on holders of Class A common shares shall not be deemed to be varied by the creation or issue of further Class B common shares and vice versa; and

(iii) the rights attaching to the Class A common shares and the Class B common shares shall not be deemed to be varied by the creation or issue of shares with preferred or other rights, including, without limitation, shares with enhanced or weighted voting rights.

As set forth in the Articles of Association, the holders of Class A common shares and Class B common shares, respectively, do not have the right to vote separately if the number of authorized shares of such class is increased or decreased. Rather, the number of authorized Class A common shares and Class B common shares may be increased or decreased (but not below the number of shares of such class then outstanding) by the affirmative vote of the holders of a majority of the voting power of the issued and outstanding Class A common shares and Class B common shares, voting together in a general meeting.

Preemptive or Similar Rights

The Class A common shares and Class B common shares are not entitled to preemptive rights upon transfer and are not subject to conversion (except as described below under "—Conversion"), redemption or sinking fund provisions.

The Class B common shares are entitled to maintain a proportional ownership interest in the event that additional Class A common shares are issued. As such, except for certain exceptions, if Arco issues Class A common shares, it must first make an offer to each holder of Class B common shares to issue to such holder, upon the same economic terms and at the same price, such number of Class B common shares as would ensure such holder may maintain a proportional ownership interest in Arco. This right to maintain a proportional ownership interest may be waived by the holders of a majority of the Class B common shares.

Conversion

The outstanding Class B common shares are convertible at any time as follows: (1) at the option of the holder, a Class B common share may be converted at any time into one Class A common share or (2) upon the election of the holders of a majority of the then outstanding Class B common shares, all outstanding Class B common shares may be converted into a like number of Class A common shares. In addition, each Class B common share will convert automatically into one Class A common share upon any transfer, whether or not for value, except for certain transfers described in the Articles of Association, including transfers to affiliates, transfers to and between the Founding Shareholders, their family members and their respective heirs and successors, trusts solely for the benefit of the shareholder or their affiliates, and partnerships, corporations and other entities exclusively owned by the shareholder or their affiliates and certain transfers to organizations that are exempt from taxation under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Furthermore, each Class B common share will convert automatically into one Class A common share and no Class B common shares will be issued thereafter if, at any time, the total number of the issued and outstanding Class B common shares is less than 10% of the total number of shares outstanding.

No class of Arco's common shares may be subdivided or combined unless the other class of common shares is concurrently subdivided or combined in the same proportion and in the same manner.

Equal Status

Except as expressly provided in Arco's Articles of Association, Class A common shares and Class B common shares have the same rights and privileges and rank equally, share ratably and are identical in all respects as to all matters. In the event of any merger, consolidation, scheme, arrangement or other business combination requiring the approval of our shareholders entitled to vote thereon (whether or not Arco is the surviving entity), the holders of Class A common shares shall have the right to receive, or the right to elect to receive, the same form of consideration as the holders of Class B common shares, and the holders of Class A common shares shall have the right to receive, or the right to elect to receive, at least the same amount of consideration on a per share basis as the holders of Class B common shares. In the event of any (1) tender or exchange offer to acquire any Class A common shares or Class B common shares by any third-party pursuant to an agreement to which Arco is a party, or (2) any tender or exchange offer by Arco to acquire any Class A common shares or Class B common shares, the holders of Class A common shares shall have the right to receive, or the right to elect to receive, the same form of consideration as the holders of Class B common shares, and the holders of Class A common shares shall have the right to receive, or the right to elect to receive, at least the same amount of consideration on a per share basis as the holders of Class B common shares.

Record Dates

For the purpose of determining shareholders entitled to notice of, or to vote at any general meeting of shareholders or any adjournment thereof, or shareholders entitled to receive dividend or other distribution payments, or in order to make a determination of shareholders for any other purpose, Arco's board of directors may set a record date which shall not exceed forty (40) clear days prior to the date where the determination will be made.

General Meetings of Shareholders

As a condition of admission to a shareholders' meeting, a shareholder must be duly registered as a shareholder of Arco at the applicable record date for that meeting and, in order to vote, all calls or installments then payable by such shareholder to Arco in respect of the shares that such shareholder holds must have been paid.

Subject to any special rights or restrictions as to voting then attached to any shares, at any general meeting every shareholder who is present in person or by proxy (or, in the case of a shareholder being a corporation, by its duly authorized representative not being himself or herself a shareholder entitled to vote) shall have one vote per Class A common share and 10 votes per Class B common share.

As a Cayman Islands exempted company, Arco is not obliged by the Companies Law to call annual general meetings; however, the Articles of Association provide that in each year the company will hold an annual general meeting of shareholders, at a time determined by the board of directors, provided that the board of directors of Arco has the discretion whether or not to hold an annual general meeting in 2020. For the annual general meeting of shareholders the agenda will include, among other things, the presentation of the annual accounts and the report of the directors. In addition, the agenda for an annual general meeting of shareholders will only include such items as have been included therein by the board of directors.

Also, Arco may, but is not required to (unless required by the laws of the Cayman Islands), hold extraordinary general meetings during the year. General meetings of shareholders are generally expected to take place in São Paulo, Brazil, but may be held elsewhere if the directors so decide.

The Companies Law provides shareholders a limited right to request a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting in default of a company's Articles of Association. However, these rights may be provided in a company's Articles of Association. Arco's Articles of Association provide that upon the requisition of one or more shareholders representing not less than one-third of the voting rights entitled to vote at general meetings, the board will convene an extraordinary general meeting and put the resolutions so requisitioned to a vote at such meeting. The Articles of Association provide no other right to put any proposals before annual general meetings or extraordinary general meetings.

Subject to regulatory requirements, the annual general meeting and any extraordinary general meetings must be called by not less than ten (10) clear days' notice prior to the relevant shareholders meeting and convened by a notice discussed below. Alternatively, upon the prior consent of all holders entitled to receive notice, with regards to the annual general meeting, and the holders of 95% in par value of the shares entitled to attend and vote at an extraordinary general meeting, that meeting may be convened by a shorter notice and in a manner deemed appropriate by those holders.

Arco will give notice of each general meeting of shareholders by publication on its website and in any other manner that it may be required to follow in order to comply with Cayman Islands law, Nasdaq and SEC requirements. The holders of registered shares may be given notice of a shareholders' meeting by means of letters sent to the addresses of those shareholders as registered in our shareholders' register, or, subject to certain statutory requirements, by electronic means.

Holders whose shares are registered in the name of DTC or its nominee, which we expect will be the case for all holders of Class A common shares, will not be a shareholder or member of the company and must rely on the procedures of DTC regarding notice of shareholders' meetings and the exercise of rights of a holder of the Class A common shares.

A quorum for a general meeting consists of any one or more persons holding or representing by proxy not less than one-third of the aggregate voting power of all shares in issue and entitled to vote upon the business to be transacted.

A resolution put to a vote at a general meeting shall be decided on a poll. An ordinary resolution to be passed by the shareholders at a general meeting requires the affirmative vote of a simple majority of the votes cast by, or on behalf of, the shareholders entitled to vote, present in person or by proxy and voting at the meeting. A special resolution requires the affirmative vote on a poll of no less than two-thirds of the votes cast by the shareholders entitled to vote who are present in person or by proxy at a general meeting. Both ordinary resolutions and special resolutions may also be passed by a unanimous written resolution signed by all the shareholders of our Company, as permitted by the Companies Law and our Articles of Association.

Pursuant to Arco's Articles of Association, general meetings of shareholders are to be chaired by the chairman of our board of directors or in his absence the vice-chairman of the board of directors. If the chairman or vice-chairman of our board of directors is absent, the directors present at the meeting shall appoint one of them to be chairman of the general meeting. If neither the chairman nor another director is present at the general meeting within 15 minutes after the time appointed for holding the meeting, the shareholders present in person or by proxy and entitled to vote may elect any one of the shareholders to be chairman. The order of business at each meeting shall be determined by the chairman of the meeting, and he or she shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts and things as are necessary or desirable for the proper conduct of the meeting, including, without limitation, the establishment of procedures for the maintenance of order and safety, limitations on the time allotted to questions or comments on the affairs of the Company, restrictions on entry to such meeting after the time prescribed for the commencement thereof, and the opening and closing of the polls.

Liquidation Rights

If Arco is voluntarily wound up, the liquidator, after taking into account and giving effect to the rights of preferred and secured creditors and to any agreement between Arco and any creditors that the claims of such creditors shall be subordinated or otherwise deferred to the claims of any other creditors and to any contractual rights of set-off or netting of claims between Arco and any person or persons (including without limitation any bilateral or any multi-lateral set-off or netting arrangements between the company and any person or persons) and subject to any agreement between Arco and any person or persons to waive or limit the same, shall apply Arco's property in satisfaction of its liabilities *pari passu* and subject thereto shall, subject to the rights attaching to any share, distribute the property pari passu amongst the shareholders in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively.

Changes to Capital

Pursuant to the Articles of Association, Arco may from time to time by ordinary resolution:

- increase its share capital by such sum, to be divided into shares of such amount, as the resolution shall prescribe;
- consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares;
- convert all or any of its paid-up shares into stock and reconvert that stock into paid-up shares of any denomination;
- subdivide its existing shares or any of them into shares of a smaller amount, provided that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived; or
- cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so canceled.

Arco's shareholders may by special resolution, subject to confirmation by the Grand Court of the Cayman Islands on an application by the Company for an order confirming such reduction, reduce its share capital or any capital redemption reserve in any manner permitted by law.

In addition, subject to the provisions of the Companies Law and our Articles of Association, Arco may:

- issue shares on terms that they are to be redeemed or are liable to be redeemed;
- purchase its own shares (including any redeemable shares); and
- make a payment in respect of the redemption or purchase of its own shares in any manner authorized by the Companies Law, including out of its own capital.

Transfer of Shares

Subject to any applicable restrictions set forth in the Articles of Association, any shareholder of Arco may transfer all or any of his or her common shares by an instrument of transfer in the usual or common form or in the form prescribed by the Nasdaq or any other form approved by the Company's board of directors.

The Class A common shares are traded on the Nasdaq in book-entry form and may be transferred in accordance with Arco's Articles of Association and Nasdaq's rules and regulations.

However, Arco's board of directors may, in its absolute discretion, decline to register any transfer of any common share which is either not fully paid up to a person of whom it does not approve or is issued under any share incentive scheme for employees which contains a transfer restriction that is still applicable to such common share. The board of directors may also decline to register any transfer of any common share unless:

- a fee of such maximum sum as the Nasdaq may determine to be payable or such lesser sum as the board of directors may from time to time require is paid to Arco in respect thereof;
- the instrument of transfer is lodged with Arco, accompanied by the certificate (if any) for the common shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of shares;
- the instrument of transfer is properly stamped, if required;
- the common shares transferred are free of any lien in favor of Arco; and
- in the case of a transfer to joint holders, the transfer is not to more than four joint holders.

If the directors refuse to register a transfer they are required, within two months after the date on which the instrument of transfer was lodged, to send to the transferee notice of such refusal.

Share Repurchase

The Companies Law and the Articles of Association permit Arco to purchase its own shares, subject to certain restrictions. The board of directors may only exercise this power on behalf of Arco, subject to the Companies Law, the Articles of Association and to any applicable requirements imposed from time to time by the SEC, the Nasdaq, or by any recognized stock exchange on which our securities are listed.

Dividend Rights

See "Item 8A. Consolidated Statements and Other Financial Information—Dividends and Dividend Policy" for further information regarding dividend rights.

Appointment, Disqualification and Removal of Directors

Arco is managed by its board of directors. The Articles of Association provide that, unless otherwise determined by a special resolution of shareholders, the board of directors will be composed of four to 11 directors, with the number being determined by a majority of the directors then in office. There are no provisions relating to retirement of directors upon reaching any age limit. The Articles of Association also provide that, while Arco's shares are admitted to trading on Nasdaq, the board of directors must always comply with the residency and citizenship requirements of the U.S. securities laws applicable to foreign private issuers.

The Articles of Association provide that directors shall be elected by an ordinary resolution of our shareholders, which requires the affirmative vote of a simple majority of the votes cast on the resolution by the shareholders entitled to vote who are present, in person or by proxy, at the meeting. Each director shall be appointed and elected for such term as the resolution appointing him or her may determine or until his or her removal or vacation of office in accordance with the Articles of Association.

Any vacancies on the board of directors that arise other than upon the removal of a director by resolution passed at a general meeting can be filled by the remaining directors (notwithstanding that they may constitute less than a quorum). Any such appointment shall be as an interim director to fill such vacancy until the next annual general meeting of shareholders.

Additions to the existing board (within the limits set pursuant to the Articles of Association) may be made by ordinary resolution of the shareholders.

Grounds for Removing a Director

A director may be removed with or without cause by ordinary resolution. The notice of general meeting must contain a statement of the intention to remove the director and must be served on the director not less than ten calendar days before the meeting. The director is entitled to attend the meeting and be heard on the motion for his removal.

The office of a director will be vacated automatically if he or she (1) becomes prohibited by law from being a director, (2) becomes bankrupt or makes an arrangement or composition with his creditors, (3) dies or is in the opinion of all his co-directors, incapable by reason of mental disorder of discharging his duties as director, (4) resigns his office by notice to us or (5) has for more than six months been absent without permission of the directors from meetings of the board of directors held during that period, and the remaining directors resolve that his or her office be vacated.

Proceedings of the Board of Directors

The Articles of Association provide that Arco's business is to be managed and conducted by the board of directors. The quorum necessary for the board meeting shall be a simple majority of the directors then in office (subject to there being a minimum of two directors present) and business at any meeting shall be decided by a majority of votes. In the case of an equality of votes, the chairman shall have a casting vote.

Subject to the provisions of the Articles of Association, the board of directors may regulate its proceedings as they determine is appropriate. Board meetings shall be held at least once every calendar quarter and shall take place either in São Paulo, Brazil or at such other place as the directors may determine.

Subject to the provisions of the Articles of Association, to any directions given by ordinary resolution of the shareholders and the listing rules of the Nasdaq, the board of directors may from time to time at its discretion exercise all powers of Arco, including, subject to the Companies Law, the power to issue debentures, bonds and other securities of the company, whether outright or as collateral security for any debt, liability or obligation of our company or of any third-party.

Inspection of Books and Records

Holders of Arco shares will have no general right under Cayman Islands law to inspect or obtain copies of the list of shareholders or corporate records of the Company. However, the board of directors may determine from time to time whether and to what extent Arco's accounting records and books shall be open to inspection by shareholders who are not members of the board of directors. Notwithstanding the above, the Articles of Association provide shareholders with the right to receive annual financial statements. Such right to receive annual financial statements may be satisfied by publishing the same on the company's website or filing such annual reports as we are required to file with the SEC.

Register of Shareholders

The Class A common shares are held through DTC, and DTC or Cede & Co., as nominee for DTC, will be recorded in the shareholders' register as the holder of our Class A common shares.

Under Cayman Islands law, Arco must keep a register of shareholders that includes:

- the names and addresses of the shareholders, a statement of the shares held by each member, and of the amount paid or agreed to be considered as paid, on the shares of each member;
- the date on which the name of any person was entered on the register as a member; and
- the date on which any person ceased to be a member.

Under Cayman Islands law, the register of shareholders of Arco is *prima facie* evidence of the matters set out therein (i.e., the register of shareholders will raise a presumption of fact on the matters referred to above unless rebutted) and a shareholder registered in the register of shareholders is deemed as a matter of Cayman Islands law to have *prima facie* legal title to the shares as set against his or her name in the register of shareholders. Once the register of shareholders has been updated, the shareholders recorded in the register of shareholders should be deemed to have legal title to the shares set against their name.

If the name of any person is incorrectly entered in or omitted from the register of shareholders, or if there is any default or unnecessary delay in entering on the register the fact of any person having ceased to be a shareholder of Arco, the person or member aggrieved (or any shareholder of Arco, or Arco itself) may apply to the Cayman Islands Grand Court for an order that the register be rectified, and the Court may either refuse such application or it may, if satisfied of the justice of the case, make an order for the rectification of the register.

Exempted Company

Arco is an exempted company with limited liability under the Companies Law. The Companies Law distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except for the exemptions and privileges listed below:

- an exempted company does not have to file an annual return of its shareholders with the Registrar of Companies;
- an exempted company's register of shareholders is not open to inspection;
- an exempted company does not have to hold an annual general meeting;
- an exempted company may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- an exempted company may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- an exempted company may register as a limited duration company; and
- an exempted company may register as a segregated portfolio company.

"Limited liability" means that the liability of each shareholder is limited to the amount unpaid by the shareholder on the shares of the company (except in exceptional circumstances, such as involving fraud, the establishment of an agency relationship or an illegal or improper purpose or other circumstances in which a court may be prepared to pierce or lift the corporate veil).

Arco is subject to reporting and other informational requirements of the Exchange Act, as applicable to foreign private issuers. Except as otherwise disclosed in this annual report, Arco intends to continue to comply with the Nasdaq rules in lieu of following home country practice.

Anti-Takeover Provisions in our Articles of Association

Some provisions of the Articles of Association may discourage, delay or prevent a change in control of Arco or management that shareholders may consider favorable. In particular, the capital structure of Arco concentrates ownership of voting rights in the hands of the Founding Shareholders. These provisions, which are summarized below, are expected to discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of Arco to first negotiate with the board of directors. However, these provisions could also have the effect of discouraging others from attempting hostile takeovers and, as a consequence, they may also inhibit temporary fluctuations in the market price of the Class A common shares that often result from actual or rumored hostile takeover attempts. These provisions may also have the effect of preventing changes in the management of Arco. It is possible that these provisions could make it more difficult to accomplish transactions that shareholders may otherwise deem to be in their best interests.

Two Classes of Common Shares

The Class B common shares of Arco are entitled to 10 votes per share, while the Class A common shares are entitled to one vote per share. Since it owns of all of the Class B common shares of Arco, the Founding Shareholders currently have the ability to elect all directors and to determine the outcome of most matters submitted for a vote of shareholders. This concentrated voting control could discourage others from initiating any potential merger, takeover, or other change of control transaction that other shareholders may view as beneficial.

So long as the Founding Shareholders have the ability to determine the outcome of most matters submitted to a vote of shareholders as well as the overall management and direction of Arco, third parties may be deterred in their willingness to make an unsolicited merger, takeover, or other change of control proposal, or to engage in a proxy contest for the election of directors. As a result, the fact that Arco has two classes of common shares may have the effect of depriving you as a holder of Class A common shares of an opportunity to sell your Class A common shares at a premium over prevailing market prices and make it more difficult to replace the directors and management of Arco.

Preferred Shares

Arco's board of directors is given wide powers to issue one or more classes or series of shares with preferred rights. Such preferences may include, for example, dividend rights, conversion rights, redemption privileges, enhanced voting powers and liquidation preferences.

Despite the anti-takeover provisions described above, under Cayman Islands law, Arco's board of directors may only exercise the rights and powers granted to them under the Articles of Association, for what they believe in good faith to be in the best interests of Arco.

Protection of Non-Controlling Shareholders

The Grand Court of the Cayman Islands may, on the application of shareholders holding not less than one-fifth of the shares of Arco in issue, appoint an inspector to examine the Company's affairs and report thereon in a manner as the Grand Court shall direct.

Subject to the provisions of the Companies Law, any shareholder may petition the Grand Court of the Cayman Islands which may make a winding-up order, if the court is of the opinion that this winding up is just and equitable.

Notwithstanding the U.S. securities laws and regulations that are applicable to Arco, general corporate claims against Arco by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by Arco's Articles of Association.

The Cayman Islands courts ordinarily would be expected to follow English case law precedents, which permit a minority shareholder to commence a representative action against Arco, or derivative actions in Arco's name, to challenge (1) an act which is *ultra vires* or illegal, (2) an act which constitutes a fraud against the minority and the wrongdoers themselves control Arco, and (3) an irregularity in the passing of a resolution that requires a qualified (or special) majority.

Registration Rights and Restricted Shares

Although no shareholders of Arco have formal registration rights, they or entities controlled by them or their permitted transferees will be able to sell their shares in the public market from time to time without registering them, subject to certain limitations on the timing, amount and method of those sales imposed by regulations promulgated by the SEC.

Exhibit 12.1

CERTIFICATION BY THE PRINCIPAL EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Ari de Sá Cavalcante Neto, certify that:

1. I have reviewed this annual report on Form 20-F of Arco Platform Limited;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably liked to materially affect, the company's internal control over financial reporting.

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 31, 2020

/s/ Ari de Sá Cavalcante Neto

Ari de Sá Cavalcante Neto
Chief Executive Officer

Exhibit 12.2

CERTIFICATION BY THE PRINCIPAL EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David Peixoto dos Santos, certify that:

1. I have reviewed this annual report on Form 20-F of Arco Platform Limited;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably liked to materially affect, the company's internal control over financial reporting.

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 31, 2020

/s/ David Peixoto dos Santos
David Peixoto dos Santos
Chief Financial Officer

Exhibit 13.1

**CERTIFICATION BY THE PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The certification set forth below is being submitted in connection with the Annual Report on Form 20-F of Arco Platform Limited (the "Company") for the fiscal year ended December 31, 2019 (the "Report"), I, Ari de Sá Cavalcante Neto, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 31, 2020

/s/ Ari de Sá Cavalcante Neto

Ari de Sá Cavalcante Neto
Chief Executive Officer

Exhibit 13.2

**CERTIFICATION BY THE PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The certification set forth below is being submitted in connection with the Annual Report on Form 20-F of Arco Platform Limited (the "Company") for the fiscal year ended December 31, 2019 (the "Report"), I, David Peixoto dos Santos, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 31, 2020

/s/ David Peixoto dos Santos

David Peixoto dos Santos
Chief Financial Officer

CODE OF ETHICS AND CONDUCT

Index

Message from de CEO 3

1. Introduction 4
2. Applicability 4
3. Principles and Values 4
4. Conduct of Employees 5
   - 4.1 Compliance with laws, rules and regulations 5
   - 4.2 Respect for the individuals 5
   - 4.3 Work safety, quality of life and environment 6
   - 4.4 Protection and proper use of assets of the Company 6
   - 4.5 Intellectual Property 6
   - 4.6 Social media 6
5. Confidential Information - Duty of Confidentiality 7
   - 5.1 Trading Securities with Insider Information 8
6. Conflicts of Interest 8
   - 6.1 Family relationships 10
   - 6.2 Affective Relationships 10
   - 6.3 Employees referral 10
   - 6.4 Side Activities 10
   - 6.5 Gifts and Entertainment 11
   - 6.6 Third party sponsored events 11
   - 6.7 Business meals 12
7. Relationships 12
   - 7.1 Relationship with Suppliers, Service Providers and Partners 12
   - 7.2 Relationship with customers 12
   - 7.3 Relationship with the Competitors 13
   - 7.4 Relationship with Public Officials 13
   - 7.5 Relationship with Investors and Shareholders 14

8. Prohibition of Corruption 14

9. Anti-Money Laundering Actions 15

10. Donations and Sponsorships 15

10.1 Prohibition of Political Donations 15

10.2 Charitable Donations and Sponsorships 16

11. Ethics Management 16

11.1 Application of this Code and Training 16

11.2 Ethics Channel 16

11.3 Ethics Committee 17

11.4 Violations and Applications of Penalties 18

Message from de CEO

This Code of Ethics and Conduct (the “Code”) is intended to establish principles, values and conduct expected from all employees, managers, executives, directors and officers (jointly, “Employees”), as well as third-party service providers, suppliers and other business partners of the business group of Arco Platform Limited, including its subsidiaries, controlled companies, under common control or affiliates (“Arco Group”, “Arco” or “Company”).

All terms of this Code were prepared based on the ethical principles and values of the Arco Group, and as set forth in the applicable legislation including, but not limited to, Brazilian Law No. 12,846/2014 (the “Anti-Corruption Law”), Brazilian Decree 8,420/2015, Brazilian Law 8,429/1998 (the “Administrative Improbity Law”), Brazilian Law 9,613/1998 (the “Anti-money Laundering Law”), the Foreign Corrupt Practices Act (the “FCPA”), the U.K Bribery Act and applicable regulations of the Securities Exchange Commission (“SEC”).

This Code establishes key principles which govern the policies of the Company and determine the conduct of professional activities within the Company. It is the responsibility each member of Arco Group’s to practice, and ensure the practice, of the terms and conditions set forth in this Code within their respective teams, constantly strengthening business, civil and ethical identity in all of its relationships.

Employees of the Arco Group must promote a culture of honesty and responsibility. The commitment to the highest level of ethical conduct must be reflected in all activities and business of the Company, including, but not limited to, relationships with employees, customers, suppliers, competitors, national or foreign governmental authorities, the public and shareholders.

This Code was approved by the Board of Directors of Arco Platform Limited on September 11, 2018, revised on November 21, 2019, and shall come into force as of this date.

Ari de Sá Cavalcante Neto

1. Introduction

The ethical conduct is part of Arco Group's business and must constantly guide all its Employees. For such reason, Arco Group established this Code with the following objectives:

- Formalize and publish the ethical and transparency principles, practices and values required and expected from Employees of the Arco Group.
- Guide the posture and actions of the Employees in different situations which they may encounter in their daily practice and work environment.
- Prevent any unethical or fraudulent act.

At the end of this Code of Ethics and Conduct you will find an Acknowledgement Term (as Annex A) and a Clarification and Validation of Conflicts of Interest Term (Annex B), which must be signed or accepted electronically by all Employees. These terms will also be accepted electronically.

This Code may be updated and revised periodically.

2. Applicability

This Code applies to all Employees of the Arco Group, regardless of their hierarchical position, as well as service providers, business partners and vendors.

The Company encourages all their Employees to promptly report, through its Ethics Channel, any violations or suspicious of violations to this Code or any other Company's policies or applicable laws.

3. Principles and Values

Ethical values that guide the Company's relationship with different people and entities are based on the principles of honesty, integrity, transparency and respect.

The Company establishes relationships of mutual trust, based on ethical principles necessary for the performance of the business.

All Employees must act in accordance with the principles and values of the Arco Group, which are:

(i) Ethics and respect: Talk the truth and act with respect, honesty, candor and in a fair and transparent manner with all, without violating this Code, other policies of the Company or any applicable law, doing the right thing with no shortcuts.

(ii) Responsibility: Act with commitment in the construction and protection of tangible and intangible assets of the Company and in accordance with human, social and environmental rights.

(iii) Professionalism: Behave professionally and take effective actions, always seeking for the best interests of the Company, including through observance of the other principles and values set forth in this Code and in accordance with proper standards in labor relations.

4. Conduct of Employees

4.1 Compliance with laws, rules and regulations

The Company is committed to conducting business ethically and with integrity, and in full compliance with all applicable laws, rules and regulations.

All Arco Employees must know and comply with all legislation and regulation applicable to the Company's activity sectors, including standards in general and the ones that might give rise to certain liabilities to the Company for acts of its Employees or vendors.

Arco Group repudiate the practice of illicit acts, such as fraud, corruption acts, bribery or similar payments.

4.2 Respect for the individuals

Arco Group’s greatest commitment is to ethical values and respect to individuals - including its Employees, customers, vendors and other business partners. For this reason, Arco Group seeks to promote a pleasant work environment, stimulating, free from discrimination and that fosters diversity, creativity and productivity.

The Arco Group prohibits all forms of discrimination or disrespect, either by gender, social class, race, gender, sexual orientation, nationality, ethnicity, language or religion, among other, as well as harassment, either moral[1] or sexual[2] that may hurt the dignity of the individual.

Arco Group condemn exertion of labor, including slavery, analogue to slavery or child labor and ensure that those who interact with the Company respect the Human Rights.

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[1] Exposure of a person to humiliating and embarrassing situations, usually in hierarchical or asymmetrical relationships, causing him/her humiliation and exposing the person to vexing situations in front of other co-workers, vendors, customers and him/her self (i.e. disrespect, aggressiveness, mistreatment, make the person fell ridicule or inferior, among others).

[2] Embarrass someone in order to obtain sexual advantage or favor, due to hierarchical or ascending position inherent to the exercise of work, title or function.

4.3 Work safety, quality of life and environment

Arco Group complies with the legislation regarding work safety and all environmental rules applicable to its activities, in order to ensure the quality of life of its Employees.

Employees working in Company's Logistics Department must always use the Individual Protection Equipment (*Equipamento de Proteção Individual* - EPI) in the correct manner, as well as vendors that perform any services that also require the use of EPI.

Arco Group expect from the Employees a responsible behavior when facing situations that may interfere in their performance and which may cause addiction, like the use of alcohol, licit drugs (medications) and gambling.

4.4 Protection and proper use of assets of the Company

It is prohibited the use of Company's assets and resources, such as hardware, software, telephones, other devices, materials or the Company's proprietary information, to illegal actives, competitive, fraudulent, illicit or that could expose the Company to risks.

The loss, burglary and misappropriation of confidential information and misuse of Company's assets and resources may harm the Company and be considered crime, in accordance with the Brazilian criminal legislation. Thus, all Employees must seek to protect the Company's assets against this such situations. In addition, any loss, burglary, robbery, misappropriation of confidential information and misuse of assets shall be immediately reported through the Ethics Channel.

The computers, telephones and corporate e-mails are subject to audits and monitoring at any time without prior notice.

4.5 Intellectual Property

Information, data or any type of knowledge, of a specific or confidential nature, such as the Employees or third-parties work product, presentations, reports, spreadsheets, content production and know how are properties of the Arco Group. Thus, it is prohibited to copy, transmit or distribute information of the Company, except with prior written authorization from the head of department of the Employee.

4.6 Social media

Arco Group believes that social media are used as information source and, at the same time, to communicate with family, friends and business contacts. Therefore, the Company emphasizes that all corporate and business communication must be done though appropriate channels approved by the Arco Group, using the adequate language.

Unless authorized by the Marketing, Legal and Compliance and Investor Relations Departments, Employees are discouraged from speaking broadly about the Company on their social media.

When employees use social media and identify themselves as part of the Arco Group, or mention the same incidentally, for example, on his/her Facebook, Instagram, LinkedIn personal account or a professional website, Employees shall always remember the following:

- Never disclose confidential information about the Company, its business, customers or vendors.
- Make it clear that any opinion expressed is always yours and not of the Company.
- Remember that the Company is an employer who treats people as equals without discrimination.
- Be respectful to colleagues and all people related to the Company, including customers and vendors.
- Report immediately to the Legal and Compliance Department any communication or media containing incorrect or inappropriate information about the Company.
- Never answer to any information or statement about the Company, including information which may be considered inaccurate, without prior approval of the Legal and Compliance Department.
- Never post documents or parts of documents, images, videos or audio recordings of products, events or people from Arco Group or produced inside the Company's premises.

5. Confidential Information - Duty of Confidentiality

Sensitive or confidential information represents a valuable asset to the Company. The protection of such information has a vital role in the continued growth of the Company and its ability to compete in the market.

All employees have an obligation to protect and to not disclose any sensitive or confidential information of the Company, except as required by court order or regulatory agent, except as express and previously approved, in writing, by the Company.

For purposes of this Code, it is considered sensitive or confidential information any and all information that, if disclosed, could cause property or reputational damage to the Company or any of its Employees. Sensitive or confidential information includes:

- Financial data, such as income and debt levels of the Company.
- Business strategies of the Company.
- Information about investigations or other procedures against suspected irregularities involving the Company.
- Corporate secrets, patents, trademarks, copyrights and intellectual property.
- Researches and new product plans, objectives and strategies, records, databases and salary data and benefits.
- Lists of customers, employees and vendors.
- Any financial information or prices that are not publicly disclosed.
- Other information that may impact the price of Company's shares.

The obligation to protect sensitive and confidential information of the Company shall remain valid even after the end of the employment relationship of the Employee with the Company. The Employee shall return to the Company any documents or materials containing such kind of information.

The use or distribution of unauthorized proprietary or confidential information violates Company policy and may be illegal. Such use or distribution could result in adverse consequences for the Company and for the person involved, including potential legal and disciplinary measures. Arco Group respect property rights from other companies and their proprietary information and require Company's Employees to do the same.

5.1 Trading Securities with Insider Information

The trade of securities with non-public information of Arco Group or to provide to family members, friends or any other person non-public information of Arco Group, is illegal and prohibited. All non-public information of Arco Group must be considered confidential information and shall never be used for personal gain. Employees must contact the Investor Relations Department regarding any questions on permission or not to buy or sell securities.

6. Conflicts of Interest

Conflicts of interest may occur when a private interest of an Employee interferes in any way or appears to interfere in the Company's interests impeding or preventing him/her from doing his/her work in the best interests of the Company or its shareholders. Conflicts of interest may also arise when an Employee or his/her respective family members[3] or close friends receive improper personal benefits as a result of his/her position as an Employee of the Company.

[3] Family member includes partner, spouse, siblings, parents, grandparents, child, biological or by adoption, parents and siblings of the partner or spouse of any family member.

All employees shall be responsible for acting with integrity and avoid potential conflicts of interest, real or apparent in their professional and personal relationships in their activities.

Situations involving conflicts of interest are not always easy to identify. Thus, Employees must report to the Legal and Compliance Department, to the Human Resources Department or to the Ethics Channel situations of conflict of interest, whether evident or suspicious. The Employee must inform at the time of admission if he/she has a conflict of interest with the Company, whether it is a family or an affective relationship.

The following situations are examples of conflicts interests, regardless the position that the employee occupy in the Company:

- Work simultaneously to the Company and to any of its competitors, customers or vendors.
- Take advantage of any form of business opportunity available using property or information of Arco Group or through his/her corporate position in the Company or develop activities or invest in companies that compete with the Company.
- Compete with the Company for the purchase or sale of properties, products, services or other interests.
- Participate, directly or indirectly, in a transaction involving the Company, on the one hand, and a competitor, customer or vendor on the other hand (except when acting as an Employee of the Company or in routine investments in listed companies) must be informed to the Purchase Department and to the Legal and Compliance Department.
- Participate in the selection of vendors or service providers conducted by the Company with vendors or service providers which are friends, relatives or family members or a business of his/her property.
- Using information from the Company that are not publicly available (confidential information) on behalf of, or provide such information to family members, friends or others for personal gain on trading securities or for commercial purposes.
- Receive personal discounts (if those are not offered to the public in general) or other benefits as a result of his/her position in the Company.
- Receive loans or guarantees of any obligations arising from his/her position at the Company.

In order to minimize these and other possible situations of conflict of interest, the following rules are established:

6.1 Family relationships

The direct or indirect relationship of leadership or subordination is not allowed for Employees who have a first-degree relationship. In addition, these Employees cannot act under the same Direction.

6.2 Affective Relationships

There may exist affective relationship between Employees within the Company work environment. However, it is not allowed, direct or indirect, leadership or subordination relationship and work under the same Direction. Such situations may be a conflict of interest and must be formally communicated by filling item 5 of Annex B to this Code.

6.3 Employees referral

Referrals of new professionals are encouraged and incentivized in the Arco Group.

The selection and decision-making processes are totally free of favoritism and have all the usual evaluation criteria and steps applied to the other candidates. The Employee who made the referral cannot participate in the selection process.

The referral of vendors and service providers is allowed. The negotiation process with such vendors is totally free of favoritism and have all the usual evaluation criteria and steps applied to the other third parties. In the event of hiring, the Employee who referred third party shall not be able to not manage or negotiate the agreement.

6.4 Side Activities

Side activities are considered activities performed after or before work hours and they are allowed as long as they do not interfere with the performance of the activities carried out by the Employee at the Company, nor do they offer risk to the business.

Below are examples of permitted side activities:

- Sell small products and foods.
- Give classes and lectures.

Examples of prohibited activities:

- Own or work in a company that competes with Arco Group.
- Own or work in a vendor or customer of Arco Group.

6.5 Gifts and Entertainment

Accepting gifts, presents and entertainment invitations with a commercial value of up to R$150.00 (one hundred and fifty reais) is permitted.

Any gift, present or entertainment invitation with a value higher than that specified above must be refused. If the refusal is not possible, the Employee must send such gift, present or entertainment invitation to the Legal and Compliance Department which will distribute the same to a charity nominated by the Company, or the gift will included in a raffle among all Employees, in accordance with the rules specifically determined by the Human Resources Department.

The offer of gifts and/or entertainment invitations be the Company may only be carried out with prior written authorization from the Human Resources Department and the Legal and Compliance Department. It is indispensable that offer of gifts, presents and/or entertainment invitations comply with the other party's code of ethics and conduct.

It is strictly prohibited to:

- Offer gifts or entertainment invitations to employees who hold public office, even temporarily or without compensation, or who has a direct or indirect relationship with public administration bodies, autarchies or parastatal entities.
- Receipt or offer cash or cash equivalent.

6.6 Third party sponsored events

In case of receiving an invitation to participate in events for professional purposes sponsored by third parties (customers, vendors, partners, etc.), the following rules must be followed:

- When the invitation is not intended for a specific person, the manager of the area that received the invitation will decide which employee will participate in the event.
- When the invitation is addressed to a specific person, the manager of the area that received the invitation is the one who decides whether the Employee can participate in the event.
- Whenever possible, Arco Group will pay the expenses of its Employee.

6.7 Business meals

Business meals may occur, if they do not exceed R$150.00 (one hundred and fifty reais) per person and are occasional. In addition, it is important to emphasize that these expenses may not generate, direct or indirectly, any kind of undue favoritism. Business meals with public officials even if temporarily or without compensation, or who has direct or indirect relationships with public administration bodies, autarchies, parastatal entities, shall preferably be avoided, but, if they occur, each person must pay his/her own expenses. If any of the above cannot be satisfied, for any reason, the Employee must immediately report the fact to the Legal and Compliance Department, which will analyze the specific case and address any necessary measures in order to avoid any conflict of interest.

7. Relationships

7.1 Relationship with Suppliers, Service Providers and Partners

The relationship with vendors, service providers and other business partners shall be based on ethical practices, transparent, legal, fair and conducted in good faith. Commercial negotiations shall always be based on impartial selection of vendors, service providers or other business partners, as well as the adoption of strictly technical and commercial decision criteria, always in the best interests of the Company.

Any kind of advantage, bonus, payment or commission from vendors, service providers and partners to Employees or third parties appointed by them will not be accepted and Employees or third parties related to them are prohibited to offer, solicit or receive, directly or indirectly, advantages, bribe or kickback to carry out transactions of any kind, as well as advantages to/from any person or organization, governmental entities, public officials, private companies and employees of these private companies, under any circumstances.

Arco Group expects its vendors, service providers and other business partners to comply with all legal requirements for health and safety to work relations, the environment, ethics and transparency in the supply chain, in addition to adhere to this Code.

7.2 Relationship with customers

The customer service shall be friendly and efficient, focused on delivering solutions and excellence and shall be carried out with discipline, ethics and mutual respect for customer's rights.

Any information provided to customers in relation to the Arco Group's products shall not be incorrect or misleading. All customers' questions will be analyzed and answered within an appropriate period to the circumstances of each case.

The Company shall not disclose, copy or disseminate any confidential customer data that may have access due its relationship with customers, except as required by court order or regulatory agent.

Arco group prohibits any kind of gratuity, payment, commission or advantage to its customers or to entities or persons appointed by them to obtain personal benefit or benefits to Arco Group, as well as the receipt of any advantage to benefit the customer or third party.

7.3 Relationship with the Competitors

Arco Group and its Employees must ensure fair competition and shall not engage in business that could be harmful to the customers, the public market or the society.

Agreements with competitors to set prices, to allocate market shares, to restrict business with certain vendors, to engage in fictitious transactions and/or any other anti-competitive agreements are against the laws of free competition and, therefore, are prohibited.

The Arco Group promotes free and fair competition for the benefit of Company's customers, investors and employees, complying with the Brazilian laws, including Law No. 12,529 - the Competition Protection Code.

7.4 Relationship with Public Officials

Arco Group's and Employees' relationships with government authorities, both national or foreign, shall always be founded on transparency, honesty and good faith. Employees must observe the following rules of conduct in their interactions with public officials:

(i) Maintain ethical, professional, cordial and transparent relationships.

(ii) Comply with legal requisitions and requirements made by public authorities to obtain any contracts, licenses, permits, authorizations and decisions.

(iii) Meetings between Employees and public officials must be conducted in the presence of at least 2 (two) individuals representing the Company and upon prior notice in writing.

(iv) Arco Group shall keep clear and accurate records of the meetings held with public officials.

Any Employee related to public officials with decision-making power in the business and operations of Arco Group, regardless of hierarchical position, must report such relationship to the Ethics Committee.

Except in certain exceptional circumstances, the FCPA prohibits the delivery of goods of value, directly or indirectly, to a "non-North American agent" in order to get or do business. When in doubt if a payment or gift may violate the FCPA, the Employees shall contact his/her manager or the Legal and Compliance Department before any action.

7.5 Relationship with Investors and Shareholders

The Company has a responsibility to communicate effectively with shareholders so that they receive complete and accurate information in all material aspects regarding the financial position and results of operations of the Company. The reports filed or submitted to the regulatory bodies, including the SEC, and other public communications, shall consider a full, fair, accurate, timely and understandable disclosure.

The Company must maintain a high standard in all matters relating to accounting, internal controls, internal and external reporting and taxation. All financial records and accounts must accurately reflect transactions and events conducted and shall be in accordance with accounting and reporting principles, as well as the system of internal controls of the Company. Records shall not be distorted, or targeted to hide, disguise or change the actual financial position of the Company.

The communications and publications of the Company shall always be made as clearly, truthfully and accurately as possible, to all Employees. Such Employees shall avoid exaggeration, guesswork, legal conclusions and notes or defamatory or derogatory comments, as well as negative descriptions of people or companies. This must be applied to all types of communications, including e-mails and informal notes. For any disposition to the contrary, the Employee shall always consult the Legal and Compliance Department before making any response or comment.

8. Prohibition of Corruption

The Brazilian Law No. 12,846/2013 (the "Brazilian Anticorruption Law") sets forth administrative and civil accountability to companies for the practice of acts against the, national or foreign, public administration.

Arco Group complies with the Brazilian Anticorruption Law and does not tolerate acts of corruption, either by its Employees or by its vendors, service providers or other business partners. Arco Group is also subject to the FCPA, which, like the Brazilian Anticorruption Law, prohibits bribery of, national or foreign, public officials, including the promise, offer or delivery of any advantage to the public official or third party, in order to induce or reward the performance of a public official act related to the Company's activities.

It is strictly prohibited:

- Directly or indirectly, promise, offer or delivery any undue advantage (in cash or goods of value) to a, national or foreign, public official or a third party related to a public official in order to induce or reward a public official act related to the Company's activities;

- To finance, fund, sponsor or in any way subsidize the practice of illegal acts provided for by law.

- Use an individual or legal entity to hide or conceal his/her real interests or the reputability of the beneficiaries of the acts.

- Interfere on or hinder investigations or inspections of public bodies, entities or agents, or intervene on performance of their acts, including regulatory agencies and supervisory bodies of the national financial system.

Infringements of anti-corruption laws may compromise the image and reputation of the Company and its Employees, deteriorating Company's economic value and impacting its sustainability and longevity, besides of being a violation of ethical principles. Acts of unlawful nature may result in civil, administrative and criminal liability to the Company and its Employees.

Any conduct of this nature shall be reported through the Ethics Channel of Arco Group or directly to the Legal and Compliance Department.

9. Anti-Money Laundering Actions

Arco Group is committed to preserving its reputation in the financial community through efforts to prevent money laundering and financing of terrorism. Money laundering is the practice of hide and disguising the ownership or source of funds illegally obtained through multiple transactions to "clean up" the resources so that they appear to come from legal activities.

The Arco Group applies measures to reduce the possibility that its facilities, products and services may be used for a purpose connected to market abuse or financial crimes. In addition, the Arco Group audit its customers, potential customers and vendors to ensure that its products and services cannot be used to facilitate money laundering or terrorist activity.

If you have any questions regarding Arco Group processes and procedures related to anti-money laundering and financing of terrorism, please consult the Legal and Compliance Department.

10. Donations and Sponsorships

10.1 Prohibition of Political Donations

The Employees of Arco Group are prohibited from donate on behalf of the Company to political parties or candidates running for public office.

10.2 Charitable Donations and Sponsorships

The Company and its Employees may offer charitable donations only when they (i) are permitted by applicable law, (ii) are not made for the purpose of obtaining or retaining any advantage or inappropriate business favor, and (iii) are made to registered charities with good reputation, in accordance with prior review of public information regarding the institution and people related to it.

Sponsorships are monetary contributions to allow an organized action by a third party in exchange of advertisement of or other consideration to the Arco Group. Employees responsible for contributions that are considered sponsorships shall ensure that such activities are transparent, established under a written agreement, for legitimate business purposes and in accordance with the consideration offered by the third party.

The manager in charge of the area that is carrying out the donation or sponsorship shall be responsible for approving all disbursements related to charitable donations and sponsorships, monitoring the due accountability and observing internal approval flows and policies. The Legal and Compliance Department must be notified of all donations and sponsorships before they occur.

Each year, the Company will disclose transparently all costs arising from such nature in the form 20-F submitted to the SEC.

11. Ethics Management

11.1 Application of this Code and Training

All employees must participate in periodic training on the need for compliance with the provisions of this Code and other policies of the Company.

The managers of each department shall ensure the exercise of the values and rules established in this Code in the workplace and in their practices and duties on the day-to-day and shall be an example to be followed by their subordinates.

11.2 Ethics Channel

Any violation or suspected violation of this Code, any of Arco Group's policies or applicable law or legislation, by Employees, vendors, service providers or business partners shall be promptly reported through Company's Ethics Channel, or the Legal and Compliance Department.

The access to the Ethics Channel it is free and available on the following channels:

- websites:
    - o https://canaldeetica.com.br/Arco/
    - o https://canaldeetica.com.br/SAS/
    - o https://canaldeetica.com.br/SAE/
    - o https://canaldeetica.com.br/eem/
    - o https://canaldeetica.com.br/pleno/
    - o https://www.canalconfidencial.com.br/psd/

- Phone: U.S. 1 855 406 7749 and Brazil 0800 591 2578 (Monday to Friday from 09h to 17h)

The Ethics Channel guarantees to the informer absolute secrecy and non-retaliation and expects reports in good faith. The reports may be carried out anonymously or identified, by the website or by telephone. Anonymous communications shall contain sufficient information about the incident or situation to allow the Company to investigate properly. If concerns or complaints require confidentiality, including keeping an anonymous identity, the Company will strive to protect such confidentiality, subject to applicable laws, regulations or legal process.

The reports, suggestions and questions submitted through the above channels will be received, analyzed and answered by the Ethics Committee, when applicable, or the Legal and Compliance Department, as well as reports of violations or suspected violations.

11.3 Ethics Committee

The Ethics Committee is responsible for analyze conduct deviations and violations related to this Code and other internal policies and regulations that may be identified and reported, either by monitoring activities or reported through the Ethics Channel.

The Ethics Committee periodically reports to the Audit Committee the most important reports and discuss its action plans.

In order to ensure impartiality required to analyze all reports, the reports related to:

- Members of the Ethics Committee will be redirected to the CEO.

- Members of Audit Committee will be redirected to the Board of Directors, in special session, without the participation of the member(s) of the Audit Committee mentioned in the report.

- Members of the Board of Directors will be treated by the Board of Directors Chairman.

- The Chairman Board of Directors will be treated by the Board of Directors without his/her participation.

11.4 Violations and Applications of Penalties

Employees who violate any provisions of this Code, other policies of the Company or applicable laws, depending on the seriousness of the misconduct, may suffer the following penalties (plus any consequences arising from the communication to the competent authorities if the act in question constitutes a crime):

- Oral or written warning.
- Suspension of employment; or
- Termination.

Situations that may involve a violation of ethics, laws, rules, regulations or this Code may not always be clear and may require the exercise of judgment or difficult decisions taking. Employees must promptly report any concerns involving ethics violations, laws, rules, regulations or this Code to their supervisors or managers or the Legal and Compliance Department or in the case of accounting, internal accounting controls or auditing matters, the Audit Committee of the Board of Directors.

Any concerns about ethical violations of laws, rules, regulations or this Code by any senior executive officer or director must be promptly reported to the Legal and Compliance Department, that must notify the Ethics Committee.

* * * * *

Annex A

I declare that I have received, read and understood the Arco Group's Code of Ethics and Conduct and I am aware of the guidelines and sanctions and their relevance for me and the Company.

I undertake to comply with Arco Group's Code of Ethics and Conduct in full, being subject to the applicable sanctions, including termination measures and the punitive administrative measures provided for in item 11.3 of the Code of Ethics and Conduct, in the employment contract and in the current legislation, respectively.

Name:
Date:
Signature:

Annex B

Term of Conflict of Interest Clarification and Validation

This term is intended for employees who have a situation that may suggest a conflict of interest with Arco Group's businesses, as well as situations that require validation by the Human Resources Department, in accordance with the rules set out in this Code of Ethics and Conduct.

1. Indicate the vendors, service providers or business partners of Arco Group of which you are a partner, administrator, executive, negotiator, commercial representative or occupy a position with decision-making power:

Company / Department	Relationship with Arco Group	Title

2. Indicate people with whom you have a close relationship who are partners, administrators, executives, negotiators, commercial representatives or who occupy positions with decision-making power in a vendor, service provider, business partner or competitor of Arco Group.

Full Name	Relationship Level	Company / Department

3. Indicate public officials, mixed capital companies or public bodies with which you have a close relationship or who occupy positions with decision-making power:

Full Name	Relationship Level	Company / Department

4. Situation(s) in need of validation (Describe the situation):

5. Indicate the employee with whom you have an affective relationship and which Direction he/her belongs:

Name of the Employee(s):

I declare that the information provided by me in this document are true, with no omission of any information that may influence decisions that Arco Group needs to take regarding this Term.

Name:
Date:
Signature:

Exhibit 21.1

List of Subsidiaries

The table below is a complete list of the Company's subsidiaries as of December 31, 2019:

Name	Principal Activities	Country
Arco Educação S.A.	Holding	Brazil
EAS Educação S.A.	Educational content	Brazil
Barra Américas Editora Ltda.	Educational content	Brazil
Distribuidora de Material Didático Desterro Ltda.	Educational content	Brazil
SAS Sistema de Ensino Ltda.	Educational content	Brazil
SAS Desenvolvimento Educacional Ltda.	Educational content	Brazil
SAS Livrarias Ltda.	Educational content	Brazil
SAE Digital S.A.	Educational content	Brazil
International School Serviços de Ensino, Treinamento e Editoração, Franqueadora S.A.	Educational content	Brazil
Nave à Vela Ltda.	Educational content	Brazil
EEM Licenciamento de Programas Educacionais Ltda.	Educational technology	Brazil
NLP Soluções Educacionais Ltda.	Educational content	Brazil
Positivo Soluções Didáticas Ltda.	Educational content	Brazil
Editora Piá Ltda.	Educational content	Brazil
Osterreich Investimentos – Participações Societárias S.A.	Educational content	Brazil
Mendel Investimentos – Participações Societárias S.A.	Educational content	Brazil
Torino Investimentos – Participações Societárias S.A.	Educational content	Brazil
Remare Investimentos – Participações Societárias S.A.	Educational content	Brazil
Fahe Investimentos – Participações Societárias S.A.	Educational content	Brazil
WPensar S.A.(1)	Educational technology	Brazil
Geekie Desenvolvimento de Softwares S.A.(2)	Educational technology	Brazil

(1) Joint venture (with 25.0% interest in its stock capital)

(2) Associate (with 37.5% interest in its stock capital)

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form F-3 No. 333-234215) and related Prospectus of Arco Platform Limited related to the registration of Class A common shares, debt securities, warrants, rights and units and the Registration Statement (Form S-8 No. 333-233920) pertaining to the Restricted Shares Grant Plan of Arco Platform Limited of our report dated March 16, 2020, with respect to the consolidated financial statements of Arco Platform Limited, included in its Annual Report on Form 20-F for the year ended December 31, 2019, filed with the Securities and Exchange Commission.

/s/ ERNST & YOUNG
Auditores Independentes S.S.

Fortaleza, Brazil
March 31, 2020