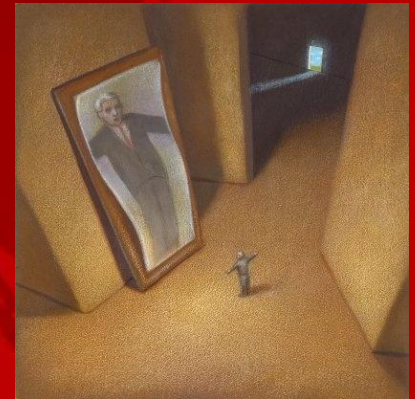


Brazil Education

An Overview



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September 2015
Brazil

The higher education sector and the capital markets

- **Four companies listed** in BM&F Bovespa stock exchange. Anima Educação (ANIM3), Estácio Participações (ESTC3), Kroton Educacional (KROT3) and Ser Educacional (SEER3)
- **It all started with Ananguera**, which IPOed in Apr 2007 (43,604 students as of Mar 2007).
- **Kroton** and **Estácio** are part of the Ibovespa index. Kroton is the 11th largest in terms of volume trading.
- The four companies together worth R\$18 billion.

Brazilian Higher Education Companies – Summary

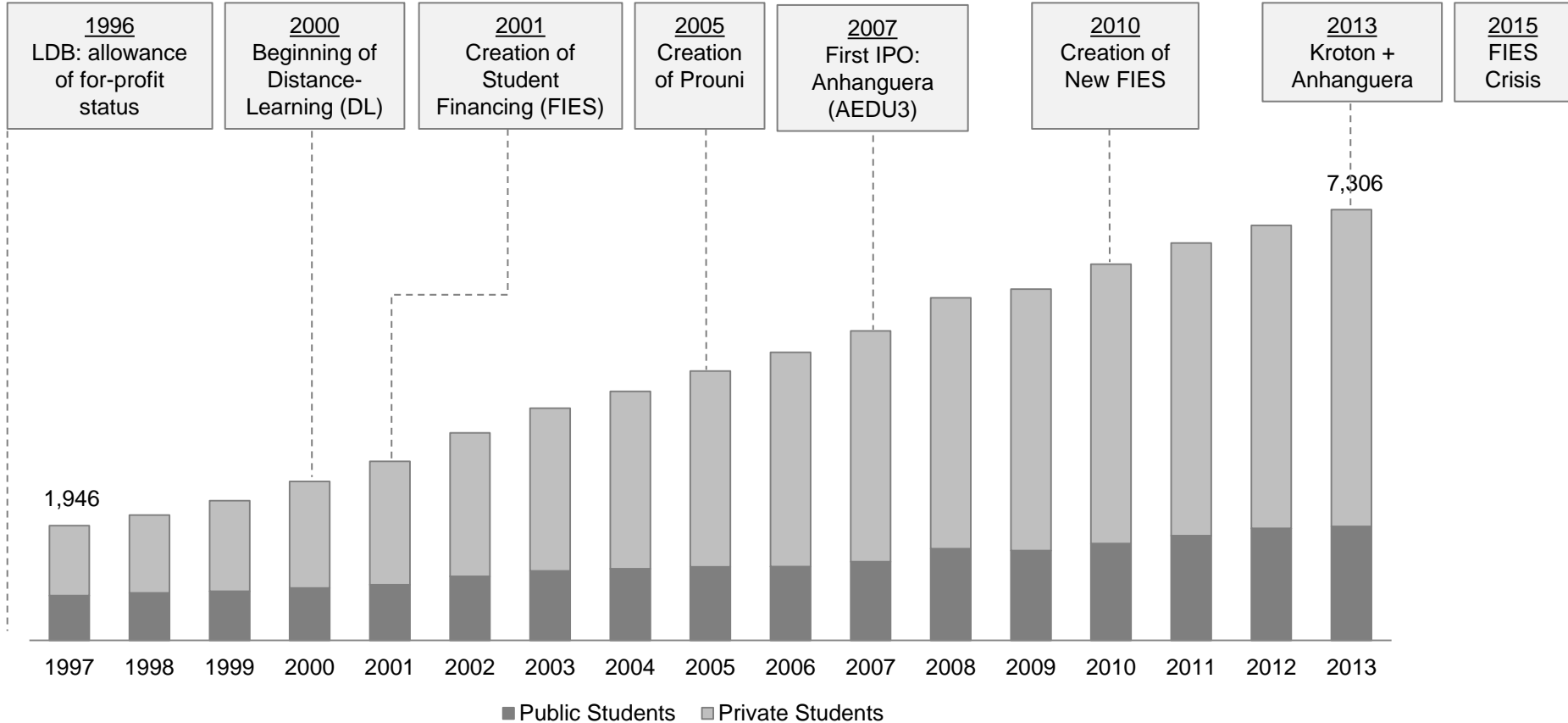


Ticker	ANIM3	ESTC3	KROT3	SEER3
Market Cap ⁽¹⁾ (R\$ billion)	778	3,889	12,422	920
Share Price 2015 ⁽¹⁾	-73%	-48%	-50%	-75%

(1) Sep 22, 2015. Sources: Bloomberg and Santander.

The (recent) history of higher education in Brazil: key events

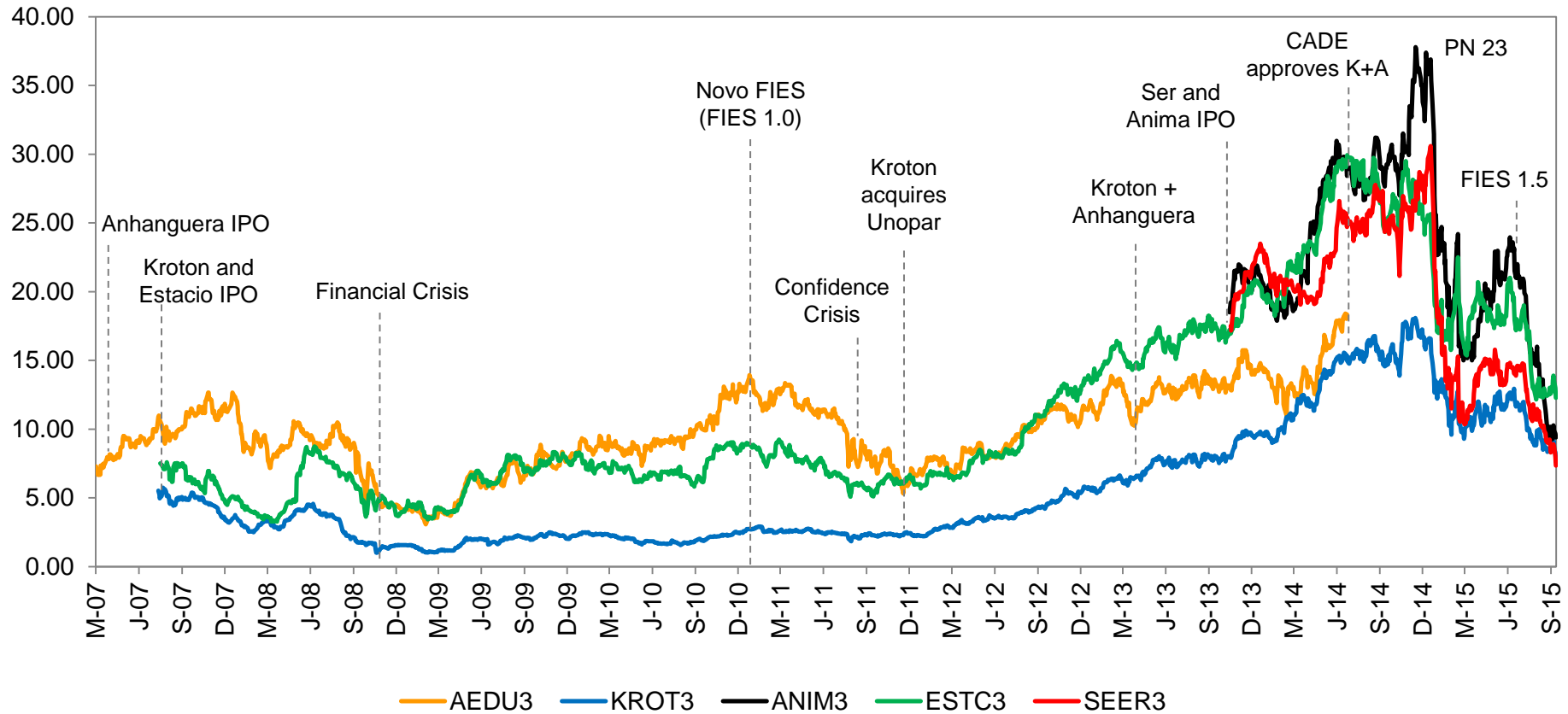
Brazil Higher Education Industry: Key Events, 1996-2015



Sources: INEP/MEC and Santander.

Is there life after FIES?

Listed Players: Evolution of Share Prices, 2007-15 (R\$)

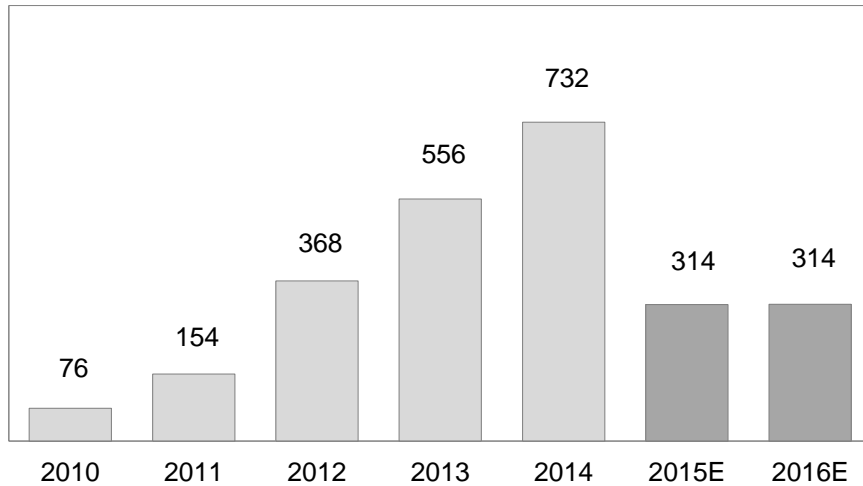


Sources: Bloomberg and Santander.

FIES: past, present and future

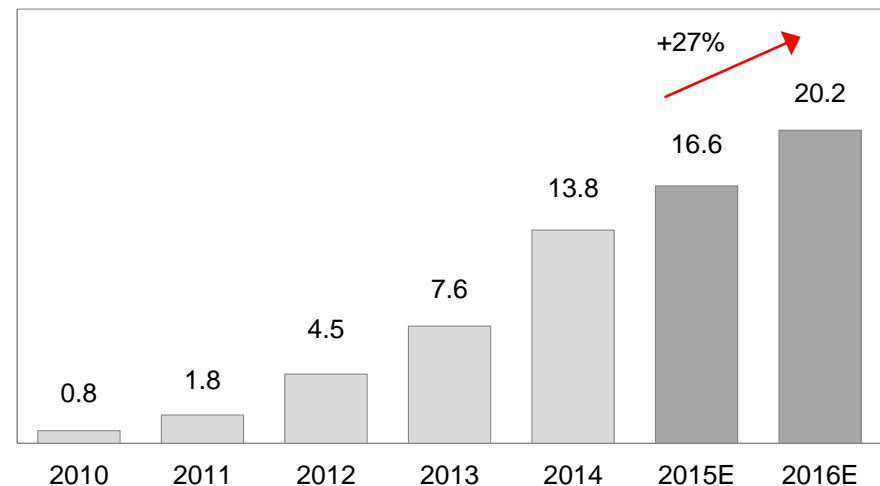
- **2001-2010: the stone age.** No culture of student financing, relatively easy growth. FIES is just marginal product.
- **2011-14: the unlimited era (FIES 1.0).** Reduced interest rates, extended payment terms, ease of access (almost anybody, anytime). Marketing lever for growth of intakes, prices and margins. Peak of 732k contracts in 2014.
- **2015-?: the fiscal adjust era (FIES 1.5).** Tighter conditions, increased student eligibility and co-participation, limited volume of new contracts (“sustainable level” of 320-350k contracts). **2016 is still a challenge** for budget purposes.
- **FIES 2.0: private money** could help to expand the program

FIES: Evolution of New Contracts, 2010-16E (thousands)



Sources: MEC and Santander

FIES: Annual Budget, 2010-16E (R\$ Billion)

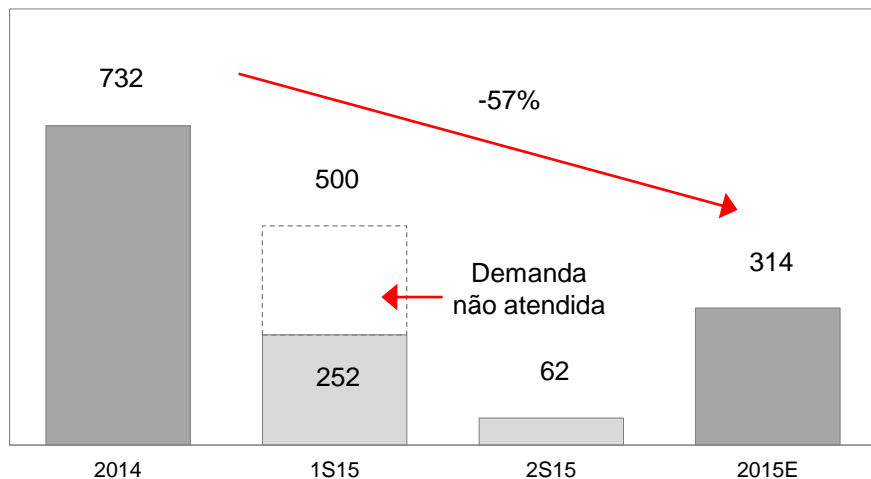


Sources: MEC and Santander

Student financing: no way back; a business opportunity

- **A cultural change.** FIES in large scale created the culture of student financing in Brazil...
- ...and its reduction created **a big opportunity for the private sector.** FIES left unattended 250k students in 1H15
- **Private financing.** The few existing alternatives (Ideal Invest, Fundaplub, commercial banks) have no scale and are expensive. Some education companies took the initiative, but this may not be long-lasting.
- **What is Santander's view?** Santander is assessing alternatives to offer private student financing from 2016 on. So far, the bank has helped with the offering of educational insurance and financing for post-graduation courses.

FIES Untapped Demand, 2015 (thousands)



Sources: MEC and Santander

Private Student Financing – Available Options

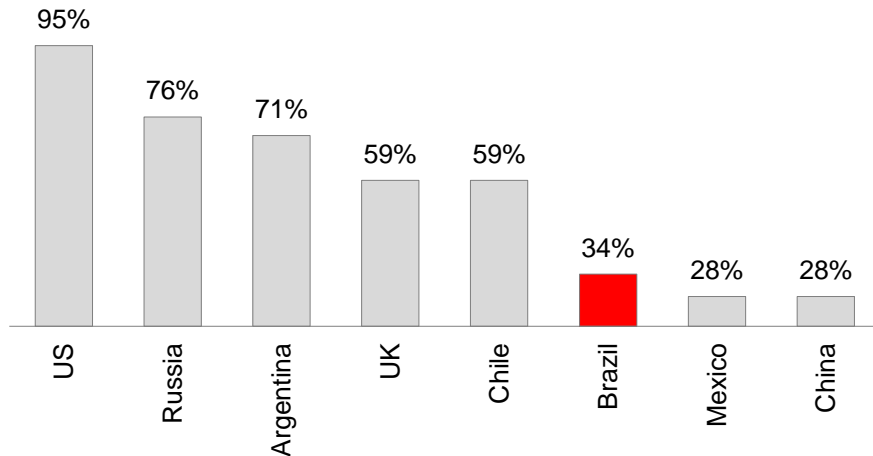
Program	Interest Rate (a.m.)	Loan-to-Tuition	Partner Institutions
PraValer (Ideal Invest)	1.35% ⁽²⁾	At least 50%	200
Fundaplub	0.35%	Up to 50%	60
Bradesco	2.46%	Up to 50%	27
Santander ⁽¹⁾	1.95%	100%	451

(1) Only for post-graduate. (2) Plus monetary correction. Sources: R7 and Santander

An underpenetrated industry with support from public policies

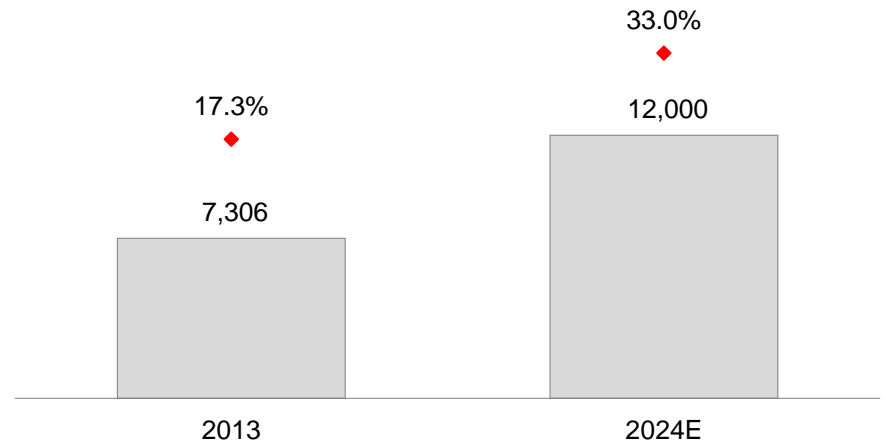
- **Underpenetrated status suggests strong growth potential.** Higher education in Brazil seems low (34% gross penetration ratio) compared to other countries, which suggests room for growth.
- **Supportive public policies.** The government has encouraged enrollment growth through policies like ProUni and FIES. The private sector concentrates 71% of undergraduate enrollments in the country.
- **Aggressive long-term targets.** The National Education Plan (PNE) targets the enrollment of 33% of 18-24 years-old population in the higher education (from 17%) in ten years, **implying 10-12 million enrollments.**

Selected Countries – Higher Education Penetration⁽¹⁾



(1) Undergraduate students over 18-24 years-old population. Sources: UNESCO and Santander

PNE – Higher Education Target (thousands)

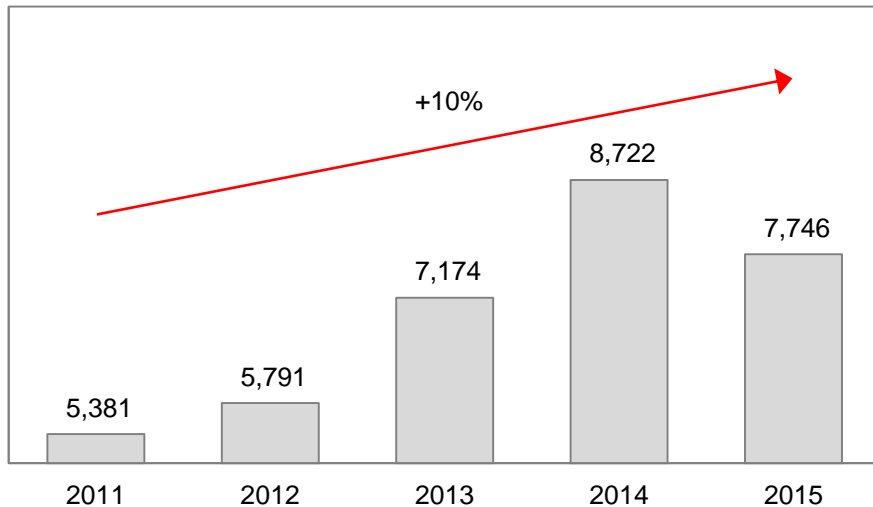


Sources: INEP/MEC and Santander

ENEM suggests large addressable market

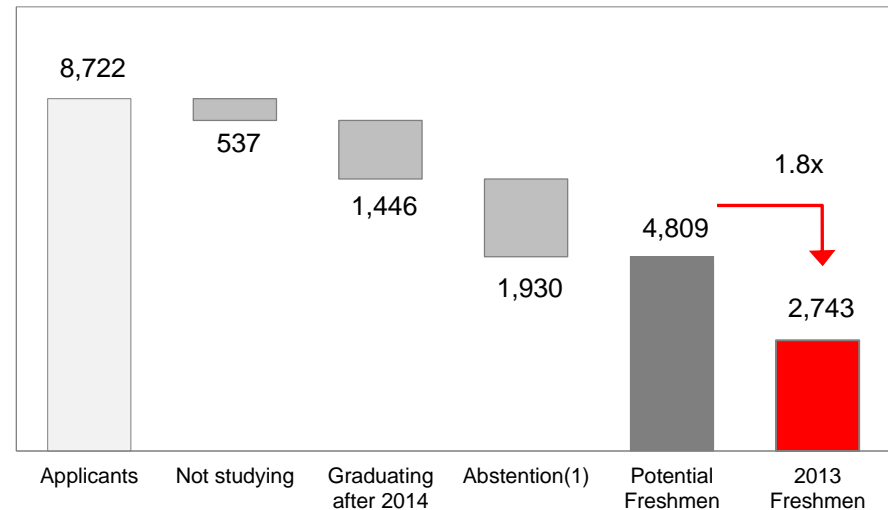
- **ENEM subscriptions: a measure of addressable market.** We believe the number of applicants for the National High School Test (2011-15 CAGR of 10%) is the best indicator of the addressable market for higher education in Brazil
- ENEM is a pre-requisite for participating in Prouni, FIES and SiSU (the unified admittance system of Federal Universities). Two-thirds of 2014 applicants (6.7 million) fit into the target population for ProUni and FIES, 2.8 times larger than total industry freshmen in 2013.
- The lack of financing is the main reason for the gap between test applicants and enrolled freshmen, in our view.

ENEM Applicants (thousands), 2011-15



Sources: INEP/MEC and Santander

ENEM Applicants vs. Industry Freshmen (thousands), 2014⁽¹⁾

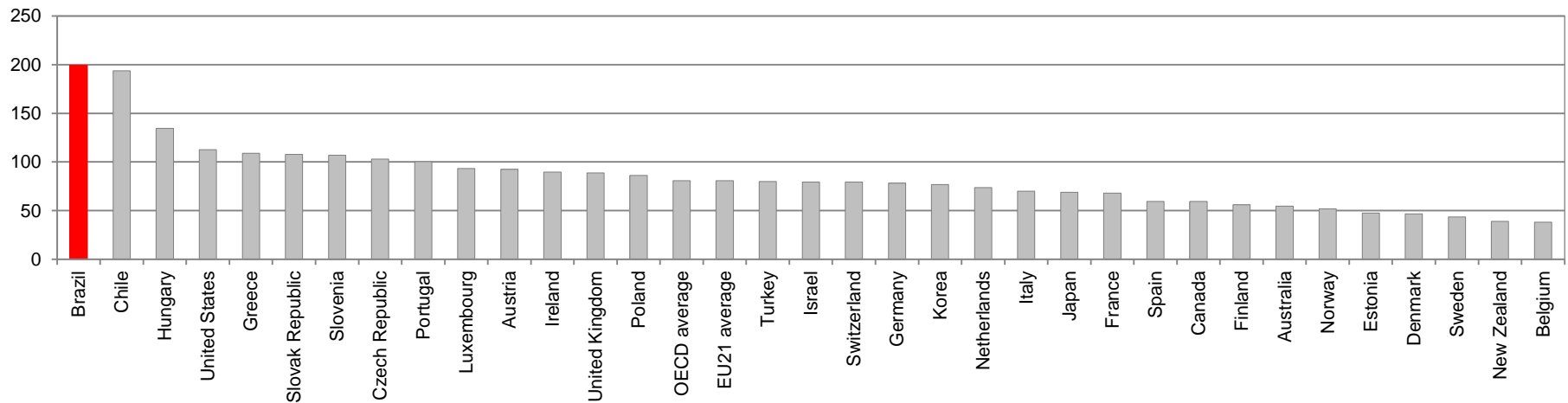


(1) Industry freshmen, 2013 (latest data available). Sources: INEP/MEC and Santander

Scaling the social pyramid: higher education diploma is a “no-brainer”

- **Brazil presents the largest remuneration gap** between a professional with a higher education degree and one with only a high school diploma, according to the Organization for Economic Cooperation and Development (OECD) data.
- A professional with an undergraduate degree earns **2.6 times more** than one with only a high school diploma. The lack of financing is the main reason for the gap between test applicants and enrolled freshmen, in our view.
- Brazil’s full employment situation has partly locked higher education enrollment growth, in our opinion. The country’s unemployment rate hit the bottom of historical series (4.8% as of 2014, the lowest level of historical series).

Remuneration Gap Between Professionals With Higher Education Degree and Professionals With Only a High School Diploma

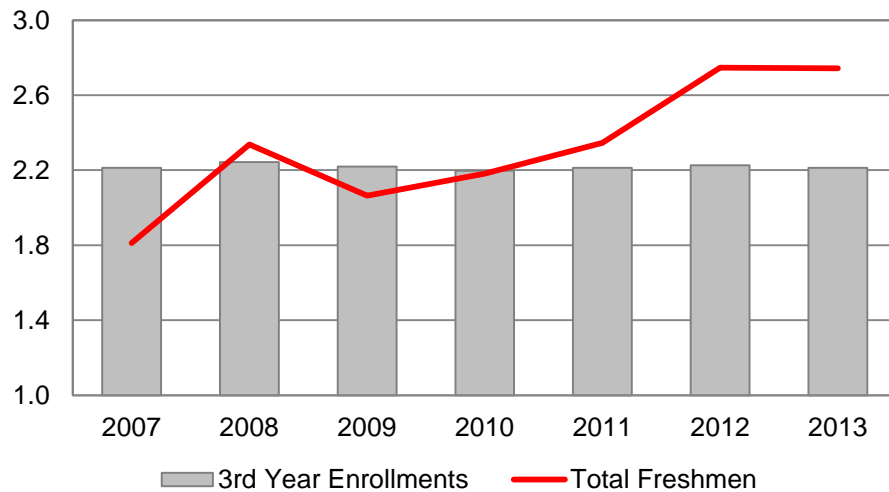


Sources: OECD, Ideal Invest and Santander.

How far we can get? High-school is a structural concern

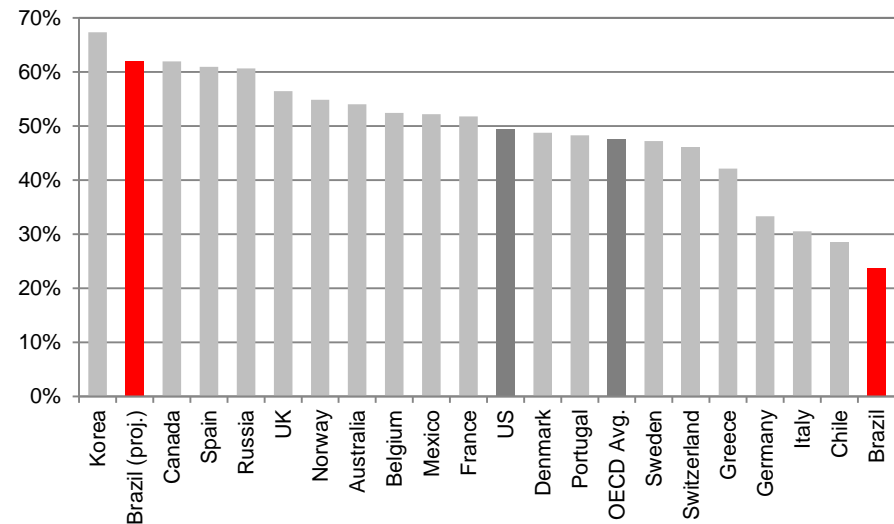
- **What is the sustainable level for industry intakes?** In 2012 and 2013, the number of the industry's freshmen hovered at a record-high mark of 2.7 million, surpassing the number of high-school graduates (flat at 2.2 million since 2007)
- Assuming 2013 conditions remain, Brazil will have, in the long-term, a higher education-high school graduate ratio of 62% (among 25-34 years-old population), the second-largest in the world, just behind South Korea. Currently, this ratio is 24%.
- Brazil has to reduce the drop-out rate at the high-school level so as to enlarge higher education (sustainable) addressable market.

High School Grad. and Higher Ed. Freshmen, 2007-13 (mn)



Sources: INEP/MEC and Santander

25-34 y-o Higher Ed. Penetration (vs. High School), 2012

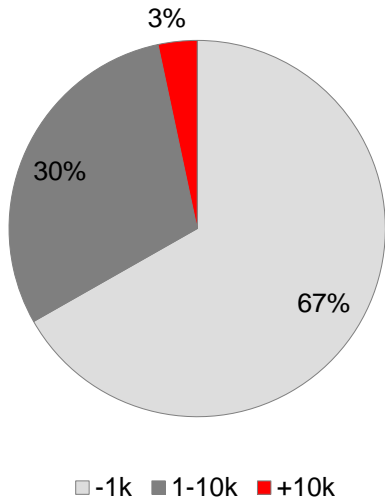


Sources: OECD, Studio Investimentos and Santander

A fragmented industry

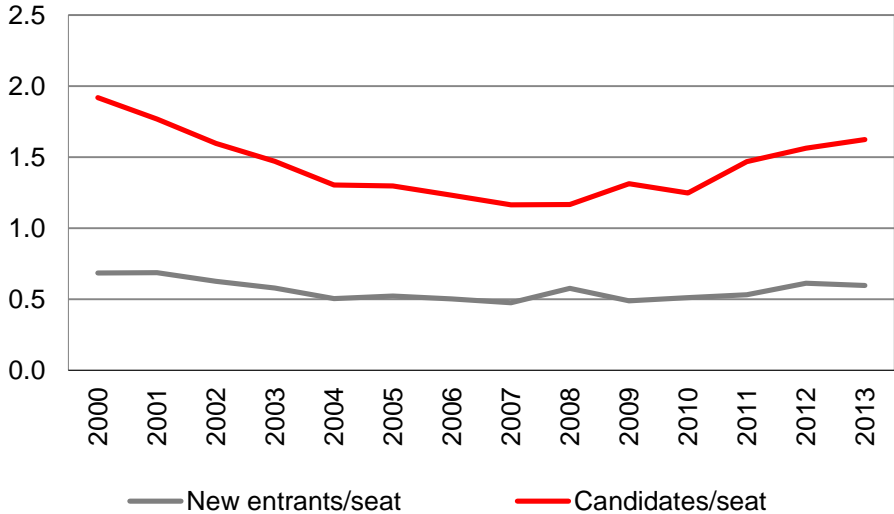
- As of 2013, there were 2,090 private higher education institutions (IES), being ~67% of them with less than 1,000 enrolled students.
- The low average of students per institution caused what Hoper Consultancy defined as “**inefficient fragmentation**”, due to the typical low profitability of small players.
- The private industry’s spare capacity reached 54% as of 2013 (which we calculate as enrolled students over the total seats offered).

Breakdown of Private IES per Number of Enrollments, 2013



Sources: INEP/MEC, Hoper Consultancy and Santander

Candidates and Freshmen Per Available Seat, 2000-2013

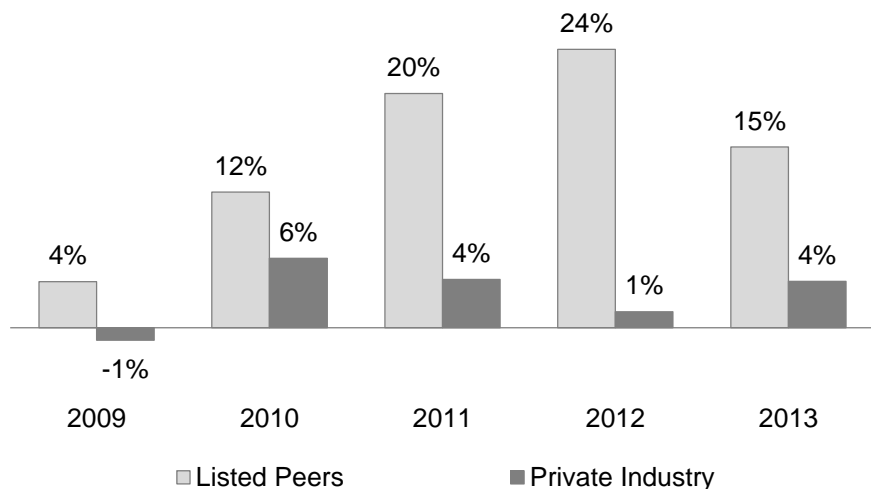


Sources: INEP/MEC and Santander

Consolidation: playing the scale game

- **Large players will continue to lead the industry's consolidation process**, both through acquisitions and market-share gains from small and less well-capitalized players.
- From 2010 to 2013, listed players' student base grew at an average of 20%, vs. 3% of the private industry.
- Consolidation should continue to be driven by the **industry's inefficient fragmentation** and, to a lesser extent, by the slow process of authorization concession.

On-Campus Enrollments—Listed Players vs. Private Industry



Sources: INEP/MEC, Company reports and Santander

On-Campus Freshmen—Listed Players vs. Private Industry

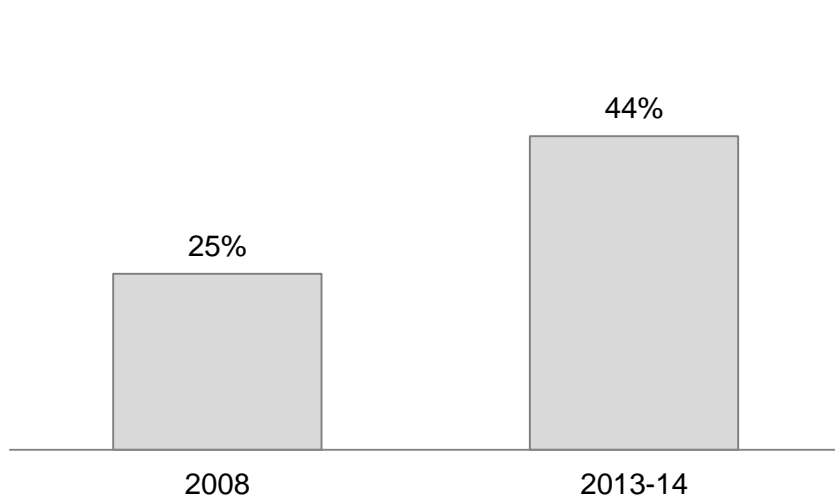


(1) Industry freshmen, 2013 (latest available data). Sources: INEP/MEC, Company reports and Santander

Consolidation: playing the scale game

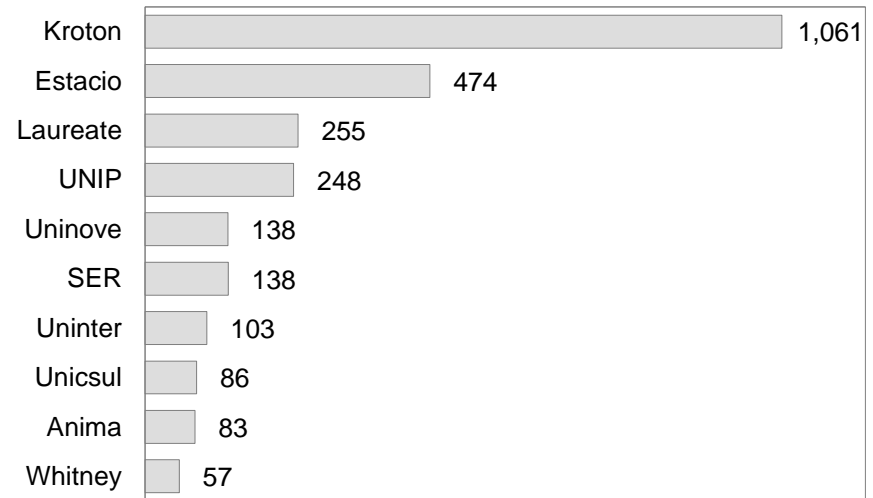
- **Top-10 players hold 44% of private industry's enrollments in 2014**, from 25% in 2008.
- In the upcoming years, we expect to see the combination of mid- and large-sized players with more frequency, a process that we believe to have started with the merger with Kroton and Anhanguera (announced in April 2013).

Enrollment Share of Top-10 Players, 2008-14



Sources: INEP/MEC, Hoper Consultancy and Santander

Top-10 Players, 2013-14



Sources: INEP/MEC, Hoper, Company reports and Santander

M&A activity to re-accelerate soon

- **M&A activity stalled since the FIES crisis:** lack of visibility on cash flow + valuations haven't adjusted to present reality.
- Only three deals were registered in 2015 to date.
- **Strategic deals have commanded more expensive valuations.** Acquisitions of institutions with DL accreditation, strong positioning in large centers and sizeable number of enrollments (often accompanied by EBITDA margin above 15%) have been settled at higher-than-average valuation multiples: R\$10,215 per student, vs. R\$7,750 average (listed players only).

Summary of Listed Players' M&A Transactions, 2007-15

Company	Deals	Students	FV (R\$ mn)	FV/Student (R\$)
Anhanguera	30	204,033	1,279	6,269
Estácio	21	113,684	1,089	9,578
Kroton	19	324,321	2,383	7,347
SER	5	32,700	368	11,256
Anima	1	25,809	310	12,019
Total		700,547	5,429	7,750

Sources: Company reports and Santander

Strategic Transactions Made by Listed Players, 2007-15

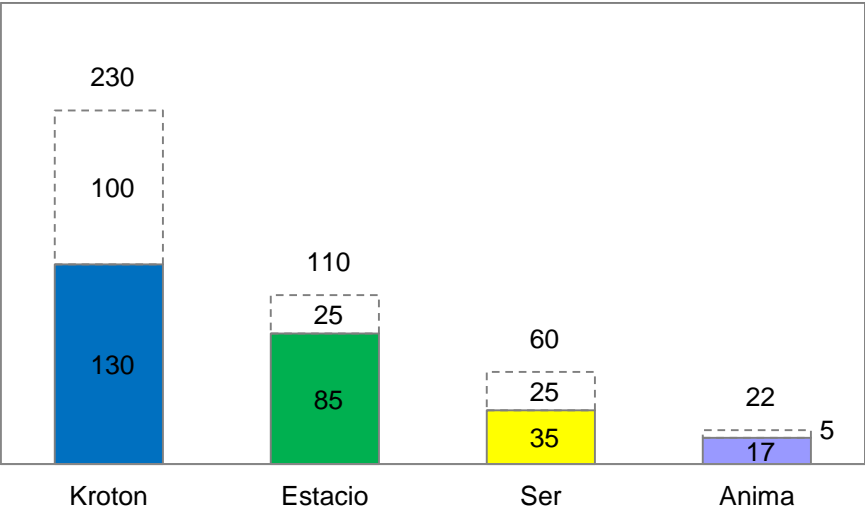
Acquired IES	Buyer	Year	Students Acquired	FV (R\$ mn)	FV/Student (R\$)
São Judas	Anima	2014	25,809	320	12,399
Uniseb	Estácio	2013	37,800	615	16,270
FMU ⁽¹⁾	Laureate	2013	68,000	1,000	14,706
Uniasselvi	Kroton	2012	86,200	510	5,916
Unopar	Kroton	2011	161,900	1,300	8,030
Uniban	Anhanguera	2011	55,100	383	6,944
Uniderp	Anhanguera	2007	34,100	247	7,238
Average					10,215

⁽¹⁾ Santander estimate. Sources: Company reports, Valor and Santander

Consolidators: organic expansion at full speed

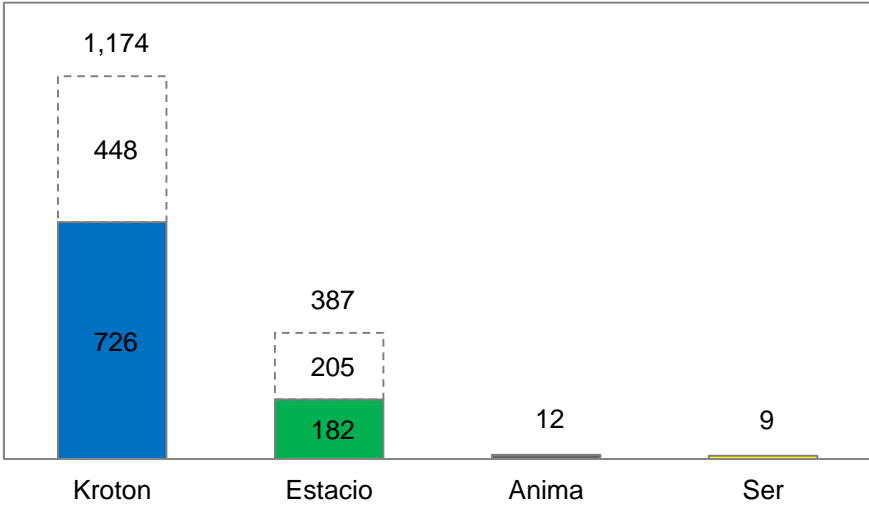
- Even if M&A activity remains stacked for a longer period, we believe that listed players' financial situation—especially Kroton and Estacio—will provide enough steam to allow them to continue grabbing market share from small players.
- Listed players plan to open more than 150 campuses in the next five years.
- DL expansion also looks aggressive, but regulatory process of DL breadth expansion takes time.

Listed Players – Campus Footprint (Existing and Expansion)



Sources: Company reports and Santander

Listed Players – DLC Footprint (Existing and Expansion)

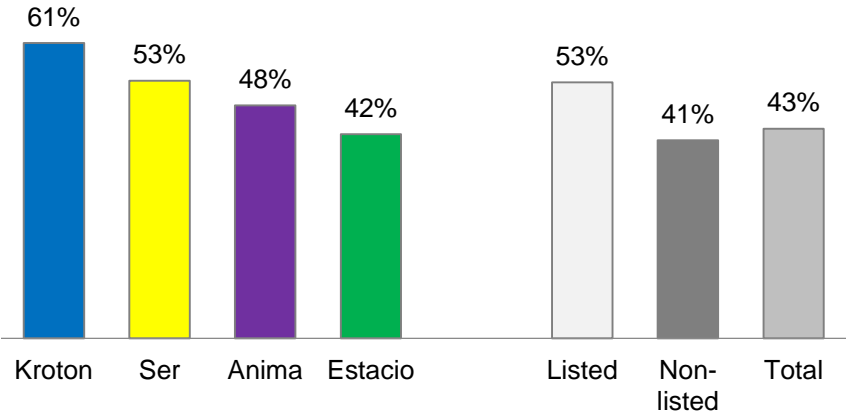


Sources: Company reports and Santander

FIES: a lever for consolidation

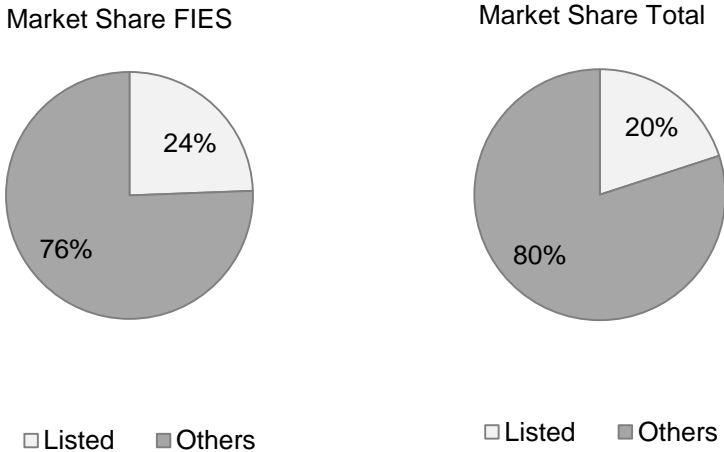
- **Listed players have commanded the offering of FIES** since 2010. The four companies reached an average exposure of 53%, versus 41% of the others.
- We see the **FIES as a lever for consolidation**, as it requires minimum quality standards (CPC, CC or CI higher or equal than 3) and balance sheet structure.
- **FIES 1.5 changed the dynamic of contract allocation.** Ser was favored by their exposure to the North and Northeast regions. Estacio and Kroton were also relative winners.

Exposure to FIES, 2014 (% of Campus Enrollments)



Sources: INEP/MEC, Company reports and Santander

Listed Players' Market Share – FIES and Total, 2014

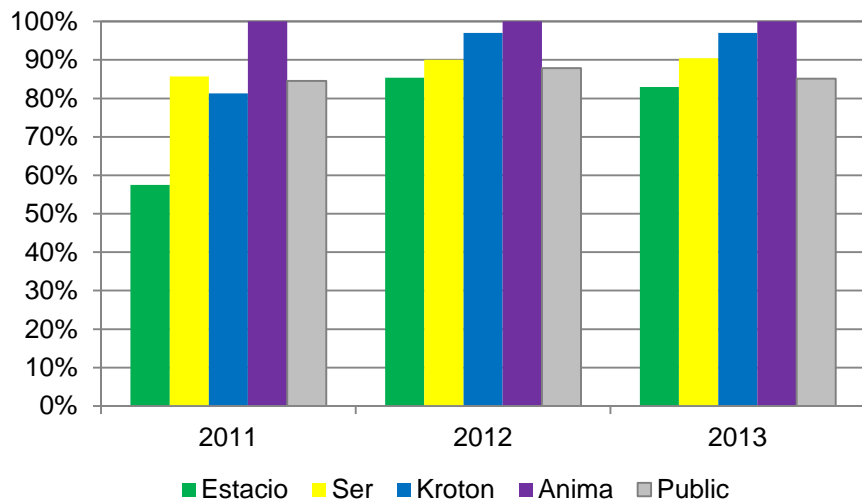


Sources: INEP/MEC, Company reports and Santander

The quality watchman: consolidators are doing the homework

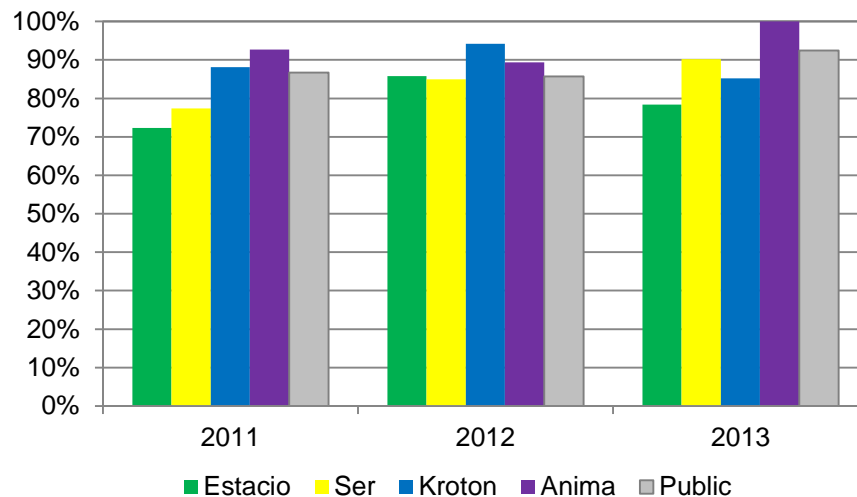
- **Listed players have improved their performance** at MEC's quality assessments. In 2013, 93% of their IES had IGC equal or higher than 3, versus 85% and 82% of private and public IES, respectively. In the 2011-13 cycle, listed players had 87% of courses with CPC higher or equal than 3, versus 86% and 88% of private and public IES.
- **Anima and Kroton (ex-Anhanguera) are outperformers** among listed players.
- **Quality assessments could be a growth driver.** We believe that the performance at quality assessments will be increasingly important in student's choice and in the allocation of FIES contracts.

IGC - % of IES with Satisfactory Grades⁽¹⁾, 2011-13



(1) Grades 3 to 5 (1, the worst; 5, the best). Sources: INEP/MEC and Santander

CPC - % of Courses with Satisfactory Grades⁽¹⁾, 2011-13

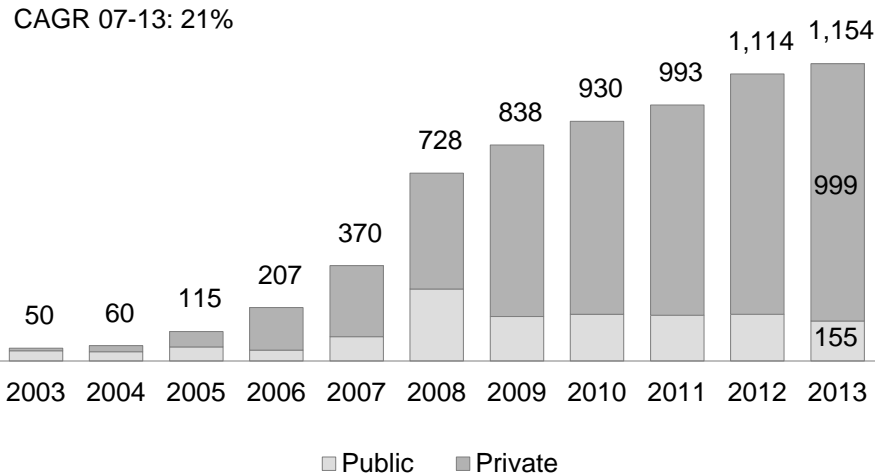


(1) Grades 3 to 5 (1, the worst; 5, the best). Sources: INEP/MEC and Santander

Distance-learning: opening the DL door?

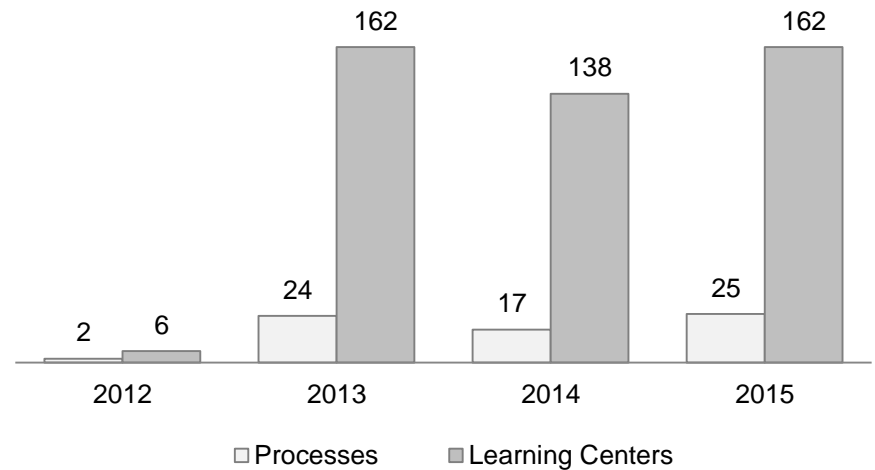
- The distance learning (DL) is even more restricted than on-campus education. After the 2007-11 “sanity period”, the accreditation of new players has happened gradually.
- **We believe that the DL business market will be dominated by large players**, as it is even more scalable than the onsite business and depends on larger initial investment and expertise.
- **A highly concentrated market.** We estimate that leading players Kroton (Unopar + Uniasselvi + Uniderp) and Estacio (Estacio + Uniseb) hold more than 60% of private DL enrollments.

Distance-Learning Enrollments, 2003-13 (thousands)



Sources: INEP/MEC and Santander

New Accreditations and Breadth Expansions, 2012-15



Sources: Official Gazette and Santander

The Rio Grande do Sul market

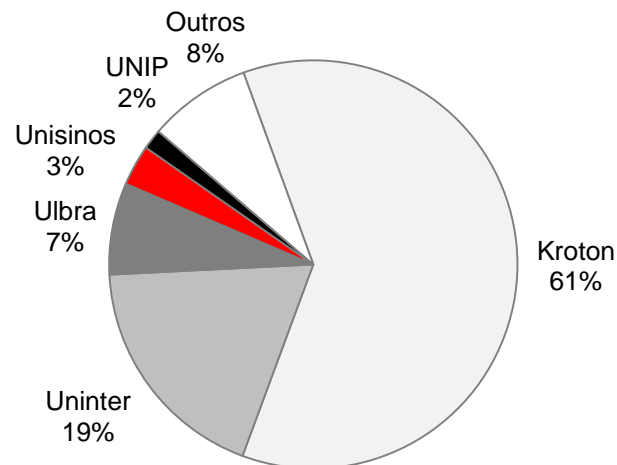
- **2010-13 enrollment CAGR of 2.3%**, below Brazil's average of 4.1%
- **67% of private higher education students are enrolled in 10 cities.**
- All the top-10 markets have a high concentration ratio (HHI index > 1,800).
- **Listed players have campus students** in only five cities (Porto Alegre, Caxias do Sul, Pelotas, Passo Fundo e Rio Grande), representing less than 4% of total enrollments in the state.
- Kroton dominates the DL market in the state, with 61% of enrollments (77% in Porto Alegre).

Rio Grande do Sul Private Market – Top 10 Cities

City	% of Private Enrollments	HHI Index ⁽¹⁾
Porto Alegre	22.1%	1,874
Caxias do Sul	9.6%	4,430
São Leopoldo	7.2%	9,562
Canoas	5.9%	4,046
Passo Fundo	5.6%	5,531
Novo Hamburgo	5.3%	9,391
Santa Cruz do Sul	3.6%	7,411
Santa Maria	3.0%	3,773
Pelotas	2.9%	4,710
Lajeado	2.8%	10,000
Rio Grande do Sul	100.0%	

(1) Herfindahl–Hirschman Index. Sources: INEP/MEC and Santander

Rio Grande do Sul – Private DL Market Share



Sources: INEP/MEC and Santander

Conclusions

- **Student financing.** There is life after FIES, but student financing is a key element for sustaining growth rates. The positive legacy of FIES is that it created the culture of student financing among students, and we see a big opportunity for the private sector.
- **Long-term growth rates.** Continued growth rates also depend on improvements at the high school level.
- **Consolidation.** Few overlap among listed players (in the campus education) suggests room for more consolidation (both organically and through M&A). Demand-offer shocks and price wars are a risk for industry's profitability.
- **Distance-learning.** Regulation can delay its expansion, but not avoid it; IES should treat it seriously. Innovation is key for succeeding in this segment.
- **Quality of teaching and professional management** are necessary conditions – not only sufficient – for higher education institutions.

Obrigado!

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