

Faculdade Mauricio de Nassau

COMPANY BACKGROUND

Faculdade Mauricio de Nassau (FMN) is a leading for-profit provider of undergraduate, graduate, and technical education programs in northern and northeastern Brazil. Founded in 2003 with one campus in the city of Recife in Pernambuco state, FMN now operates nine campuses across five states. As of May 2011, approximately 27,000 undergraduate and 5,000 graduate students were enrolled, with more than 50% of these students studying at its original campus in Recife. To date, 8,000 undergraduate students have graduated from FMN. The company employs 3,000 employees of whom 1,400 are teaching staff.

The primary shareholder is founder and CEO Janguê Diniz, a Brazilian lawyer and professor, who holds 88% of the

Country: Brazil

Sector: Education

IFC's Investment: \$35.6 million in long-term debt financing and \$14.7 million in equity

company. The balance is held by Cartesian Capital Group, a private equity group based in New York (11%), and Jânio Diniz, brother of the founder and CEO (1%).

FMN was one of the top 15 post-secondary education providers in Brazil in terms of sales in 2010.

DRIVERS FOR FMN'S INCLUSIVE BUSINESS MODEL

- Market demand, as economic growth increases the need for qualified human resources
- Relatively little competition in the post-secondary education sector in northern and northeastern Brazil
- Targeted government policies incentivizing the private sector to deliver market-based solutions to post-secondary education

As Brazil's economy has grown, demand for qualified labor has outstripped supply, and raised the incomes of those with college degrees up to three times higher than those without. This premium has increased market demand for post-secondary education—but there are few options in northern or northeastern Brazil. Places in the prestigious public university system are limited, and tend to go to higher-income students who are better prepared academically. The region's 500 private sector post-secondary providers tend to be small and of mixed quality. More than 60% have fewer than 1,000 students each. Combined with growing demand, this fragmentation in the market for post-secondary education in northern and northeastern Brazil created a business opportunity for FMN.

Targeted government policies incentivizing private sector participation in post-secondary education have enabled and enhanced this opportunity. For instance, the 1996 Education Law simultaneously reduced regulation and focused on the quality and accessibility of education offered. In 1999, the government passed legislation enabling full participation of for-profit private institutions in post-secondary education. It created a more amenable regulatory environment including tax breaks for schools that accept a percentage of low-income students. It also created full and partial scholarships and a government-sponsored student lending program. As a result, university students from the lowest income households are the fastest growing demographic.

FMN'S INCLUSIVE BUSINESS MODEL

FMN's mission is to offer flexible, relevant, quality education at affordable prices. It targets low- and middle-income students in north and northeastern Brazil, a region where private sector options for education are minimal despite relatively rapid economic growth.

FMN offers three main educational products:

- **Undergraduate degree programs:** Four-year undergraduate degree programs comprise the majority of FMN's offerings and include fields such as accounting, health services, law, and business administration. There are 27,000 students currently enrolled and they attend classes in the morning or evening.
- **Vocational and technical programs:** These are, on average, two-year courses emphasizing practical training in areas such as radiology, computer networks, fashion design, and gastronomy. There are 5,000 students currently enrolled.
- **Non-degree graduate courses:** These courses tend to be shorter professional development courses or specializations within a field such as health, law, or finance. FMN also offers several business courses including marketing, logistics, banking, and auditing. Unlike its undergraduate programs, some courses are taught by partner institutions, though FMN provides assistance and certifies graduates. There are currently 3,000 students enrolled.

FMN has developed a branding approach in which it operates schools under two different name brands—FMN and Faculdade Joaquim Nabuco (FJN). The FMN brand targets “students who work.” These students are an average of 21 years old and more likely to study full-time while working part-time: 60% are enrolled in night classes. With tuition being 5–10% lower than their competitors, FMN-branded campuses primarily serve students from Brazil's B and C income classes with monthly household incomes of \$667 and up. These campuses currently educate approximately 75% of the company's students.

In contrast, the FJN brand targets “workers who study.” Its students generally work full-time and study part-time to improve their employment prospects. At FJN-branded campuses the average age is older, at 26, and a higher concentration (65%) is enrolled in night classes to accommodate work schedules. With tuition approximately 30% lower than at FMN-branded campuses, FJN-branded campuses can target even lower socioeconomic classes than its sister brand. 100% of FJN students come from the C and D classes, with household incomes between \$459 and \$2,874 per month. FJN educates approximately a quarter of the company's students and is reaching one of the fastest-growing markets for post-secondary education in Brazil.

Accessibility is a critical success factor for FMN across both brands. The company operates a decentralized model in which campuses are located in areas with a high concentration of the target student population and close



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to public transportation. This is important as studies have shown that the farther students have to commute to school, the more likely they are to drop out. Additionally, FMN offers night and weekend classes so working students can still pursue a degree.

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Affordability is another key success factor. First, the company maintains tight control on overhead costs, for example by maintaining well-equipped but “no-frills” campuses. Second, it has developed standardized curricula to significantly reduce teacher preparation, thus reducing costs. As a result, an FMN education tends to be 5–45% less expensive than that of its competitors. FMN has also established agreements with the government that enable students to access government scholarships. One such scholarship, PROUNI, provides universities with tax breaks in return for granting full tuition scholarships to 10% of their students. Another program, FIES, offers highly subsidized long-term loans for lower-income students. Approximately 20% of FMN students currently receive partial to full tuition scholarships.



Quality and job relevance are also critical for FMN. The company focuses on hiring highly trained teaching staff, with more than 50% of its 1,400 professors holding Master's or more advanced degrees. Wherever possible, FMN hires working professionals as professors; this provides students with current, “real world” perspectives. The company maintains modern classrooms with multimedia equipment, and adjusts course offerings to reflect changing market conditions based on insights from internal research. Finally, FMN has a placement office and is increasing efforts to ensure students can move directly into the job market upon graduation.

RESULTS OF FMN'S INCLUSIVE BUSINESS MODEL

- Total undergraduate enrollment of almost 27,000 across nine campuses as of May 2011
- Net revenues of \$89 million and EBITDA margin of 36% in 2010
- One of the top 15 private post-secondary education providers in Brazil in terms of sales in 2010

Today, total undergraduate enrollment is 27,000 across the company's nine campuses. More than 55% of students are female and nearly half are from the lowest three income classes, with less than \$2,874 in household income per month. FMN has facilitated access to financing for 5,000 students or 20% of its student body, for a total of \$6 million in financial aid.

Through its emphasis on accessibility, affordability, quality, and job relevance, FMN was able to grow its sales to \$89 million and reach an EBITDA margin of 36% in 2010. The company's original campus in Recife is its largest and most important, accounting for more than 75% of its revenues. FMN is considered the second most popular post-secondary education brand in Recife.

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IFC'S ROLE AND VALUE-ADD

IFC's Investment: \$35.6 million in long-term debt financing and \$14.7 million in equity

Investment Year: 2010 to 2015

- Longer-term financing to expand access to postsecondary education among low- and middle-income students, raising the quality of education available in northeast Brazil
- Finance the completion of FMN's 2008–2011 expansion program which includes six new campuses and a library as well as the remodeling and refurbishment of existing buildings
- Send a signal to other investors about the attractiveness of the education sector in Brazil
- Share best practices and industry contacts and guide FMN on improvements to its environmental and social management systems

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For more information, visit ifc.org/inclusivebusiness and mauriciodenassau.edu.br