

# Anhanguera Educacional Participações S.A.

## COMPANY BACKGROUND

Anhanguera Educacional Participações S.A. (AESA) is Brazil's leading private, for-profit professional education company. Founded in 1994 as a single college, AESA is currently the largest post-secondary education institution in Brazil, with approximately 255,000 students distributed across 54 campuses and 450 distance learning centers, and an additional 500,000 students per year enrolled in its vocational and training programs. AESA educated over 755,000 Brazilian adults in 2009, more than any other educational institution in the western hemisphere. Through its network of campuses, distance learning and vocational training centers, AESA is present in every Brazilian state.

The company's primary shareholder (with an approximate 25% stake) is the Fundo de Educação para o Brasil, a dedicated investment vehicle established specifically to

Country: Brazil

Sector: Education

IFC's Investment: \$29 million in long-term debt financing

invest in AESA. The company's founders own approximately 2% of its shares with the balance (73%) held by institutional investors, including leading emerging market funds and asset managers who invested in AESA following its initial public offering in 2007. AESA is the largest publicly-held education company in Brazil in terms of market value, with an estimated market capitalization of R\$3.05 billion based on official closing price on December 31, 2009.

## DRIVERS FOR AESA'S INCLUSIVE BUSINESS MODEL

- Growing demand for tertiary education
- Government policy created a market opportunity for the private sector
- Research showing that as incomes rise, a disproportionate amount is spent on education

Post-secondary education in Brazil has historically been the province of the public sector, with high-quality public universities offering highly regarded degrees free of charge. The commitment to free education created capacity constraints, however, with the result that only the best students—typically those from wealthy families who attended private high schools—could access the public system. Pent-up demand among low and middle income students grew, especially as education policy reforms increased by an order of magnitude the number of students going through primary and secondary school.

In the mid-1990s, the Ministry of Education began accrediting and licensing private sector providers to serve

pent-up demand for post-secondary education. This created a market opportunity for entrepreneurs like the founders of Anhanguera. As the number of private post-secondary schools grew from several hundred to several thousand, enrollment swelled from 2.4 million students in 1999 to an estimated 4.9 million in 2007.

Today approximately 75% of all post-secondary students in Brazil attend private schools. Much of this growth has taken place in the lower income segments. Until recently, only 5% of students from the two lowest economic quintiles were able to attend post-secondary school. Today, this segment represents the fastest growing demographic entering post-secondary schools in Brazil.

## AESA'S INCLUSIVE BUSINESS MODEL

AESA's target market consists of lower-income working adults aged 18–30 that generally attend evening classes.

The average monthly salary of an incoming student is R\$660 (approximately US\$290) per month, which increases to R\$1,000 (approximately US\$450) upon graduation. Average tuition is R\$280.3 (US\$195) per month, 20% to 40% below AESA's main competitors.

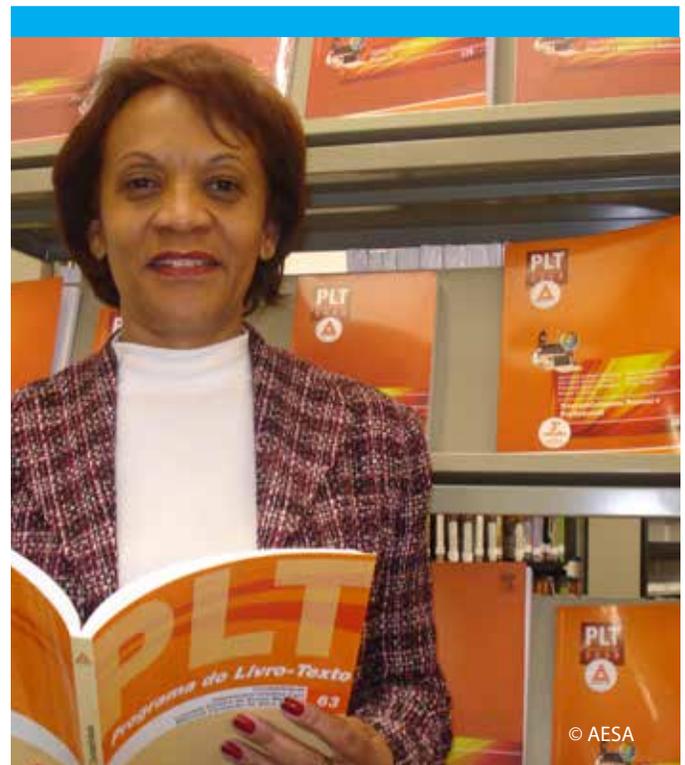
The company's decision to focus on the lower-income segment has had a profound impact on its business model. Recognizing that low-income students have different educational needs throughout their lives, AESA has developed a comprehensive portfolio of offerings along three lines of business:

- 54 campuses provide 148,000+ students with access to a wide variety of undergraduate, graduate and continuing education programs. Prices range from R\$199 to R\$699/month.
- 650+ vocational training centers provide 500,000 students per year with industry-relevant technical and vocational education and training (TVET). By emphasizing TVET in its business mix, the company has helped to bridge the gap in education services between the secondary and college levels for low-income students that are unable to attend university. Prices range from R\$75 to R\$120/month.
- 450+ learning centers and a distance learning platform have enabled AESA to reach 107,000+ students that are either far away from its campuses or seeking greater flexibility in where and when to study. This platform has also allowed the company to offer short-term courses to college graduates (e.g. preparatory courses and placement exams). Prices range from R\$159 to R\$400/month.

The challenge for AESA has been to balance the provision of affordable, high-quality education while achieving a reasonable return on equity. The company's business model

has proven to be both profitable and scalable due to four key factors:

- National coverage that offers easy access for working adults with busy schedules, in both urban and rural areas;
- Standardized curricula, which minimize class preparation time for instructors, and reduce the number of administrative and support staff required by the company;
- High-quality faculty, many of whom are practitioners rather than full-time instructors; and
- Rigorous monitoring and evaluation to ensure strong educational outcomes across programs and sites, and to identify and eliminate low-demand courses that drain valuable resources.



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## Loans and scholarships have been critical success factors in acquiring and retaining low-income students

Loans and scholarships have been critical success factors in acquiring and retaining low-income students. In 2008, the company provided scholarships to 108,735 students in partnership with federal, state, and local governments. On average, these scholarships covered 23% of student fees; 27,677 covered upwards of 50% of fees and 8,757 covered 100%. These scholarships are valued at R\$134.7 million.

AESA students also have access to market rate loans offered by a private Brazilian bank.

AESA's innovative marketing initiatives have also helped the company acquire and retain low-income students. In addition to a variety of low-cost promotions, such as billboards and celebrity appearances, the company has garnered significant brand recognition and goodwill through its community outreach initiatives. In 2008, these initiatives allowed AESA students from a cross-section of programs to provide pro-bono services to more than 800,000 low to middle income people. For these and other programs, Brand Analytics/Millward Brown named the company a Top 100 Brand in Brazil in 2009.

## RESULTS OF AESA'S INCLUSIVE BUSINESS MODEL

- Net revenues of R\$904.5 million in 2009
- EBITDA in excess of 20%
- Approximately 755,000 students educated in 2009
- Graduates' earning potential increased more than 50%

AESA has achieved impressive financial results through consistent execution. From 2006 to 2009, net revenues and EBITDA grew from R\$112.5 million and R\$21.6 million to R\$904.5 million and R\$188.6 million, respectively.

During 2009, AESA preserved EBITDA margins in excess of 20%, which are likely to improve as new campuses and acquisitions expand the company's reach over the next 12 to 24 months.

In 2009, AESA educated over 755,000 Brazilian adults, of which more than 600,000 participated in vocational training and distance learning programs that allow low-income individuals to improve their skills and earning potential while continuing to work during the day. The company also strives to promote increased access to its programs by

offering students scholarships and loans in partnership with the Brazilian government and a private bank. In 2008, AESA provided scholarships to 108,735 students valued at R\$134.7 million.

Student surveys suggest that AESA graduates improve their earning potential by more than 50%. Whereas the average monthly wage of an incoming student is approximately US\$290, he or she will typically earn more than US\$450 after graduating. What is more, the wage differential over the working life of an AESA graduate is likely to be much higher. According to World Bank studies, the Brazilian economy displays a particularly large wage premium between university and high school of 339%, as compared to a 74% premium in the United States.

## IFC'S ROLE AND VALUE-ADD

IFC's Investment: \$29 million in long-term debt financing

Investment Year: 2009

- Support development of affordable post-secondary technical and vocational education and training for low-income adults
- Help AESA clearly articulate its business lines and expand its network
- Support replication of AESA's model through future investments in the region and globally

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For more information, visit [ifc.org/inclusivebusiness](http://ifc.org/inclusivebusiness) and [anhanguera.com](http://anhanguera.com)