

## Brazil Education

## Regulatory roadmap: latest updates on BZ Education

Industry Overview

**Ânima remains our preferred name**

We sum up the main updates on important regulatory topics in Brazil Education and its potential impact for the companies under our coverage. In our view, regulatory triggers in 2024 are more leaned to be headwinds for listed companies which could offset the positive trends in operational performance. We highlight Ânima as our preferred name in the sector as we believe it is somewhat protected from these potential headwinds

**Distance Learning: stricter regulation still the base case**

We expect the next update on this topic by Feb 28<sup>th</sup> when Ministry's suspension over DL courses expires. So far, the Ministry of Education has suspended the authorization of new DL courses in 16 careers and licentiate degrees. The measure does not impact intakes from courses that are already authorized and does not impact companies' 2024 intake cycle. However, it is a first sign of what should be revised in the new regulation. If courses are indeed suspended from DL, we see Vitru and CSED as the most impacted names, while Anima and YDUQS seem better positioned. (Exhibit 1).

**FIES: New FIES seems marginally positive for 2H24**

On Feb. 16<sup>th</sup> the government announced the return of 100% financing on FIES, which is the main measure to increase usage of the program. Although we recognize the positive effect on on-campus intakes from 2H24 onwards, we see limited impact from the announcement as no seat's expansion vs current program should occur. According to the new rules, 50% of offered seats on FIES will be reserved for the 'FIES social' modality, which is directed to low-income students (family per capita income of half minimum wage). The main challenge is that the new program does not address default problems or future expansion of seats. We expect following announcements to be related to payment rules, but no timing of this decision was provided by the Ministry. (Exhibit 2)

**Medicine: Supreme Court is still to decide**

On Feb 9<sup>th</sup> the Supreme Court rebounded the trial to decide over medicine seats created through injunctions. By then, 2 more judges voted: one against injunctions on final steps of approval and one in favor of them. On the same day, Mr. Alexandre de Moraes asked for a review on the case, suspending the trial for up to 90 days. There are still 5 judges to vote on the matter. According to Court rules, one more vote against injunctions could be enough to suspend them. If approved, we estimate injunctions could cause an extra opening of 30k seats, which could be disruptive. We expect the trial to resume by May.

**Mais Médicos: judicialization continues to delay MM3**

Mais Médicos third auction should be positive for the listed companies even after new rules limiting the number of proposals they might submit. However, as the auction continues to be postponed, we do not expect it to be a positive trigger for stocks in 2024. Main beneficiaries in our view continue to be Afya, YDUQS and Ânima. (Exhibit 3).

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Equity  
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FIES: public financing program for higher education

Mais Médicos: program that rules the opening of new medicine courses in Brazil

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**Exhibit 1: Most recent report on Distance Learning measures and the impact from potential ban of course****Highlighted reports on Distance Learning**

BofA Global Research Reports	Date	Main topics
<a href="#">DL regulation: Impact from stricter rules would be significant, but gradual</a>	4-Feb-24	Impact for listed companies on revenues and EBITDA if courses are banned
<a href="#">Talk with authorities: stricter regulation on distance learning is gaining ground</a>	30-Jan-24	Overview with a member from the National Education Committee participating on the discussions to formulate the new regulation
<a href="#">DL regulation: restrictions seem to be on their way... details remain in the dark</a>	15-Nov-23	Ministry sets a public consultation to gather public opinion on DL quality
<a href="#">Education Databook – DL remains dominant... but regulatory risk is increasing</a>	11-Oct-23	Early signs of a new regulation. Higher education census show lower quality from DL courses
<a href="#">Distance Learning primer: Sector to remain dominant despite regulation</a>	13-Sep-23	DL primer - main quality indicators, regulation evolution over time and regional data from companies

Source: BofA Global Research

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**Exhibit 2: The rules for the new 100% financing modality on FIES were out on Feb 16<sup>th</sup> and are expected to impact program's intakes on 2H24****Highlighted reports on FIES**

BofA Global Research Reports	Date	Main topics
<a href="#">EDU Morning Radar: MEC announces return of 100% financing on FIES</a>	16-Feb-24	Main rules for the new FIES modality
<a href="#">Brazil Education: First step of FIES expansion seems feasible</a>	21-Sep-23	Estimates on necessary budget to expand FIES in 2024. Inputs from talk with authorities
<a href="#">Brazil Education: FIES Regulation: Some expansion in 2023, potentially meaningful in 2024</a>	8-Mar-23	Estimates on governments next steps and potential impact to companies
<a href="#">Brazil Education: FIES 101: What you need to know about government's student loan program</a>	28-Oct-22	All you need to know on FIES regulation

Source: BofA Global Research

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**Exhibit 3: Supreme Court suspended the trial on February 9th****Highlighted reports on FIES**

BofA Global Research Reports	Date	Main topics
<a href="#">Brazil Education: Medicine regulation: this week's decision in Supreme Court could be disruptive</a>	9-Feb-24	Overview on Supreme Court votes so far
<a href="#">EDU Morning Radar: changes on Mais Médicos guidelines limit listed players</a>	9-Feb-24	New rules for submitting proposals on Mais Medicos 3 auction
<a href="#">EDU Morning Radar: MEC modifies guidelines for medicine seats</a>	7-Nov-23	MEC (Ministry of Education) adjustments on new guidelines to analyze medicine seats request
<a href="#">EDU Morning Radar: Supreme Court takes in institutions' claim over med injunctions</a>	6-Nov-23	Supreme court goes against MEC (Ministry of Education) guidelines to analyze medicine seats
<a href="#">EDU Morning Radar: MEC to re-adjust rules for medical seats via injunctions</a>	3-Nov-23	MEC (Ministry of Education) sets guidelines to analyze medicine seats request
<a href="#">'Mais Médicos 3': Opportunity for listed players – Quality is key</a>	26-Oct-23	Estimate of impacts for new seats won on Mais Médicos 3 auction
<a href="#">Ministry of Education announces 5.7k new seats for Mais Médicos auction</a>	4-Oct-23	Announcement of Mais Médicos 3 auction
<a href="#">EDU Morning Radar: Mais Medicos' detailed rules are out</a>	4-Oct-23	Detailed rules of Mais Médicos 3 auction
<a href="#">MEC announces the return of "Mais Médicos" program</a>	20-Mar-23	Return of Mais Médicos after 5 years without auctions

Source: BofA Global Research

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Neutral	≥ 0%	≤ 30%
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