

Brazil Education

DL regulation: Impact from stricter rules would be significant, but gradual

Industry Overview

Vitrú and Cruzeiro seem the most impacted

We estimated the impacts on revenues and EBITDA from the potential ban of 16 courses and licentiate degrees on distance learning (DL) (see: [DL regulation](#)). We estimate that Vitrú and Cruzeiro do Sul have the largest exposure in terms of total rev. – 44% and 13% respectively - while Ânima and YDUQS have the largest overlap among on-campus (OC) and DL offers in the municipality level. This overlap could mitigate impacts as some demand could be captured by OC operations. Ânima is the name with least exposure to these courses – 2% of rev. - and is our preferred name in the sector.

Courses under analysis are among DL highest tickets

Together, the 16 courses and licentiate degrees represent roughly 40% of Brazil's DL student base. In terms of DL revenues, companies with largest share of health related courses (Vitrú, Cruzeiro do Sul and Ser) would be the most impacted, given higher ticket from these offers (see Exhibit 2). We estimate that 17% and 45% of Adj. EBITDA 24Y for Cruzeiro and Vitrú comes from these courses and thus a largest turn-around would be necessary. Ânima and YDUQS have the least exposure at 2% and 7%, respectively.

Overlap with OC could mitigate impacts

We also analyzed companies' operations on a municipality level to understand the overlap from DL and OC offers for these courses. Ânima and YDUQS seem to benefit the most as 70% and 50% of its students are located in cities that also offer the course in the OC modality. We understand that students' profile are different, especially considering the lower ticket paid on DL courses. However, as these are higher ticket courses in DL, we understand that some demand could be captured (see Exhibits 3 – 14).

Impact could be lower as current students are not affected

We recognize that the new regulation would significantly impact companies' DL operations. However, in the proposal under discussion (see: [this report](#)), already enrolled students would be allowed to continue, and companies would be granted a transition period for them stop offering the course (initially, one semester). Thus, we understand that the actual impact on rev. and EBITDA could be lower and more gradual than estimated. On the other hand, larger exposure to these courses should imply the need of a deeper turnaround and could compromise growth rates in the coming years.

Large players could get some demand from smaller ones

We understand that a potential suspension of DL offers for a wide range of courses could be harmful especially for smaller and niched players. While these could face more difficulties to turn-around the operation, we understand that in the case these go out of the market, large players could potentially take-up impacted students. This dynamic could be another way to mitigate impacts from the suspensions and we believe YDUQS and Cogna would benefit the most given its presence in a large number of cities.

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Table of Contents

Sensitivity analysis – operations overlap	2
YDUQS	2
Cogna	3
Vitrú	3
Cruzeiro do Sul	3
Ser Educacional	3
Ânima	3
Quality parameters	3

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Exhibit 1: Among listed players, Vitru, Cogna and Ser Educacional have a larger share of impacted students (c.42% of student base). Impact from suspension of licentiate courses is larger than courses' suspension

Potential impact on student base

	% Total impact on DL base	% impact of courses' ban	% impact of licentiate ban
Others	43%	14%	30%
Afya	21%	3%	19%
Ânima	19%	9%	11%
Cogna	42%	18%	27%
Cruzeiro do Sul	38%	12%	27%
Ser Educacional	42%	15%	28%
Vitru	42%	22%	23%
YDUQS	23%	10%	13%
Total	39%	16%	25%

Source: BofA Global Research, INEP Higher Education Census

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Exhibit 2: Vitru and Cruzeiro do Sul seem the most impacted by a suspension on DL courses (including licentiate degrees). Ânima has 2% of total revenues exposed to these courses

Potential impact on EBITDA and Revenues for listed players

	Potential impact on Net Rev. (24YE)	Potential impact on EBITDA (24YE)	% of DL revenue
Ânima	2%	2%	31%
Cogna	9%	12%	25%
Cruzeiro do Sul	13%	17%	41%
Ser Educacional	8%	10%	31%
Vitru	44%	45%	59%
YDUQS	6%	7%	17%

Source: BofA Global Research, INEP Higher Education Census

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Sensitivity analysis – operations overlap

YDUQS

Exhibit 3: ~50% of YDUQS impacted students are in areas in which the course is also offered in the OC modality

Impacted net revenue by course

YDUQS	# of cities offering	DL & OC overlap - % of cities	% of students with overlap	Impacted Net Rev. (R\$m)
Courses under analysis (ex-licentiate)	1,124	5%	67%	205
Biomedicine	980	4%	58%	50
Physics Education	78	53%	87%	30
Nursing	27	81%	80%	7
Pharmacy	981	3%	38%	44
Physiotherapy	75	61%	89%	18
Nutritional science	83	59%	87%	55
Licentiate degree				
Pedagogy	1,233	3%	52%	59
Other licentiate (20 courses)	1,249	1%	21%	60
Total		10%	50%	323

Source: BofA Global Research, INEP Higher Education Census

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Exhibit 4: If YDUQS is able to capture 9% of DL impacted demand, it could recover up to R\$27mn, considering that tickets are higher on on-campus operations

Potential Net Revenue to recover from students migrating to on-campus – sensitivity analysis

	Potential revenue to recover in R\$m (% of students migrating to OC)				
	3%	6%	9%	12%	15%
Courses under analysis (ex-licentiate)	6	11	17	22	28
Biomedicine	1	3	4	5	7
Physics Education	1	2	3	4	5
Nursing	0	0	1	1	1
Pharmacy	1	2	2	3	4
Physiotherapy	1	1	2	2	3
Nutritional science	2	3	5	6	8
Licentiate degree					
Pedagogy	3	5	8	10	13
Other licentiates (20 courses)	1	2	3	3	4
Total	9	18	27	36	45

Source: BofA Global Research, INEP Higher Education Census

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Cogna

Exhibit 5: Around 20% of students impacted by the potential new regulation are in locations with OC offers for the same course

Impacted net revenue by course

	# of cities offering	DL & OC overlap - % of cities	% of students with overlap	Impacted Net Revenue (R\$m)
Courses under analysis (ex-licentiate)	1,343	6%	23%	387
Biomedicine	223	15%	34%	22
Physics Education	1330	4%	18%	111
Nursing	585	10%	23%	162
Pharmacy	268	15%	23%	29
Physiotherapy	265	19%	24%	26
Nutritional science	307	13%	27%	37
Licentiate degree				
Pedagogy	1,734	2%	21%	187
Other licentiate (20 courses)	1,489	1%	4%	59
Total		9%	20%	633

Source: BofA Global Research, INEP Higher Education Census

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Exhibit 6: If Cogna is able to capture 9% of DL impacted demand, it could recover up to R\$26mn, considering that tickets are higher on on-campus operations

Potential Net Revenue to recover from students migrating to on-campus – sensitivity analysis

	Potential revenue to recover (% of students migrating to OC)				
	3%	6%	9%	12%	15%
Courses under analysis (ex-licentiate)	5	10	14	19	24
Biomedicine	0	1	1	2	2
Physics Education	1	2	3	4	5
Nursing	2	4	6	8	10
Pharmacy	0	1	1	2	2
Physiotherapy	0	1	1	1	2
Nutritional science	1	1	2	2	3
Licentiate degree					
Pedagogy	4	7	11	15	18
Other licentiate (20 courses)	0	0	1	1	1
Total	9	17	26	35	43

Source: BofA Global Research, INEP Higher Education Census

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Vitru

Exhibit 7: Given Vitru's focus on DL operation (c.75% of revenues), overlap with OC operations reach up to 3% of impacted student base

Impacted net revenue by course

	# of cities offering	DL & OC overlap - % of cities	% of students with overlap	Impacted Net Revenue (R\$m)
Courses under analysis (ex-licentiate)	1,289	1%	4%	628
Biomedicine	881	1%	6%	95
Religious Science	107	0%	0%	0
Physical Education	1263	0%	4%	207
Nursing	891	1%	4%	139
Pharmacy	895	0%	3%	58
Physiotherapy	817	1%	2%	48
Nutritional science	891	1%	6%	70
Occupational Therapy	619	0%	0%	10
Licentiate degree				
Pedagogy	1,281	0%	2%	239
Other licentiate (20 courses)	1,287	0%	2%	158
Total		2%	3%	1,025

Source: BofA Global Research, INEP Higher Education Census

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Exhibit 8: If Vitru is able to capture 9% of DL impacted demand, it could recover up to R\$7mn

Potential Net Revenue to recover from students migrating to on-campus – sensitivity analysis

	Potential revenue to recover (% of students migrating to OC)				
	3%	6%	9%	12%	15%
Courses under analysis (ex-licentiate)	2	4	6	8	10
Biomedicine	0	1	1	2	2
Religious Science	0	0	0	0	0
Physical Education	1	1	2	3	3
Nursing	0	1	1	1	2
Pharmacy	0	0	1	1	1
Physiotherapy	0	0	0	0	0
Nutritional science	0	1	1	1	1
Occupational Therapy	0	0	0	0	0
Licentiate degree					
Pedagogy	0	1	1	1	1
Other licentiate (20 courses)	0	0	0	1	1
Total	2	5	7	10	12

Source: BofA Global Research, INEP Higher Education Census

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Cruzeiro do Sul

Exhibit 9: Around 30% of students impacted by the potential new regulation are in locations with OC offers for the same course

Impacted net revenue by course

	# of cities offering	DL & OC overlap - % of cities	% of students with overlap	Impacted Net Revenue (R\$m)
Courses under analysis (ex-licentiate)	1,289	1%	40%	129
Biomedicine	281	4%	61%	17
Physics Education	868	1%	20%	38
Nursing	92	13%	69%	11
Pharmacy	300	4%	51%	20
Physiotherapy	167	7%	70%	10
Nutritional science	714	1%	44%	33
Licentiate degree				
Pedagogy	946	1%	28%	147
Other licentiate (20 courses)	939	1%	19%	56
Total		3%	30%	332

Source: BofA Global Research, INEP Higher Education Census

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Exhibit 10: If Cruzeiro is able to capture 9% of DL impacted demand, it could recover up to R\$16mn, considering that tickets are higher on on-campus operations

Potential Net Revenue to recover from students migrating to on-campus – sensitivity analysis

	Potential revenue to recover (% of students migrating to OC)				
	3%	6%	9%	12%	15%
Courses under analysis (ex-licentiate)	3	6	9	12	15
Biomedicine	1	1	2	3	3
Physics Education	1	1	2	2	3
Nursing	0	1	1	1	2
Pharmacy	0	1	1	2	2
Physiotherapy	0	1	1	1	1
Nutritional science	1	1	2	2	3
Licentiate degree					
Pedagogy	2	4	6	7	9
Other licentiate (20 courses)	1	1	2	2	3
Total	5	11	16	22	27

Source: BofA Global Research, INEP Higher Education Census

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Ser Educacional

Exhibit 11: Around 35% of students impacted by the potential new regulation are in locations with OC offers for the same course

Impacted net revenue by course

	# of cities offering	DL & OC overlap - % of cities	% of students with overlap	Impacted Net Revenue (R\$m)
Courses under analysis (ex-licentiate)	356	14%	60%	84
Biomedicine	169	15%	66%	7
Physics Education	306	8%	23%	19
Nursing	89	44%	72%	16
Pharmacy	181	20%	70%	24
Physiotherapy	148	24%	72%	6
Nutritional science	186	16%	77%	12
Licentiate degree				
Pedagogy	633	4%	21%	59
Other licentiate (20 courses)	581	1%	6%	17
Total		19%	33%	161

Source: BofA Global Research, INEP Higher Education Census

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Exhibit 12: If Ser captures 9% of DL impacted demand, it could recover up to R\$15mn, considering that tickets are higher on on-campus operations

Potential Net Revenue to recover from students migrating to on-campus – sensitivity analysis

	Potential revenue to recover (% of students migrating to OC)				
	3%	6%	9%	12%	15%
Courses under analysis (ex-licentiate)	3	6	9	11	14
Biomedicine	0	1	1	1	1
Physics Education	0	0	1	1	1
Nursing	1	1	2	3	4
Pharmacy	1	2	3	4	5
Physiotherapy	0	1	1	1	1
Nutritional science	0	1	1	2	2
Licentiate degree					
Pedagogy	1	1	2	3	4
Other licentiate (20 courses)	0	0	0	0	0
Total	4	7	11	15	19

Source: BofA Global Research, INEP Higher Education Census

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Ânima

Exhibit 13: Ânima has the largest overlap, with 72% of students in regions with both OC and DL operations

Impacted net revenue by course

	# of cities offering	DL & OC overlap - % of cities	% of students with overlap	Impacted Net Revenue (R\$m)
Courses under analysis (ex-licentiate)	211	23%	87%	54
Biomedicine	134	20%	86%	14
Physics Education	168	13%	82%	17
Nursing	3	67%	98%	4
Pharmacy	62	29%	47%	2
Physiotherapy	19	95%	96%	7
Nutritional science	32	88%	97%	9
Licentiate degree				
Pedagogy	316	7%	64%	22
Other licentiate (20 courses)	282	3%	50%	9
	0	33%	72%	84

Source: BofA Global Research, INEP Higher Education Census

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Exhibit 14: If Ânima captures 9% of DL impacted demand, it could recover up to R\$12mn, which represents 15% of impacted revenues

Potential Net Revenue to recover from students migrating to on-campus – sensitivity analysis

	Potential revenue to recover (% of students migrating to OC)				
	3%	6%	9%	12%	15%
Courses under analysis (ex-licentiate)	2	5	7	9	11
Biomedicine	1	1	2	2	3
Physics Education	1	1	2	3	3
Nursing	0	0	1	1	1
Pharmacy	0	0	0	0	0
Physiotherapy	0	1	1	1	2
Nutritional science	0	1	1	2	2
Licentiate degree					
Pedagogy	1	1	2	3	3
Other licentiate (20 courses)	0	0	0	1	1
	3	6	9	12	15

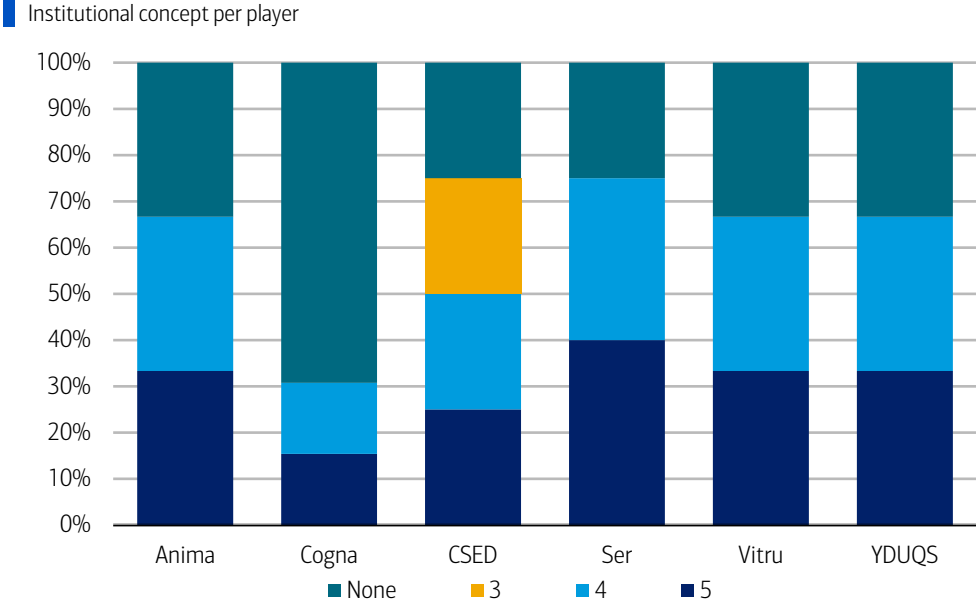
Source: BofA Global Research, INEP Higher Education Census

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Quality parameters

When looking at quality parameters, most listed players comply with more strict rules. Currently, institutions need at least a rating 3 on Institutional Concept to offer a DL course (range from 1-5, in which 5 is the best). With the potential new regulation, the minimum rate would be 4, and schools would be granted a year time to adapt. (see more on quality parameters here: [Distance Learning primer](#))

Exhibit 15: Most companies have at least a rating 4 on its Distance Learning Institutional concept. CSED has only one institution rated 3. Some universities do not offer DL courses and does there's no Institutional Concept for them (rated none)



Source: BofA Global Research, INEP

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