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New directions for investments

Investor exit generates expectations about the higher education sector



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While the movement in higher education continues to heat up with new purchases, sales and mergers, the departure of investors from the market generates rumors and expectations about trends for the sector

by **Márcia Soligo**

A decade after the beginning of the acquisitions and the subsequent reopening of the first Brazilian higher education institutions, the winds may be changing in the education sector. At least this is what the market changes that have occurred in recent months demonstrated, corroborated by the analysis of experts in the field of education.

The movements began in early 2013, with the sale of shares of the Kroton Educacional Group by the American private equity fund Advent International. The fund had until then held 50% of the institution's stake. Also in the first half of this year, the investment management fund Pátria decreased its stake in Anhanguera, increasing the number of its shares in the company from 17% to 10.27%. And in April, Pátria also reduced its participation in the institution's board.

More recently, in mid-September, the GP Investments Group announced through an official statement the sale of the shares it held in Estácio Participações S.A. GP sold 22,064,215 shares, which correspond to about 7.5% of the company's share capital, in a transaction of US\$ 179.1 million. The sale happened approximately one month after the purchase of the UniSEB Educational Center by Estácio, in which part of the negotiation was made with shares, giving Chaim Zaher, UniSEB's controlling entrepreneur, 6% of Estácio's shares, and turning him into the institution's largest external individual investor. The businessman also becomes a member of the company's Board of Directors.

The purchase of UniSEB by Estácio was a significant acquisition, probably in response to the more aggressive operations of the competing groups. In the first half of the year, Kroton and Anhanguera joined in an operation that generated the largest education company in the world, valued at about R\$ 13 billion. The merger is still awaiting authorization from the Administrative Council of Economic Defense (Cade), but it is already taken for granted by the market.

According to Sergio Werther Duque Estrada, partner of the financial consultancy Valormax, teaching is a sector that allows this volume of consolidation, which makes it a good investment for private equity funds. These funds are characterized by investing in companies not yet listed on the stock exchange in order to leverage their growth.

Opening trajectory

The precursor of the movement was Anhanguera, which joined Patria's investment portfolio in 2003, the first to invest in the sector. The institution's IPO on the stock market came in 2007. With the participation of the investment fund, the Anhanguera group went from 17 teaching units in 2007 to 47 establishments in 2008.

Also in 2008, the GP Investments Group, the largest investment group in Latin America, bought a large slice of Estácio de Sá, belonging to the Uchoa Cavalcanti family, founder of the institution in the 1970s. At the time, Estácio was the largest higher education group in the country and offered promising opportunities in a market that demonstrated possibilities of ascension. The opening of the capital took place in 2009,

In June of that year, Advent entered as an investor in Kroton, buying 50% of the shares belonging to the controlling holding company, Pitágoras Administração e Participações (PAP) for R\$ 280 million. At the time, PAP held 55% of the shares. In 2012, the process of extinction of the control block was completed. The company's market value from 2009 to 2013 was twelve times higher, while the share price tripled.

With the positive results, combined with the growth possibilities generated by the Student Financing Fund (Fies) and the increase in the purchasing power of Class C, the withdrawal or divestment movement of the groups can generate strangeness. In addition, foreign players continue to arrive in the Brazilian market and seek space, such as the American educational investment group Laureate, which owns Anhembi Morumbi University among 11 other institutions in Brazil and has just acquired Faculdades Metropolitanas Unidas (FMU), in a transaction of R\$ 1 billion.

Strange movement

With the sale of Estácio's shares, GP Investments pocketed U\$5 56 million net. The investment generated a return of twice on the invested capital with the shares sold. The divestment drew attention, as it came soon after the acquisition of UniSEB. "It causes a certain strangeness. The education sector is being considered hot, because it has a market. However, the groups are decreasing their participations. Why are these groups leaving when the sector is still promising? It's a case to think about," analyzes Duque Estrada.

The environment generated by the Brazilian government is also pointed out as one of the possible reasons for investors' departure. With initiatives such as the More Doctors program, which has caused controversy in recent months, investments in other areas of care may not generate interest, because it is not possible to know what will be the next sector in which impactful measures will appear.

On the other hand, it is part of the investment fund strategy to divest after a certain time. The fund remains while the investment needs management improvements and consolidation in the market. There is a job to increase the value in the stock market and little by little he begins the withdrawal process.

In this sense, economist Ricardo Amorim believes that the movement is expected and natural. "These players have input and exit. Their business is not education. They saw the opportunity to increase the investment to be worth much more and, after that, leave," he says.

For Amorim, educational growth in Brazil is still prosperous and for this reason international investors are looking for ways to grow in this market. But he also recalls that soon the government should turn to education, as it turned to health, and boost initiatives that will affect the sector directly.

Although capital divestment is a strategic movement, studying market fluctuations is providential to prepare the soil. In this specific case, distrust is also generated by the fact that investors do not make explicit the will to return to the education sector, so profitable and promising today. It remains to be aware of the movements and wait for the next chapters.

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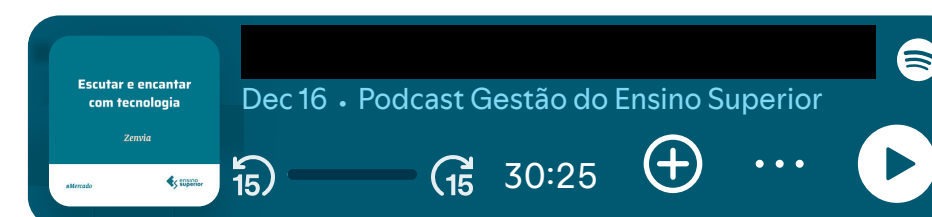


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