

Anhanguera Educacional S.A.

CFA Investment Research Challenge

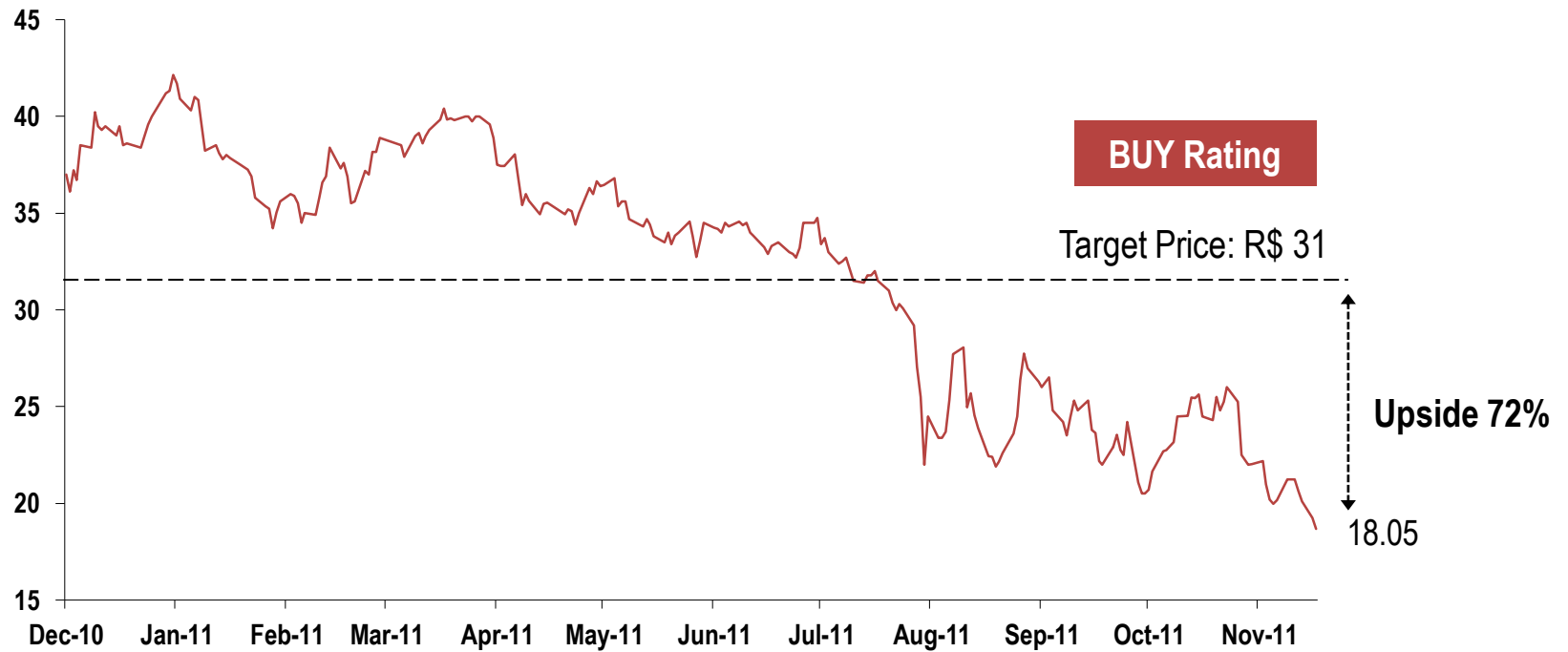
December 3rd, 2011

Note:

1. This is only a preview. This presentation will suffer changes until the presentation day (12/06/2011)

Introduction

Anhanguera's stock history¹ and target price



Source: Bloomberg / INSPER student's estimates

Based on a DCF model, we rate Anhanguera with a buy recommendation

Note:
1. Data until 12/02/2011

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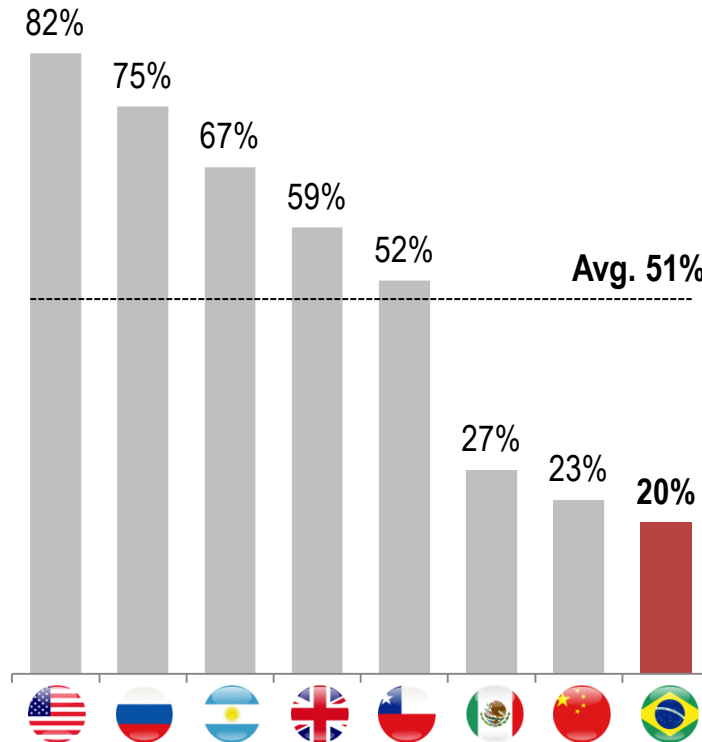
SECTION 1

Education Sector's Drivers

1.1 Penetration Rate on Post Secondary Education

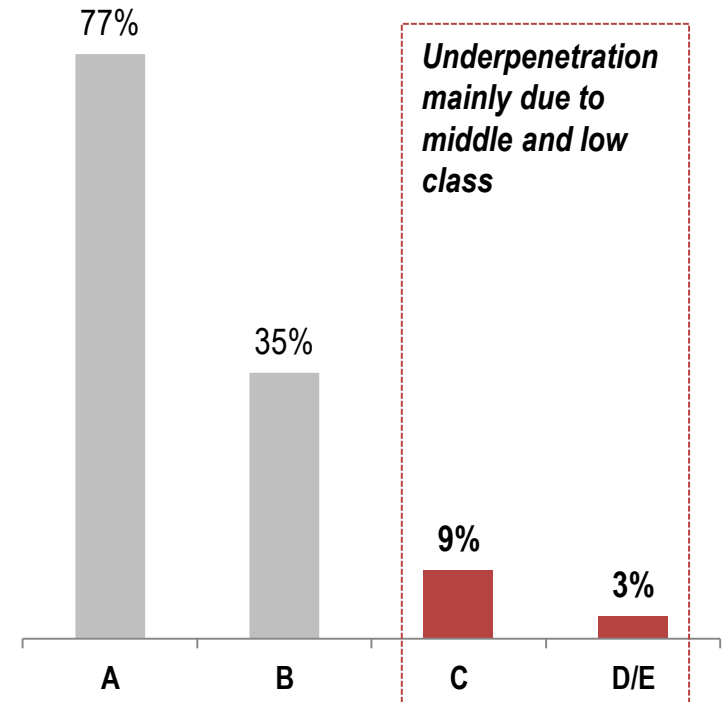
Brazilian education sector offers a huge growth opportunity

Post Secondary Penetration Rate (%)¹



Source: SEMESP

Penetration of Post Secondary Education in Brazil (%)¹



Source: Hoper Consultoria

There's a large educational gap in Brazil to be fulfilled...

...and we believe FIES and Brazil's GDP growth are crucial factors to diminish it

Underpenetration mainly due to middle and low class

Education in Brazil is a promising sector, with large future growth possibilities

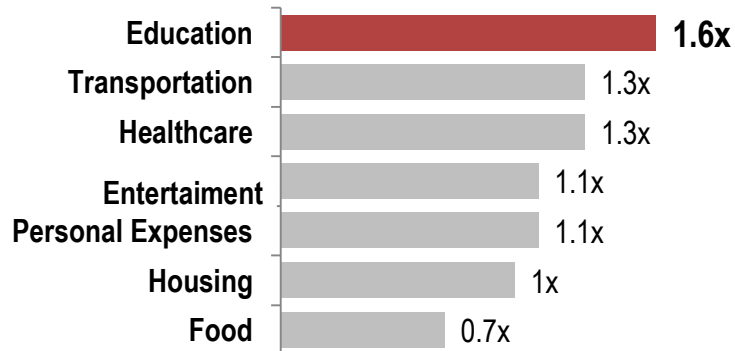
Note:
1. Data from 2008

1.2 GDP Growth and FIES

The two main drivers to develop the educational sector

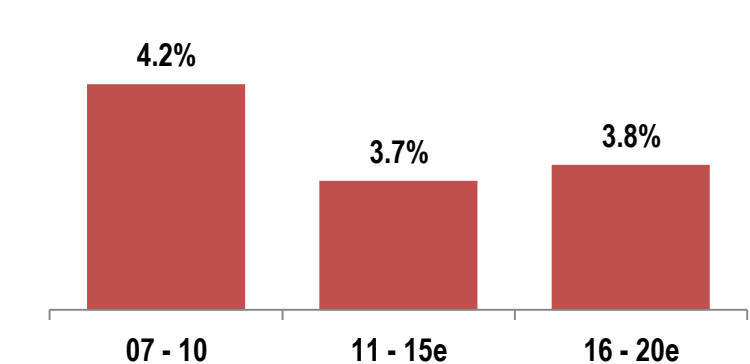
Having a high elasticity, the Brazilian educational sector will benefit from the robust future economic growth...

Sectors Elasticities



Source: SEMESP

Brazil's GDP Growth



Source: Bacen / LCA Consultores

FIES Effects

...while FIES will also help to boost enrollments, reducing dropouts and delinquency



- 1 Enrollments growth
- 2 Dropouts decrease
- 3 Delinquency minimized

FIES Eligibility



- Course materials approved by regulators
- Quality test scores above 60%
- Family income below 2 minimum wages
- Pay a fraction of the course while enrolled

Source: Company's Data

For those reasons, education sector shows great potential for growth

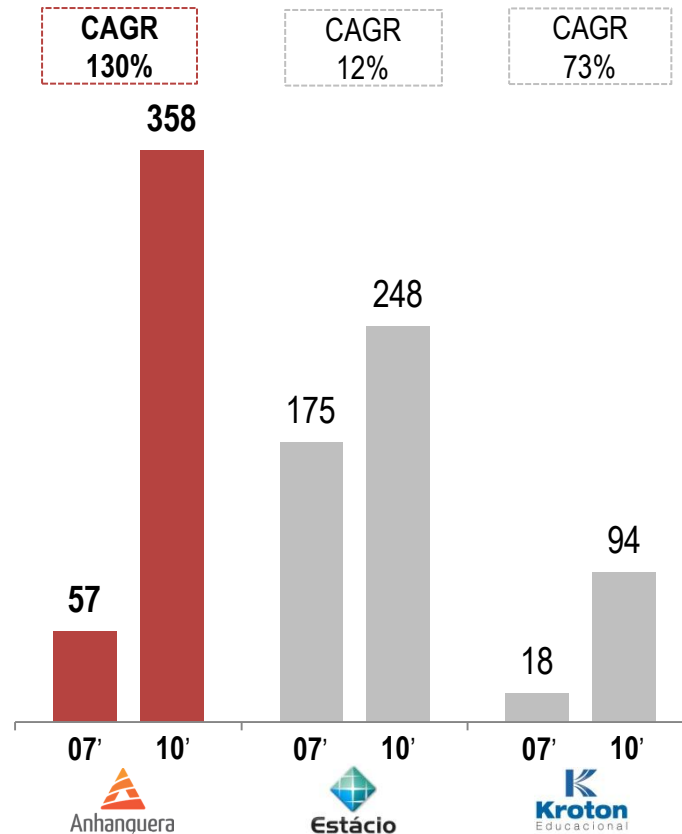
SECTION 2

Anhanguera's Business' Drivers

2.1 Anhanguera's Business Drivers Overview

Anhanguera's three competitive advantage pillars

2007 – 2010 Comparative Enrollment ('000)



Source: Companies' Data

Anhanguera is able to deliver a higher enrollment growth compared to its peers...

...mainly due to three competitive advantages: lower price and high quality, DLC's participation and acquisitions

Anhanguera's Competitive Advantages

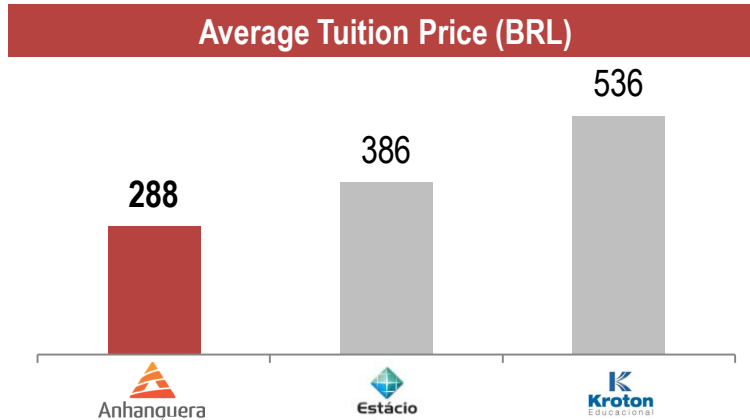
- 1 **Price and Quality**
 - Lower comparative tuition price
 - Greater comparative quality
- 2 **Distance Learning Centers**
 - Broader target audience
 - Greater economies of scale
- 3 **Acquisition and Integration Teams**
 - Great acquisition track record
 - 5 - year margin integration with AEDU's standards

Anhanguera stands out among its peers, making it the sector's top choice

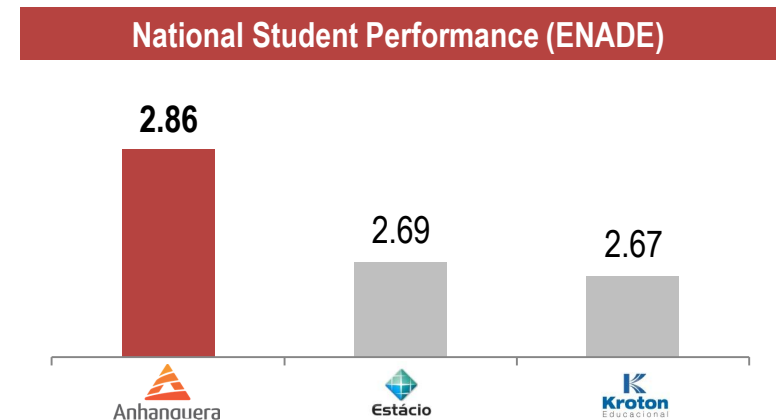
2.2 Price and Quality

Anhanguera has the best quality and the greatest affordability compared to its peers

Despite having the lowest tuition, Anhanguera offers a better service when compared to its peers...



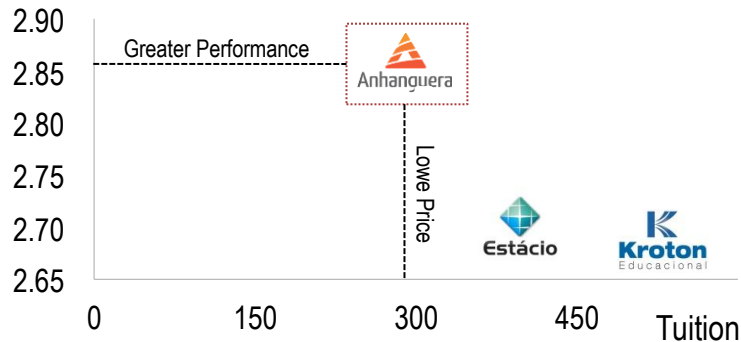
Source: Companies' Data



Source: Companies' Data

Comparative Quality and Price

ENADE scores



...This results in the competitive advantage of having the best quality to cost ratio

Price and Quality

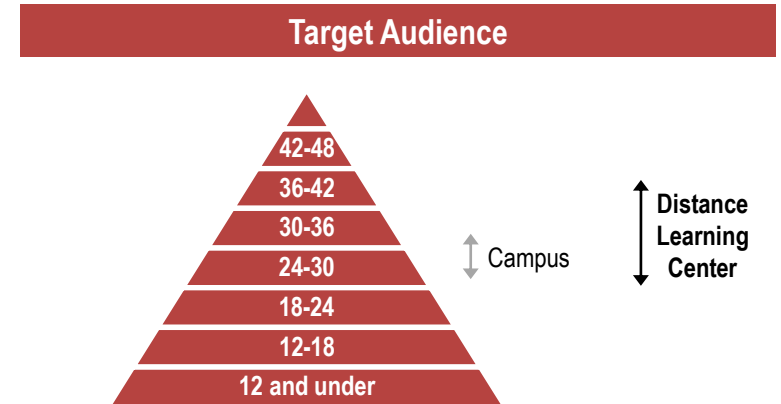
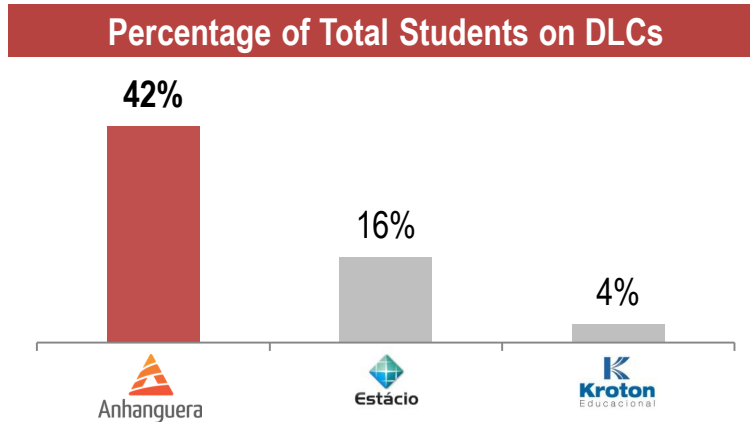
- Economies of scale
- Partnerships with quality suppliers
- Standardized course structure
- Teachers' salary based on ENADE results

Anhanguera is able to offer the best of both worlds to its customers

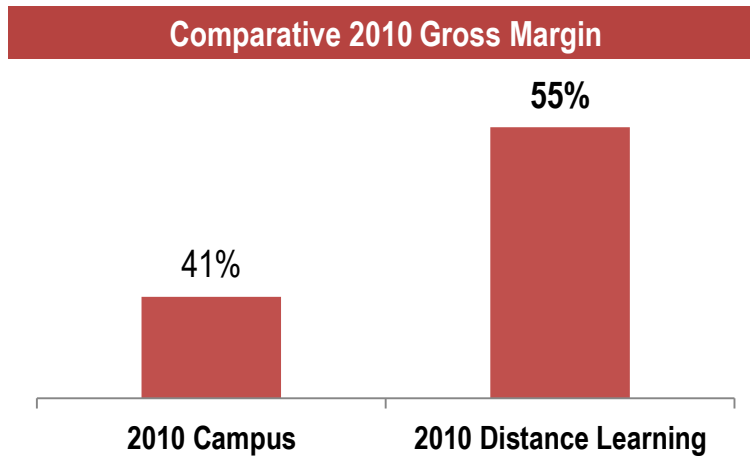
2.3 Distance Learning Centers

Great convenience delivering high margins

Distance Learning Centers have a wider target audience because of its greater convenience...



...And have a higher gross margin (55%), due to its great cost dillution



Distance Learning Centers Characteristics

- Wider target audience
- Higher margins
- Located in cities with less than 100,000 inhabitants
- Hybrid program (students attend centers once a week)

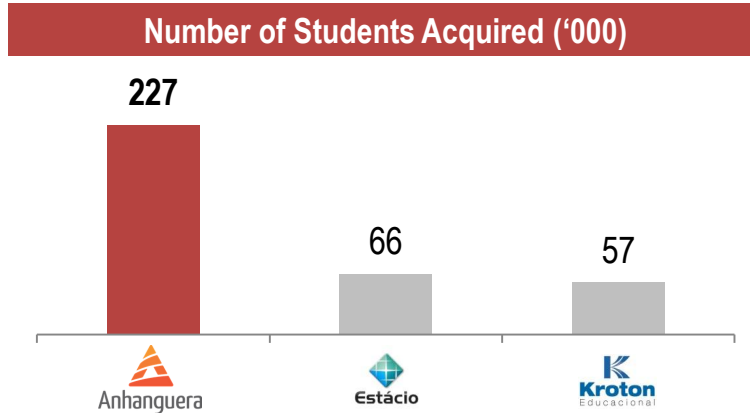
Source: Companies' Data

Distance Learning Center is one of Anhanguera's engine

2.4 Acquisitions

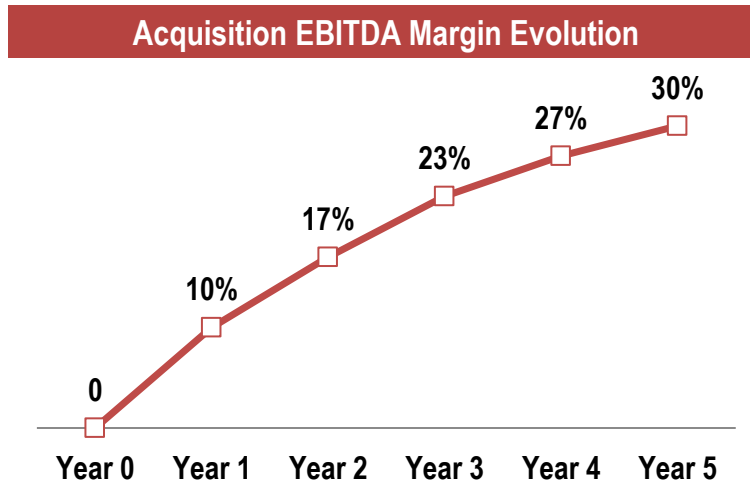
M&A Team deliver great execution with fast integration of acquired units

Acquisitions track record explicits the efficiency of the execution team...



Source: Companies' Data

... And the margins evolution shows an able integration team



Source: Insper Student's Estimates

Anhanguera's Expected Acquisition Targets¹



Source: Insper Student's Estimates

Acquisition and Integration teams are valuable assets to the company

Note:

1. Illustrative view. Targets not precisely positioned.

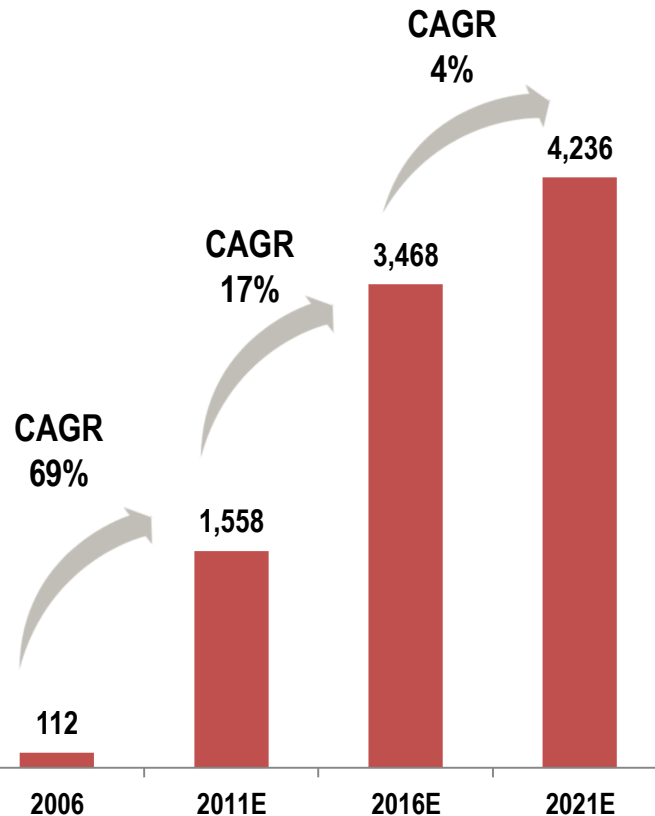
SECTION 3

(**Financial Analysis**

3.1 Revenue Model

Anhanguera's 4 enrollment growth channels

Net Revenue (BRL Million)



Revenue growth sustained by enrollment increase...

...Since we forecast Anhanguera's tuition using just the inflation rate

Source: Company's Data

Anhanguera's Enrollment and Capacity Channels

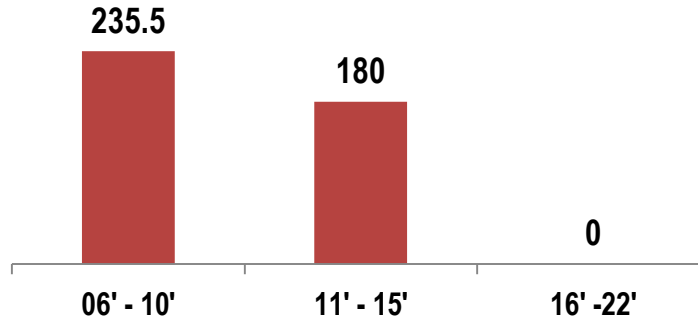
- 1 **Acquisitions**
 - Great acquisition track record
- 2 **Greenfields**
 - Projection of 7 new campuses in the next years
- 3 **Campus' Organic Growth**
 - FIES and GDP growth support this channel
- 4 **Distance Learning Centers' Organic Growth**
 - Broader target audience

Those 4 channels deliver our expected revenue rise

3.2 Enrollment Growth Channels

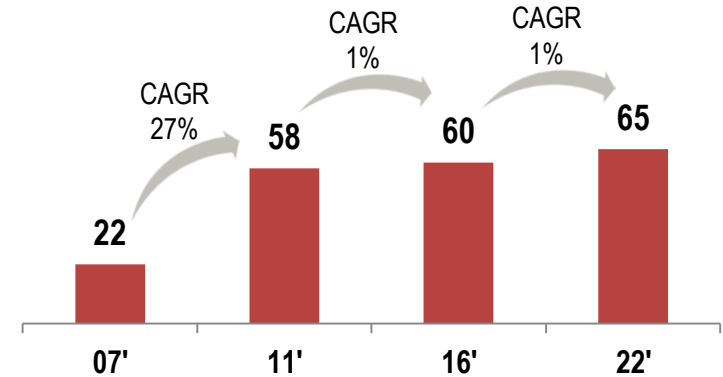
4 channels sustaining a high growth on Ananguera's student base

Acquisitions ('000)

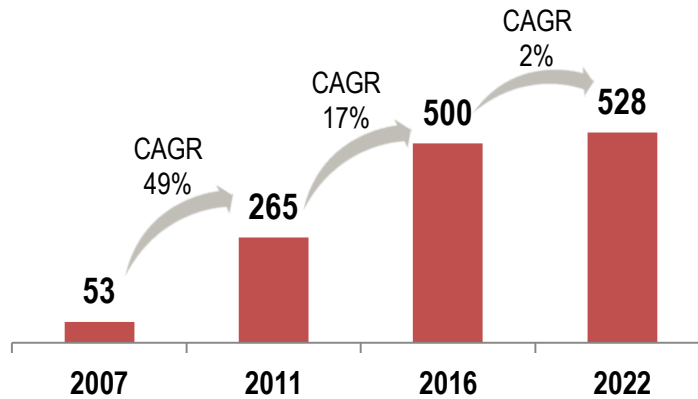


Ananguera's historical growth has been outstanding...

Number of Campuses

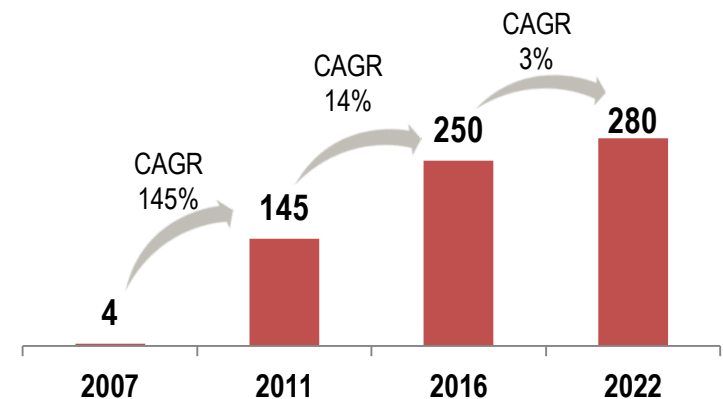


Campuses' Enrollments ('000)



... and we expect a smaller, but still worthy growth to the future

Distance Learning Centers' Enrollments ('000)

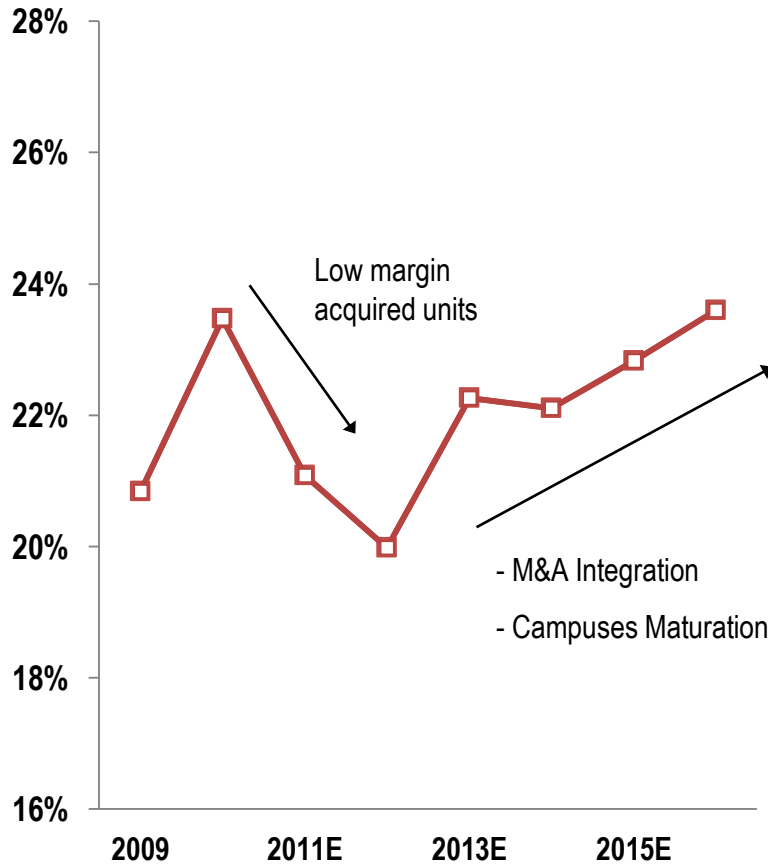


Ananguera is expected reach its 2016 guidance of 750k students

3.3 Projected EBITDA and EBITDA Margin

Increases in margins sustain expected EBITDA growth

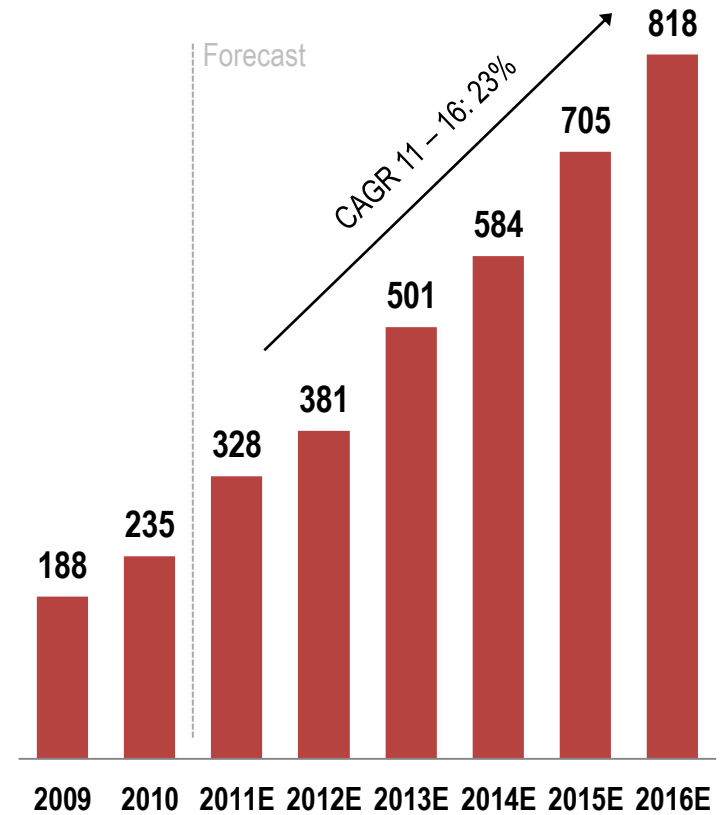
EBITDA Margin Evolution



Initial decrease in EBITDA margin, due to inefficient acquired units...

... Next, acquisitions integration and campuses maturation sustain a 4 percentage points expansion

EBITDA (BRL Million)



Margin growth will sustain our expected EBITDA growth

Source: Company's Data / Insper student's estimates

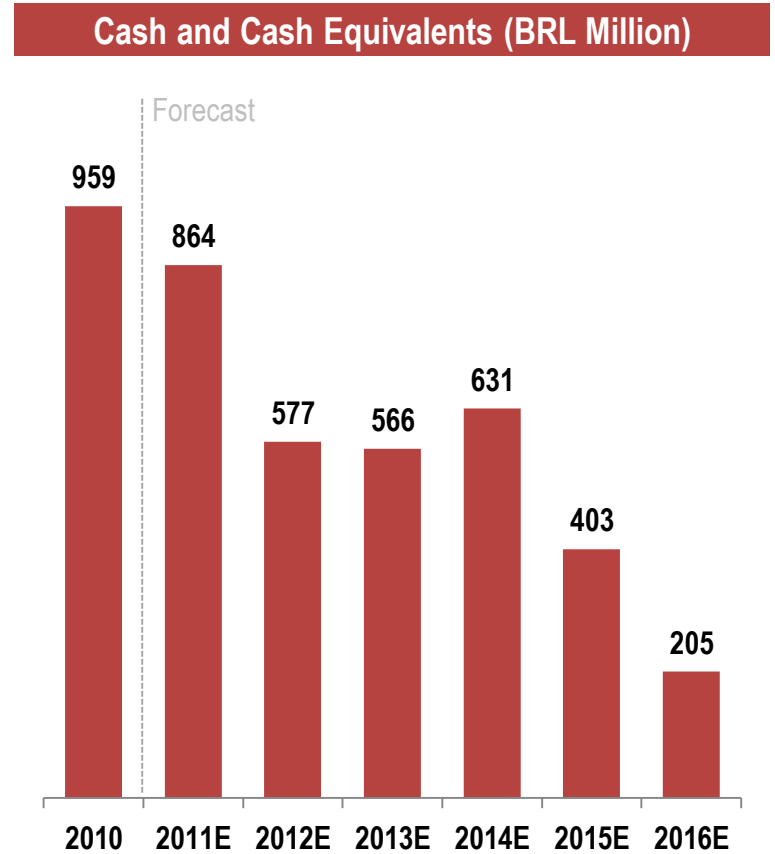
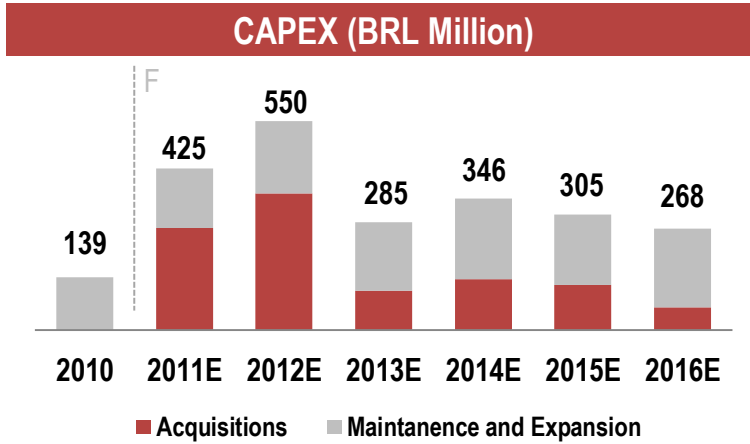
SECTION 4

(Valuation

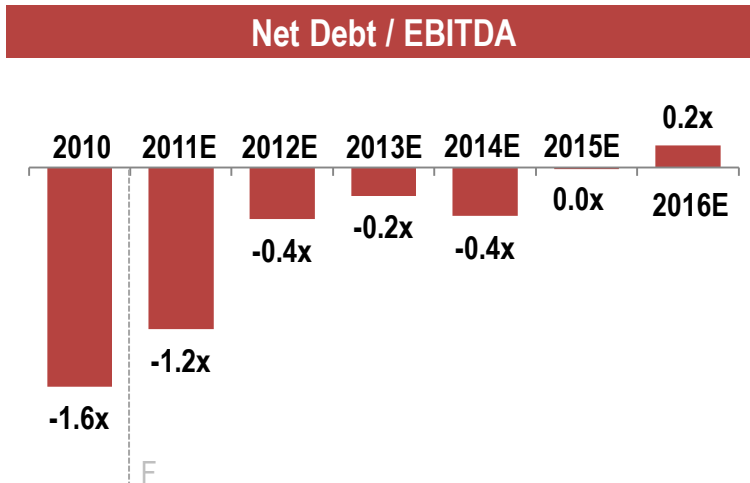
4.1 How to Finance Growth?

Three main variables financing Anhanguera's expansion

Acquisition CAPEX are high on the first following years due to acquisition...



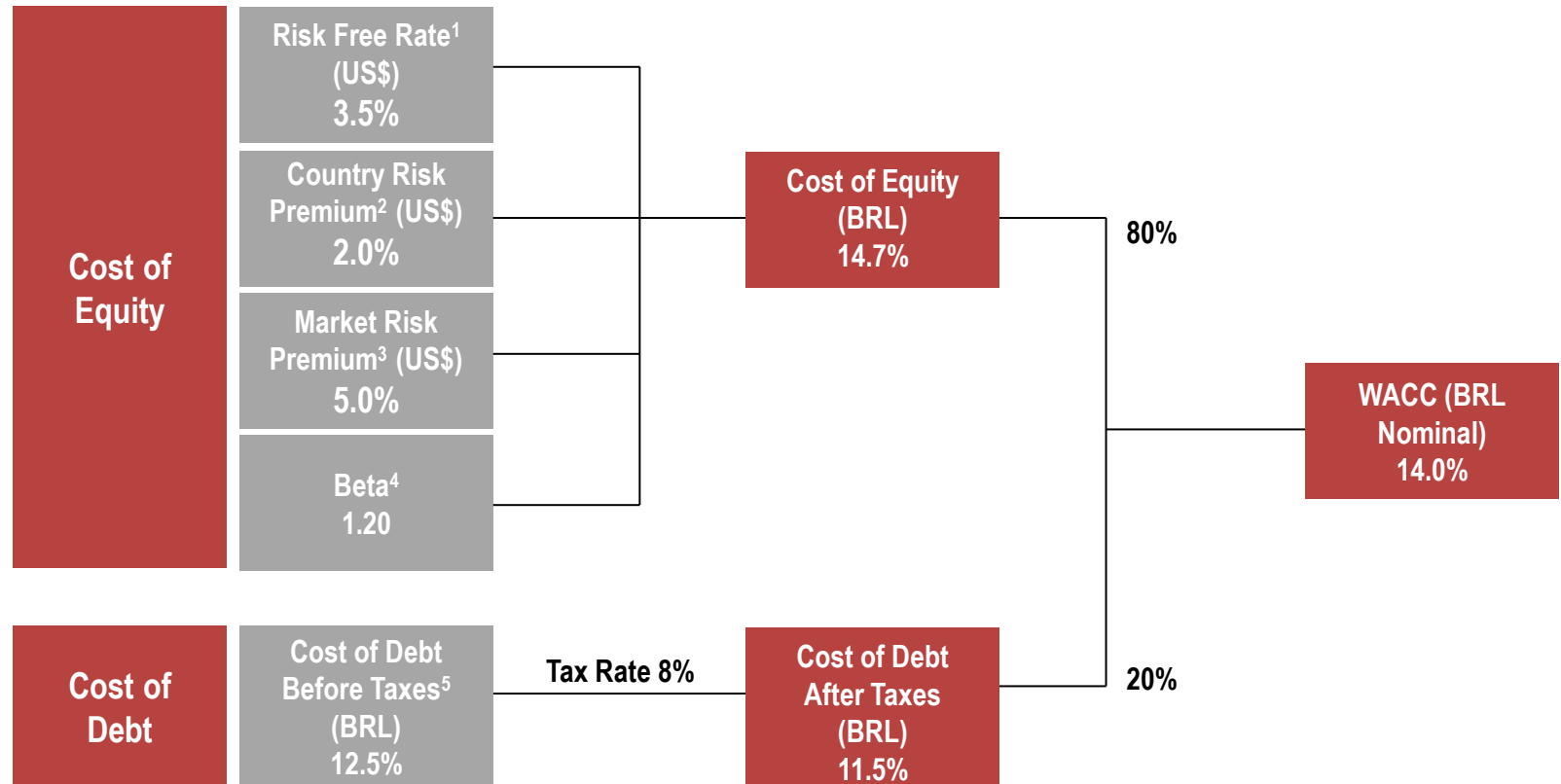
...and are mainly financed with cash



Source: Company's Data / Insper student's estimates

4.2 Weighted Average Cost of Capital

WACC's Breakdown



Notes:

1. Based on the American 10 year T-bond – Source: Bloomberg
2. Based on the JPM EMBI+ Brazil – Source: JPM Hub
3. Based on the historical difference between the S&P returns and the American 10 year T-bond – Source: Bloomberg
4. Based on the average beta of comparable companies – Source: Bloomberg / Inesper Student's Estimates
5. Based on the weighted average of Anhanguera's nominal rate debt – Source: Company Data / Inesper Student's Estimates

4.3 Results From DCF Valuation

Considering a 14% WACC and a 5.5% nominal perpetuity growth

Free Cash Flow to Firm (R\$ Million)														
FCFF (BRLmn)	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
EBITDA	188.4	235.5	328.5	381.1	501.8	584.8	705.8	818.5	921.3	992.9	1,067.2	1,181.1	1,262.8	1,311.5
(-) D&A	-27.8	-34.6	-67.5	-83.6	-83.7	-95.2	-91.6	-86.5	-94.2	-99.6	-105.0	-110.6	-116.4	-122.2
EBIT	160.6	200.9	261.0	297.4	418.0	489.6	614.3	732.0	827.1	893.3	962.1	1,070.5	1,146.5	1,189.3
(-) Tax	-12.8	-16.1	-20.9	-23.8	-33.4	-39.2	-49.1	-58.6	-66.2	-71.5	-77.0	-85.6	-91.7	-135.1
NOPAT	147.8	184.8	240.1	273.6	384.6	450.4	565.1	673.5	760.9	821.9	885.2	984.9	1,045.8	1054.2
(+) D&A	27.8	34.6	67.5	83.6	83.7	95.2	91.6	86.5	94.2	99.6	105.0	110.6	116.4	122.2
(-) CHG in NWC	-78.2	-49.3	-90.6	-59.2	-91.4	-80.8	-101.9	-94.5	-37.7	-39.2	-40.0	-51.8	-42.4	-92.0
(-) CAPEX	-108.8	-139.7	-425.8	-550.8	-285.3	-346.7	-305.6	-268.1	-247.0	-188.5	-196.1	-204.1	-211.8	-122.2
FCFF	-11.4	30.4	-208.8	-252.7	91.6	118.2	249.2	397.3	570.4	693.8	754.1	839.6	916.9	962.2

Value of Discounted Cash Flow	
Present Value of Free Cash Flow (BRL Million)	1,811
Present Value of Terminal Value (BRL Million)	2,799
EV (BRL Million)	\$4,611
(-) Net Debt (BRL Million)	44
Equity Value (BRL Million)	4,566
# Shares (Millions)	146
2012 Target Price (BRL)	31
Current Stock Price (BRL)	18
Upside	72%

Target Price Sensibility (BRL)						
		Perpetuity Growth (%) - R\$ Nominal				
		4.50%	5.00%	5.50%	6.00%	6.50%
WACC (%) - R\$ Nominal	13.0%	34.7	35.5	37.1	38.9	41.0
	13.5%	31.5	32.7	34.0	35.6	37.7
	14.0%	29.2	30.2	31.4	32.7	34.1
	14.5%	27.1	28.0	29.0	30.1	31.4
	15.0%	25.3	26.1	26.9	27.9	28.9

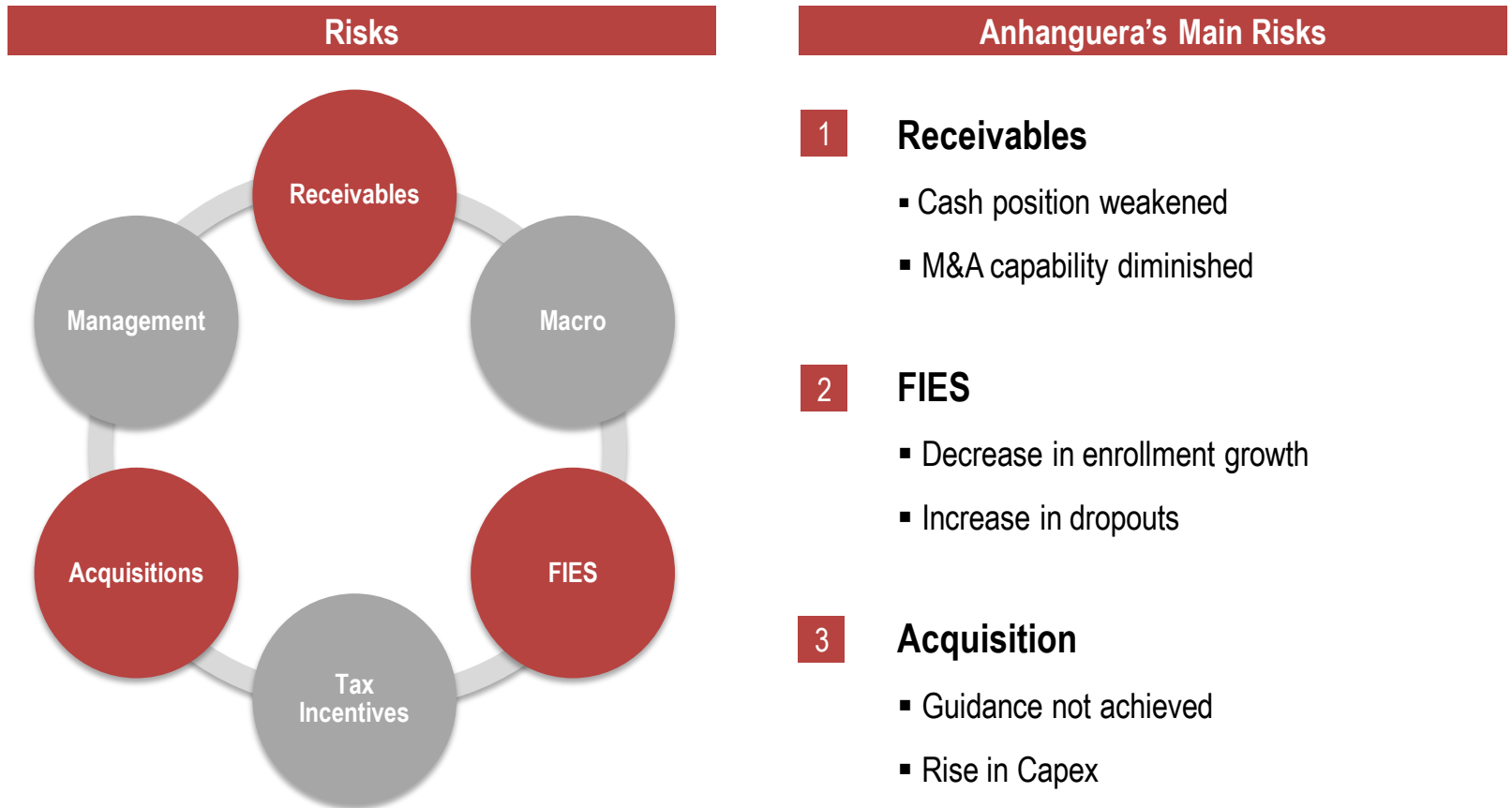
Discounted cash flow results in a 2012 BRL 31 target price for Anhanguera.

SECTION 5

(Risks

4.1 Risks Overview

Risks and affected variables



From the six risks presented above, we highlight: receivables, FIES and acquisition

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