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Financial Performance Analysis of Private Higher Education Companies

Análise do Desempenho Financeiro das Empresas Privadas de Ensino Superior

Filipe Vilela Luz

Graduado em Gestão da Informação pela Universidade Federal de Uberlândia - UFU
E-mail: vilelafilipe@gmail.com

Antônio Sérgio Torres Penedo

Doutor em Engenharia de Produção pela Universidade Federal de São Carlos
Docente Efetivo do Programa de Pós-Graduação Faculdade de Gestão e Negócios - FAGEN/UFU
E-mail: drpenedo@gmail.com

Vinícius Silva Pereira

Doutor em Administração pela Fundação Getúlio Vargas
Professor Adjunto da Faculdade de Gestão e Negócios (FAGEN) da Universidade Federal de Uberlândia
E-mail: viniciuss56@gmail.com

Endereço: Filipe Vilela Luz

Universidade Federal de Uberlândia, FAGEN -
Faculdade de Gestão e Negócios. Av. João Naves de
Ávila, 2121 Santa Mônica 38400902 - Uberlândia, MG -
Brasil.

Endereço: Antônio Sérgio Torres Penedo

Universidade Federal de Uberlândia, FAGEN -
Faculdade de Gestão e Negócios. Av. João Naves de
Ávila, 2121 Santa Mônica 38400902 - Uberlândia, MG -
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Endereço: Vinícius Silva Pereira

Universidade Federal de Uberlândia, FAGEN -
Faculdade de Gestão e Negócios. Av. João Naves de
Ávila, 2121 Santa Mônica 38400902 - Uberlândia, MG -
Brasil.

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RESUMO

Taking a prominent role in economic development, the institutions of higher education stand out in the economic scenario of a country. It has been observed, above all in the last decades, a financial leverage in this segment of the educational segment, highlighting the significant investments made by large groups in the education sector. Thus, this work aims to identify and measure the influence of distance education (EaD) on the revenue and profits of higher education institutions: Kroton and Estácio, which are the two largest Brazilian companies in this field. Therefore, a study of the financial behavior of these two private sector institutions was carried out. For the comparative analysis, an exploratory case study was performed, as analysis units were used, the net margin of profit on the revenue and the margin of the EaD on the net revenue. Data were collected through specific statistics of the sector, as well as magazines, newspapers, websites and affordable financial reporting provisions within the organizations studied. In the end, the study shows that broadly speaking, these organizations in the higher education segment have shown a satisfactory financial behavior when comparing their annual results. It was also verified that the EaD represents a greater percentage of Kroton's net revenue when compared to that of Estácio, but the data showed that the EaD is presenting itself as an opportunity of generating income for these institutions, due to the increase of its revenues within this segment.

Keywords: Higher Education. Private Higher Education. Financial Performance. Distance education; EaD.

RESUMO

Tomando para si um destacado papel no âmbito do desenvolvimento econômico, as instituições de ensino superior se destacam no cenário econômico de um país. Tem sido observado, sobretudo nas últimas décadas, uma alavancagem neste mercado do segmento educacional com destaque para os investimentos significativos realizados por grandes grupos no setor educacional. Dessa forma, esse trabalho objetiva identificar e mensurar a influência do ensino a distância (EaD) nos resultados dos lucros e das receitas líquidas das instituições de ensino superior: Kroton e Estácio, que são as duas maiores empresas brasileiras desse ramo. Para tanto, foi realizado um estudo do comportamento financeiro dessas duas instituições da iniciativa privada. Para a análise comparativa procedeu-se a um estudo de caso exploratório. Como unidades de análise, foram utilizadas a margem líquida de lucro sobre a receita e a margem da EaD sobre a receita líquida. Os dados foram coletados através de estatísticas específicas do setor, bem como revistas, jornais, sites e ainda relatórios financeiros acessíveis no âmbito interno das organizações estudadas. Ao final, o estudo mostra que, de uma forma ampla, essas organizações do segmento da educação superior têm evidenciado um comportamento financeiro satisfatório, ao se comparar os seus resultados anuais. Constatou-se também que a EaD representa uma maior porcentagem sobre a receita líquida da Kroton, ao se comparar com o da Estácio, porém os dados evidenciaram que a EaD vem se apresentando como uma oportunidade de geração de receitas para essas instituições, devido ao aumento de suas receitas líquidas dentro desse segmento.

Palavras-chave: Educação Superior. Educação Superior Privada. Desempenho Financeiro. Educação a distância. EaD.

1 INTRODUÇÃO

The concept of Distance Learning (EaD) is vast. In general, we can understand it as a system of education in which the interested parties, student, and teacher, are separated in what concerns to share a common physical space during the teaching-learning process. The interaction between these agents takes place through means of communication, such as correspondence, radio, television, digital media and internet (FREITAS, 2005)

Seen as a professional qualification alternative, EaD has been playing a complementary and/or parallel role to the traditional education system. In the social sphere has played a role of training to segments of the population that do not have adequate access to education systems presences. In the economy, however, it tends to focus more on sectors such as industry and services (FREITAS, 2005).

One of the earliest records of EaD, as Katz (1973) states, was a shorthand course in the year 1728, by correspondence, in the United States. Guarany and Castro (1979) record a shorthand course in 1840, in England and in the early twentieth century, in Russia and in several universities in the United States, such as Wisconsin, Oregon, Kansas, Minnesota, Nebraska, Texas, Missouri, and North Dakota.

In Brazil, according to Barth et al. (2014) in 1904 *Jornal do Brasil* announces in its classified session an advertisement that offers professionalization correspondence for the typist. In 1923, under the leadership of entrepreneurs Henrique Morize and Edgard Roquette-Pinto, the Radio Society of Rio de Janeiro was created, offering courses in Portuguese, French, Forestry, French Literature, Esperanto, Radiotelegraphy, and Telephony. De Freitas (2005) states that the Brazilian Universal Institute, begun in 1941, seems to be the oldest institution to maintain courses by correspondence.

EaD has grown significantly over the years, either through the advancement of technology or as a way to democratize access to education. According to Ribas and Klein (2014), the tertiary sector becomes indispensable to regulate the functioning of modern economies, given that in Brazil, services currently correspond to more than 66% of value added in the economy. Within this sector, the area of educational services has been seen, in the last decades, as a promising field for EAD, due to the possibility of high financial returns. In this way, the EAD has been consolidating progressively in the Brazilian economy. In the year of 2013, it moved about R \$ 60 billion in the country, which corresponds to 1.7% of the Brazilian GDP (FENEP, 2013).

This sector of the economy is heated by the high demand of class C in the quest for qualification and the advancement of education systems, and thus demanding a great financial investment. Another factor that influences is the movement of mergers and acquisitions in the sector of private higher education between large companies, which may increase the concentration of higher education institutions in the country, which may have consequences on monthly tuition values.

The analysis of organizations in the education sector helps to expose the theme in a way that makes it possible to explain EaD and its development and comprehensiveness in education and economics. Another factor that stands out is to glimpse the influence and importance of companies that offer EAD services, especially those that lead the national ranking in this niche market. For Barth et al., (2014), there is little information on academic studies regarding the subject related to EaD and its evolution in the Brazilian market, considering the transformations of the 21st century.

In this way, it is interesting to study the expansion of this modality of education and the influence of private institutions in the Brazilian economy, starting with the analysis and comparison of the business model of the case study of the companies Kroton Educacional SA and Estácio Participações SA. The organization Kroton Educacional SA stands out in the global scenario as the largest market value organization in the educational segment with an estimated value of R \$ 24.48 billion (SCHNEIDER, 2016). In this sense, the objective of the research is to identify and analyze the organizational and financial evolution (revenue and profit) through a case study of the two largest educational organizations in Brazil, Kroton, and Estácio. It also aims to examine the impacts and influences of EAD teaching on the billing of these two companies. With this, it is believed that research can contribute academically, mainly in the financial area, by analyzing the structure of companies that are considered one of the pillars in the Brazilian economy, which is the education sector. In this direction, the study sought to answer the differences in the financial structure of the largest conglomerates in the education sector in Brazil and the participation of EaD education in their finances.

2 THEORETICAL REFERENCE

Aiming to help the study to answer the presented question, the theoretical reference of this work will address the following subjects: Distance learning; the importance of analyzing the financial performance of enterprises and the advancement of the private sector in education.

2.1 Distance Learning

Research and production of knowledge in education, technologies, and languages tend to be fundamental factors in the development of new pedagogical practices, thus the EaD becomes an important tool in the production of research and in the decentralization of the search for knowledge (RIBEIRO, 2016). Already Moran (1997) states that the main distance is not geographic but economic, cultural, ideological and technological. It also considers that the Internet attracts students and, as such, is one of the clear expressions of digital democratization and is manifested in the possibility of access to the Internet and in mastering the theoretical instruments to exploit all its potentialities. For Vendruscolo (2016) a priori the EaD modality has as its main factor education, necessitating for its development a detailed planning of the process involving different aspects to happen in a different place and time between its agents. According to Vendruscolo (2016), according to the classic literature according to several authors (KEEGAN, 1983; MOORE, KEARSLEY, 2008; LITTO, 2010), EaD has among its basic characteristics: i) represents a modality of education; ii) presents physical and temporal distance of its agents; iii) executes prior planning of activities and materials made available; iv) uses technology-based teaching and learning process; v) is characterized by the interaction between the agents mediated by ICT (Information and Communication Technologies); vi) allows greater autonomy of the students and vii) has mediators teachers in the process of teaching and learning.

Several authors have investigated the predictors that contribute to student satisfaction in online learning settings. In the view of authors, Reinhart & Schneider, 2001, Artino, 2007, Sahin (2007), the most important variables that contribute to the satisfaction of students in ODL are Internet efficacy, student interactions, and self-regulated learning, student- the interaction of the content with the student. For Kuo, Walker, Belland & Schroder (2013) student-instructor interaction, student content interaction, and self-efficacy were good predictors of student satisfaction. The interaction with student content explained the single greatest variation in student satisfaction. In addition, the gender, class level, and time spent online per week seemed to influence learner-student interaction, self-efficacy on the Internet, and self-regulation.

For Ergul (2004), the demographic characteristics of students such as age, gender, employee / unemployed emphasize academic achievements through online learning courses. Tani & Barker (2017) show that understanding of the mentoring relationship is diverse and most participants are confused about the different meanings of coaching, mentoring, and

counseling. However, almost all participants agree that mentors should have a strong position to promote transformative learning in a mentoring process. Jenny (2017) shows that student learning experience based on cloud applications, online interaction frequency, and student technology experience are the factors that determine success in ODL. Walters, Grover, Turner & Alexander (2017) show that the satisfaction and performance of students in face-to-face courses and in ODL have different characteristics. The researchers reported that teachers at EAD have high levels of satisfaction with the accessibility of their courses and the technical support they receive, but have reported lower levels of satisfaction with the effectiveness of online communication tools.

2.2 Importance of the Analysis of the Financial Performance of Enterprises

For Iudícibus (1998), the analysis of financial statements is the art of knowing how to extract useful information for the economic objective that we have in mind from the traditional accounting reports. Matarazzo (2010) also defines financial analysis as a study of the parts of the statements to know a situation or different situations of an organization that can make life easier for entrepreneurs, managers, and other managers.

One of the questions that usually raises questions is what kind of organizations financial analysis applies to. In fact, the world consists of many organizations, with quite different ends, and the definition of financial analysis is suitable for all types of organizations, business or non-corporate (FERNANDES *et al.*, 2013). According to Oliveira *et al.* (2010), the financial analysis allows the interpretation of the financial health of the organization, its degree of liquidity and the capacity to generate profits and revenues.

In the search for data transformation in information, Gazola Jr (2004) identified that there is no exact formula that can be applied to perform the financial analysis of a company, since factors such as company activity; competition; economic systems are influential in analyzing an organization. In this way, one must choose the analysis indicators that fit the reality of the analyzed companies, extracting the indices of the financial statements that generate a diagnosis or conclusion of the situation of the company. In order to know the financial performance of the company, there are some indices that may reveal both the short-term and the long-term financial situation of the organization, and these items are found in the company's income statement (IUDICIBUS, 1998).

The first index to be analyzed in the DRE is the net profit, whose purpose is to determine the gain that is obtained after realizing the corresponding discounts; the second is

the gross revenue that is the earnings without deducting amounts of taxes and the net revenue that is the gross revenue, less your returns and taxes posted in the invoice, that is, the gross revenue with reductions account deductions. (Oliveira *et al.*, 2010).

2.3 Progress in The Private Sector of Education

Zuin (2006) affirms that there is an urgent need to implement actions to increase the use of resources for higher education, especially considering that only 10% of Brazilians between the ages of 18 and 24 have access to graduate programs at Brazilian universities. According to Sethy (2008), education is progressing according to the changes of the world today through globalization, and the educational sector is not limited in a certain area of action, covering new teaching methods. The authors also point out that higher education is available in people's homes, that the rigidity of education has been transformed into flexibility, all because of the effects of globalization. In one of these ways, the most current, the private sector assumes a rather narrow role of the market, especially because the private sector focuses on companies that operate in the market for profit, with the help of technological resources to expand the sector (BONAMINO, 2012).

In this preamble, Pereira (2015) points out that the advancement of the private sector in education is due to the high investment in initiatives and partnerships with the public sphere to create incentive programs for the access of young people to higher education and the significant expansion of technologies which allow the advancement of new teaching methods to spread easily, which is the case of EaD that concentrates a large part of the students coming from public colleges. Thus, with the help of technological expansion, the private network in Brazil corresponds to 75% of the students of higher education, against 25% of the state entities (FENEP, 2013).

From this angle, the private sector is characterized in a much more general sense than as a synonym for for-profit organizations. Given that, this sector starts to include activities that aim at training and qualification of the population, having as one of the main focuses quality education, but aiming at profits, since the private sector takes advantage of the index of vacancies offered in the private intuitions for the contraction of the middle class, and this expansion is considered a factor of democratization, since it expanded the access to education (CORBUCCI, 2004).

3 METHODOLOGY

The methodology used was the case study and exploratory research using the technique of bibliographic research. According to Gil (2002), the "exploratory research seeks to allow a greater familiarity with the problem, with the intention of making it more explicit". According to Gil (2002), the case study seeks to describe the situation of the context in which the research is being carried out and to explore real-life situations. The data collection technique used was that of bibliographical research, because according to Gil (2002) the bibliographic research is developed based on material already elaborated, consisting mainly of books and scientific articles, as well as, reports of the administration of the two analyzed companies that were made available in the last fiscal periods, from 2011 to 2016. The analysis of the data was carried out in order to answer the main question of the research that was: to identify and analyze the organizational and financial evolution through the case study of the two largest organizations (conglomerates) of Brazil, Kroton and Estácio and also to examine the impacts and influences of teaching of EaD on company results.

As analysis procedures were used to content analysis and descriptive statistics of pre-defined financial analysis indicators to answer the research objectives. The application of content analysis is possible in areas such as linguistic, oral and behavioral meanings (BARDIN, 1977). In the linguistic aspect, in what refers to what is written, the research analyzed: bibliographic materials already published, that is, a survey of bibliography already published, in the form of books, magazines, financial data, reports, documents of the companies and management reports such as balance sheets, DRE, and cash flow. It is noteworthy that during the execution of the work other written materials appeared that were useful to the research.

For Bardin (1977) "content analysis appears as a set of communication analysis techniques, which uses systematic procedures and message description objectives." The purpose of the documentary analysis is to condense the representation of an information for consultation and archiving. The content analysis aims at the manipulation of messages (content, expression) to show the indicators that make it possible to infer about a reality other than that of the message (BARDIN, 1977).

In addition to the content analysis, descriptive statistics were also used, as described by Diehl, Souza and Domingos (2007), descriptive statistics essentially covers the management of data to summarize or represent them in a way that portrays what are. The research data presented here have the nature of nominal, ordinal or interval data. Nominal

data are classified and encrypted; ordinals are data whose equality cannot be established; finally, the interval data that allow the establishment of inequalities, and it is also possible to establish differences. The most common way to display this data is the tables and graphs formats. In this type of presentation of the data, the objective was to perform an analysis more clearly. According to the same authors. "The table is a table that summarizes a set of observations, while the graphs are forms of data presentation, whose objective is to produce a faster and more alive impression of the phenomenon under study." For Gil (2002) the objective of the tables is to present numerical results and comparative values.

4. PRESENTATION AND DISCUSSION OF RESULTS

The financial statement and also the history of the two companies analyzed will be presented below. Finally, a comparison is made showing how much EaD contributes to the financial results of these companies in the profit, revenue, and billing, in order to demonstrate the legitimacy to the diagnoses made. The information and data present in this topic were obtained from financial results published by companies.

4.1 Kroton

Kroton Educacional was founded in 1966 in the city of Belo Horizonte and currently operates in two segments. The first is focused on basic education and the sale of teaching materials and pedagogical support to more than 650 schools in Brazil and six in Japan. The second segment is focused on face-to-face and distance learning, using the Pitágoras brand as the main supplier for baccalaureate courses offered to young people of classes B and C (ESTÁCIO, 2017, HOPER, 2017, DE PAIVA *et al.*, 2014).

The company's share capital was granted in 2007, at the time it had approximately 10,000 students. In 2009, it already had a number of students over 43 thousand. The Kroton group comprises the companies Pitágoras, Anhanguera, Uniasselvi, Fama, Unic, Anime, Unopar, LFG, and Uniderp. Kroton has 113 units of higher education, present in 18 states and 83 Brazilian cities. There are more than 900 thousand students enrolled in Higher Education both face-to-face and distance learning. Kroton also has more than 870 basic education schools nationwide (KROTON, 2017, SCHNEIDER, 2016).

The company's goal is to be a leader and consolidated in small and medium-sized cities in Brazil. Considering distance education, Kroton is the leader in the sector, currently

with more than 910 poles of EaD graduation and it still appears as the largest company of market value in the world in the field of education.

Table 1 shows Net Revenue, Net Income and Gross Profit for the institution in the last six fiscal years of the company. It can be observed a significant improvement in these six indices for the analyzed period, it is highlighted that the Net Income in 2011 was R \$ 37.4 million, rising unusually to R \$ 1,864 billion in 2016, a rise of over 2000 %. On the other hand, in 2016, revenue reached R \$ 5.24 billion, a decrease of 0.4% in the annual comparison, the only year in which the company had a fall in revenue retention.

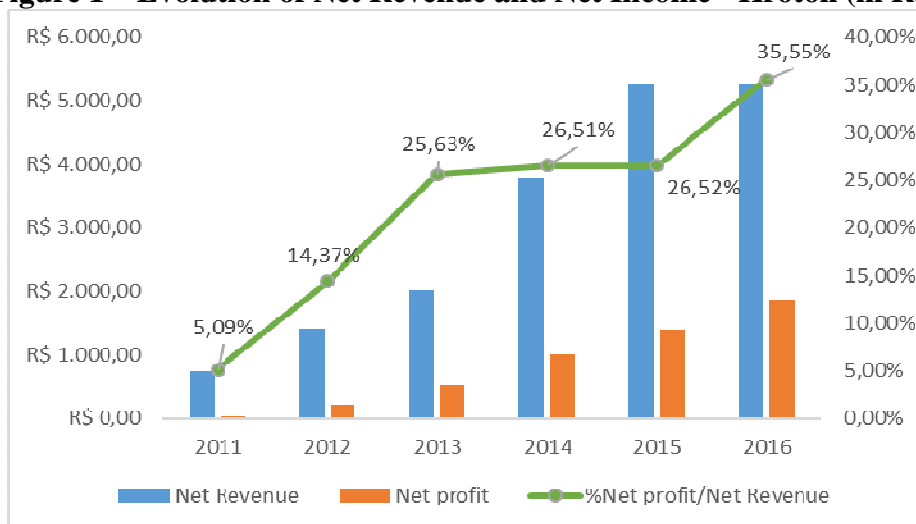
Table 1 – Kroton financial result by fiscal year

Amounts in R\$ million	2011	2012	2013	2014	2015	2016
Net profit	37,4	202	516,6	1.000,60	1.396,10	1.864,60
Net Revenue	734,6	1.405,60	2.015,90	3.774,50	5.265,20	5.244,70
Gross Revenue	879,975	1.715,43	1.093,60	4.700,10	6.723,80	6.732,90

Source: Prepared by the author, based on the Financial Statements of institution.

The net margin over the years of the institution is shown in Figure 1. The data show that the margin emerged during the six years analyzed. With this, it can be deduced that the institution shows stability, with a significant increase in the profit margin. This can be explained by the company's expansion process, based on acquisitions and the opening of new units, which generates a solidity of the margins in the first moment (DE PAIVA *et al.*, 2014). However, the profit margin on the company's net revenue reached a considerable amount of 35.55% in 2016, 9% up on 2015, reflecting the higher efficiency in the operation.

Figure 1 – Evolution of Net Revenue and Net Income - Kroton (in R\$ million)



Source: Prepared by the author, based on the Financial Statements of institution KROTON, 2017.

Regarding the composition of Kroton's net sales and service revenues, Table 2 shows that the net revenue of the institution is grouped into three service levels: Higher education in person; higher education EaD and basic education. The data show that net revenue for the EaD in 2016 was equivalent to 20.36% of the total revenue obtained by Kroton in the same year. The data also show that Kroton has shown a slight reduction in the net revenue margin for the EaD, with a decrease of 4% for the period from 2014 to 2016.

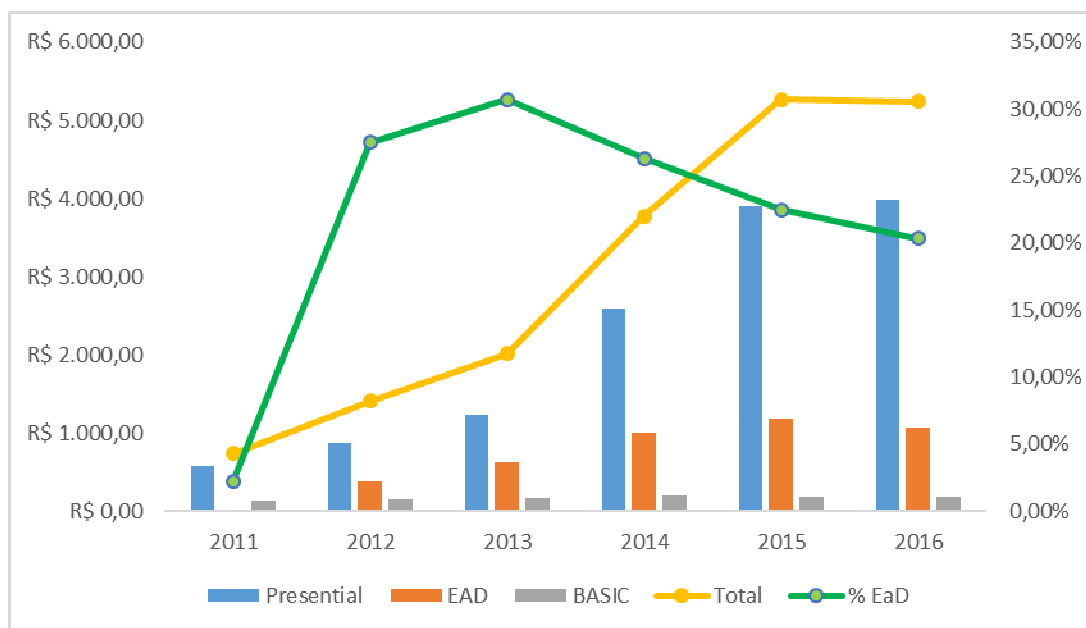
Table 2 – Composition of Net Revenue Kroton of Sales and Services

Amounts in R \$ million	2011	2012	2013	2014	2015	2016
Classroom teaching	581,85	870,57	1.234,9	2.589,80	3.898,64	3.987,46
Higher Education EaD	16,03	386,89	618,8	994,06	1.183,24	1.067,88
Basic education	136,68	148,11	162,2	190,61	183,17	189,38
Total	734,55	1.405,57	2.015,94	3.774,48	5.265,06	5.244,72
% EaD	2,18%	27,53%	30,70%	26,34%	22,47%	20,36%

Source: Prepared by the author, based on the Financial Statements of institution KROTON, 2017.

In Figure 2, we can see that higher education EaD in 2011 was below 5% of Kroton's net sales, considering the company's revenue-generating activities. In the year 2012, the situation was leveraged due to the beginning of the acquisition of distance education centers, and this segment was soon presented as the second activity that generated the most revenue for the institution. As of 2014, the results for the EaD began to fall sharply, this evidence can be explained by the fact that Kroton is growing considerably in the segment of face-to-face higher education, since in the same period the revenue for this segment had an increase of 8%, reaching in 2016 a Net Revenue of R \$ 3,987.46 billion.

Figure 2 – Contribution to Kroton's net income (in R \$ million)



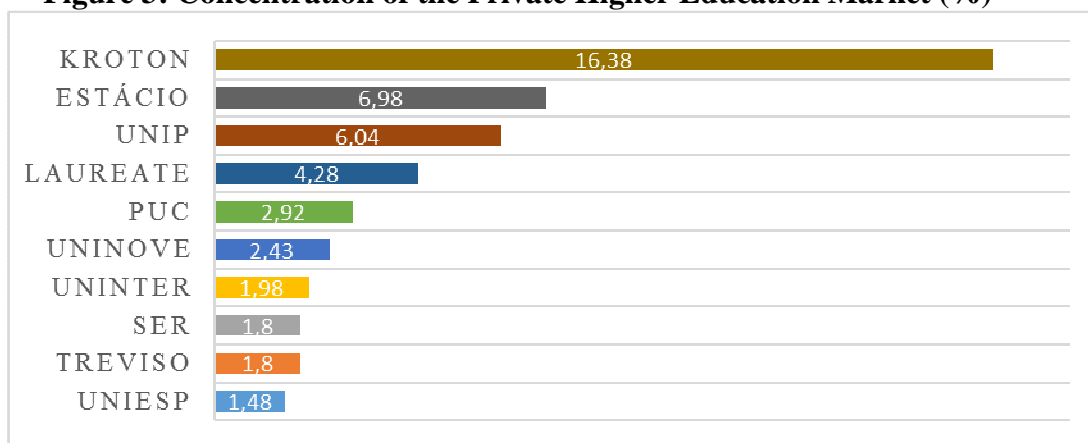
Source: Prepared by the author, based on the Financial Statements of the institution, KROTON, 2017.

4.2 Estácio

Another great company in the education sector is Estácio, which has approximately 600 thousand students enrolled in residential and distance modalities, in undergraduate and postgraduate courses (SCHNEIDER, 2016). Universidade Estácio de Sá (UNESA) is a Brazilian private higher education institution founded in 1970 in Rio de Janeiro, currently, the institution has 70 campus, spread in 20 Brazilian states and in the Federal District (HOPER, 2017). It is composed by the group Estacio the brands, Uniseb, Estácio Editora e Distribuidora Ltda., New Academy, Sese, Fabec, Irep, Actual, Sudern, Anec, Asseama, Idez, UniSãoluís, Fargs, Uniuol, Iesst, Assesc (ESTÁCIO, 2017).

According to the survey conducted by INEP (2014), Estácio is the second largest company in the Private Higher Education sector, with a concentration of 6.98% of students among the ten largest groups (considering public companies), leaving behind only of Kroton that retain a slice of 16.38%. As shown in Figure 2.

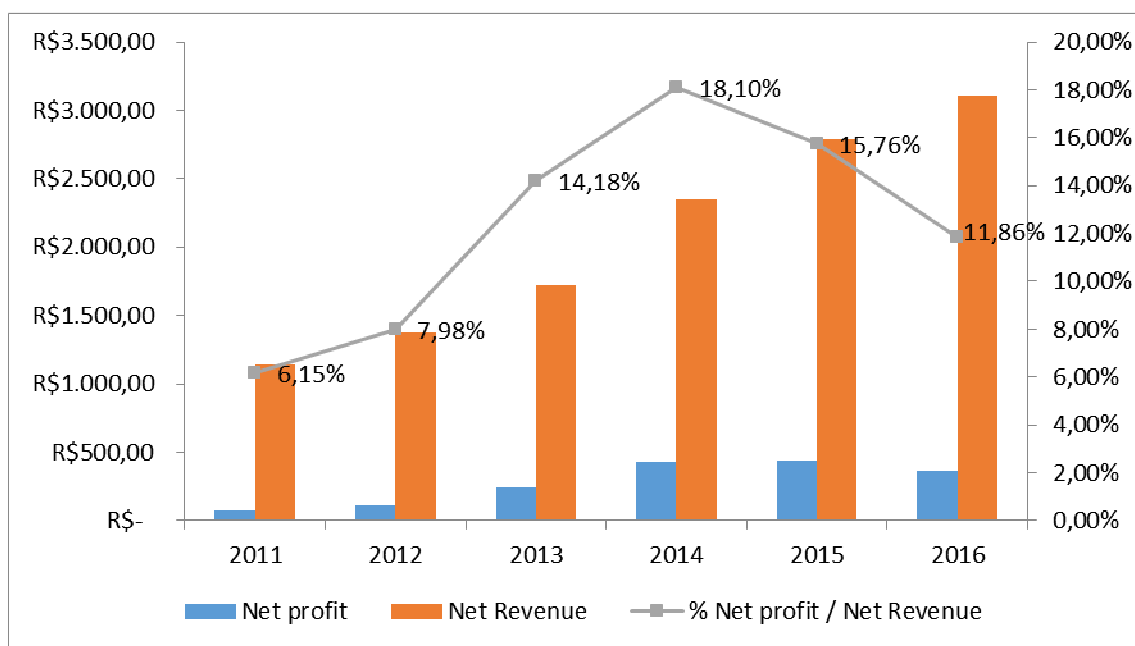
Figure 3: Concentration of the Private Higher Education Market (%)



Source: Inep / MEC Census Data (2014)

Regarding Estácio's total revenues, it should be noted that the net profit margin did not exceed 20% during the period from 2011 to 2016, with the year 2015 as the peak, in which it was the year in which the company most profited from the provision of services, with R \$ 440 million. After this period, there was a considerable fall in next year's net income, closing the year of 2016 with R \$ 368 million, a variation of (-20%) in relation to the previous year. On the other hand, net revenue had an increase of 8.6% in compensation for the year 2016, data can be visualized in Figure 4.

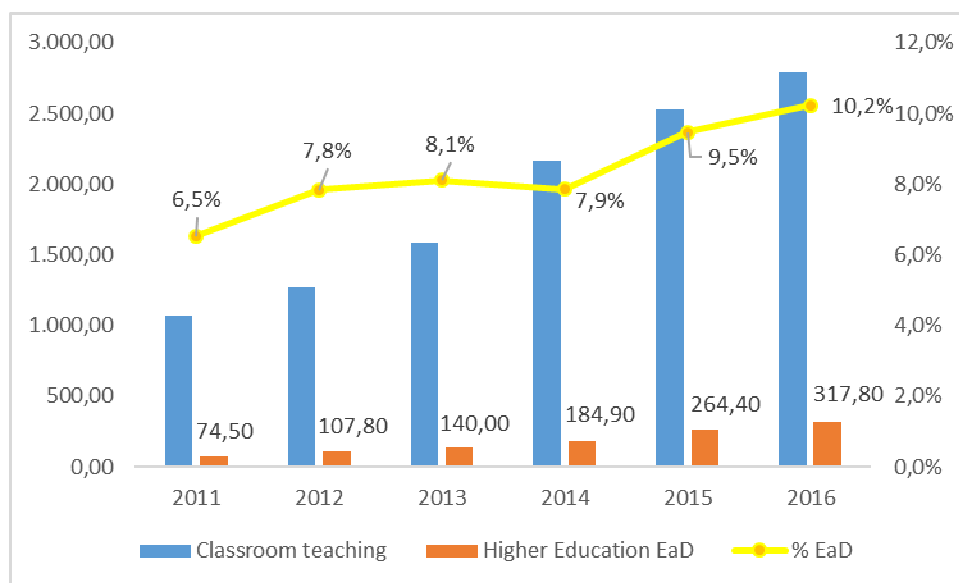
Figure 4: Evolution of Net Revenue and Net Income - Estácio (in R \$ million)



Source: Prepared by the author, based on the Financial Statements of institution Estácio, 2017.

According to Estácio's net sales results, in the classroom and distance learning segments, we observed that the EaD represents 10% of the total value of revenues generated by the company in 2016. The data presented in Figure 5 show that Estácio is However, the EAD has been slowly increasing over the years, and in 2016 it posted a result of R \$ 317.80 million, but this figure is still small when compared to the result obtained through face-to-face education, which closed the period with R \$ 2,787.20 billion net revenue.

Figure 5 – Contribution to the net revenue of Estácio's EAD. (in R \$ million)



Source: Prepared by the author, from the Financial Statements of the institution, ESTÁCIO, 2017.

5 FINAL CONSIDERATIONS

In order to survive in a market environment of intense competition, higher education organizations need to develop strategies that lead to their stay in the education niche. This study proposed to carry out a comparative analysis of the two major higher education institutions of the country, Kroton and Estácio, recognized both nationally and internationally. The results of the research sought to analyze indicators of financial performance of companies, such as net revenue, gross revenue, net income and net margin and the share of EaD within these indicators.

After analyzing the respective data, it is possible to observe that Kroton showed an interesting growth when analyzing its net margin. Corroborating with DE PAIVA *et al.*, (2014), since its growth occurred after undergoing a process of acquisition of new units, and the change in its management form has impacted its growth.

However, Estácio showed a decline in its net margin from the year 2014, when Kroton saw an increase in this indicator. When analyzing the history of revenue growth of the two institutions in detail, we can see that Estácio's net profit results in 2011 were higher than those of Kroton in the same period. After that year, Kroton rose sharply to R \$ 1 billion net profit in 2014, a fact that Estácio did not get until the year 2016. Evidence of what Schneider (2016) stated that Kroton is the largest company of market value in the world in the field of education because of its accelerated rise. Considering the billing with sales and services, it is perceived that the two main companies generate the residential higher education. Despite this, in terms of the EaD segment, Kroton takes a large advantage over Estácio, even though it had a decrease in 2014 after investments made in new institutions for face-to-face teaching as presented by DE PAIVA *et al.* (2014). Nevertheless, Kroton closed the year 2016 with a 20.36% share of EaD in its net revenue, and Estácio presented a result of 10.2%, even though Estácio has managed to increase the share of EaD in its revenue to over the years.

Thus, it can be seen that, broadly, there is an expansion of these great niches in the Higher Education segment. However, according to the results of this research, for Kroton its progress is more accelerated, and that EaD, as a more profitable and attractive form of study for students, has been gaining more and more space in corporate income, a fact evidenced by the research, since both Estácio and Kroton obtained an expansion of more than 100% in the comparison of the analyzed periods in what concerns the degree of participation of the EaD in the net revenue of the companies.

As an academic contribution, this study was of significant importance, both through its learning and its elaboration, as well as to the deepening of the knowledge in relation to the subject and, in addition, because it is a comparative analysis between two companies in the field of education. This work cooperated to broaden the knowledge of the studies in relation to issues related to education. Regarding the managerial contributions, it is important to note that the information analyzed here may be useful for future work, using more advanced techniques of statistics and finances. Moreover, the analyzes carried out in the study are restricted in data found in the financial statements of companies, and that the use of advanced financial techniques can thus complement this study and visualize in greater depth the impact that the EaD presents on profit and revenues of companies.

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