

BERKERYNOYES

INVESTMENT BANKERS

**An Overview of M&A
in the Education
Industry**

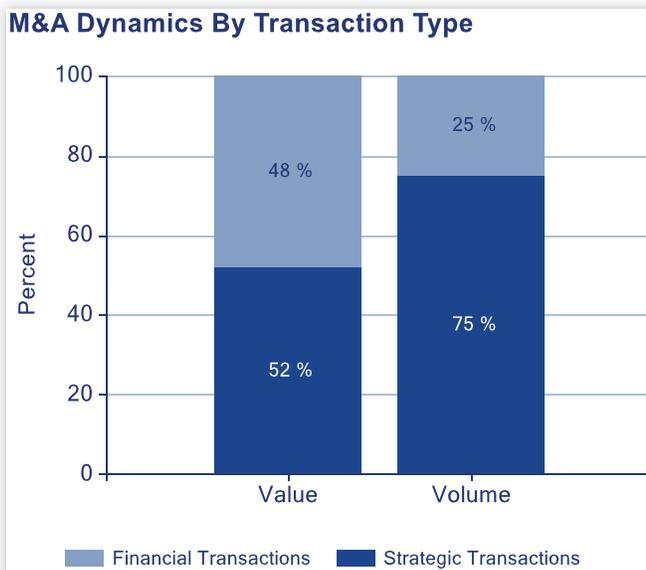
White Paper

Introduction

A confluence of factors continue to help shape the evolving education sector. This includes rising local and state tax revenues, the adoption of innovative pedagogical and blended learning tools, continued investment in early stage edtech companies, and an increasingly receptive buyer universe, consisting of the larger strategic players who are now able to focus a bit more externally and a surging number of financial sponsors who have interest in the space.

The focus on education access, data analytics, and outcomes driven technology products and services continues to shape the industry. The strategic players are making acquisitions in order to meet market demands in these areas across the entire education and training spectrum, from PreK-12 to Corporate Training. Moreover, the continued strong investment levels for early stage education companies should provide a fertile ground for future partnerships and M&A activity.

Data driven decision-making that is built into assessment capabilities will continue to redefine traditional publisher offerings. For instance, online evaluation in math and science is poised to have an impact on the future of learning for middle and high school students. This has already happened at the college level, where exam results are sent automatically to grade books. We expect acquirers across the education landscape to continue showing strong interest in adaptive learning solutions, as well as software that facilitates testing and measurement.



Current M&A Market Landscape

Strategic Buyers

- Strategic buyers accounted for 73 percent of in 2014, compared to 78 percent in 2013.
- The industry’s largest strategic transaction in 2014 occurred in the Higher Ed-Media and Tech segment. This consisted of The Advisory Board Company’s acquisition of Royall & Company, a provider of student engagement and enrollment management solutions, for \$850 million.
- As for notable strategic acquirers, Chegg and Wiley also completed transactions in 2014. Global publisher Wiley acquired CrossKnowledge, which offers digital learning solutions that focus on leadership and managerial skill development, for \$175 million. Meanwhile, online textbook rental company Chegg acquired InstaEDU, an on-demand tutoring service, for \$30 million. With this transaction, Chegg is looking to diversify its offerings in order to better compete with Amazon and others that are also in the school rental textbook market.
- In addition, Heartland Payment Systems’ acquired TouchNet Information Systems, a provider of payments and integrated commerce solutions to the Higher-Ed market, for \$360 million. Heartland completed another industry deal in 2014 with the acquisition of MCS Software, a foodservice point-of-sale and online payment solutions company that serves K-12 schools.

Financial Sponsors

- Private equity acquirers accounted for 27 percent of transaction volume and 55 percent of value in 2014.
- There was a 34 percent rise in the number of education deals backed by financial sponsors, from 67 to 90 transactions. The industry’s largest transaction in 2014 was Charterhouse Capital Partners’ \$2.3 billion acquisition of SkillSoft, which provides cloud-based learning solutions for enterprises and governments.

Industry Wide Valuations

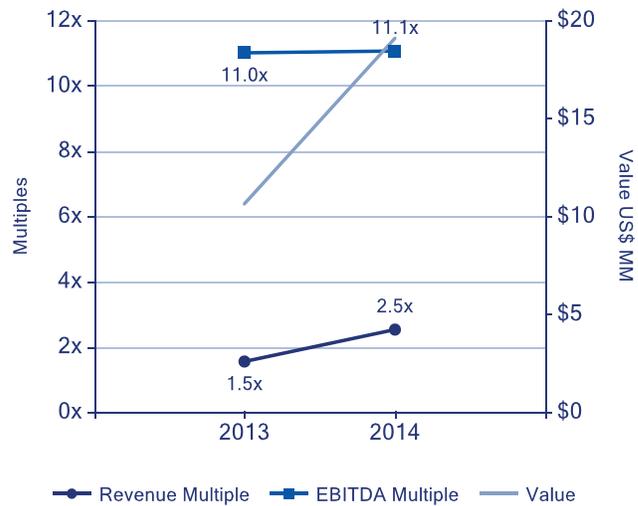
Enterprise value multiples over the past 24 months have been strong. The median revenue multiple during this timeframe was 2.1x, while the median EBITDA multiple was 10.4x.

M&A Analysis of the Past Two Years

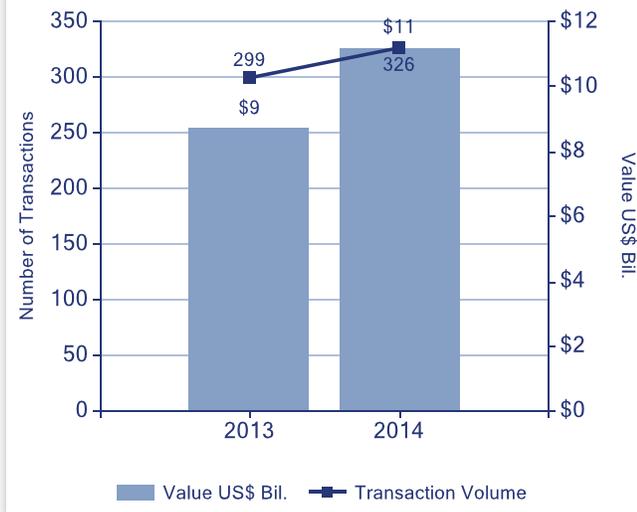
Berkery Noyes recorded 625 education industry merger and acquisition (M&A) transactions from the beginning of 2013 through the end of 2014. M&A volume improved nine percent on a year-to-year basis, whereas deal value gained 25 percent. The median revenue multiple increased from 1.5x to 2.5x, while the median EBITDA multiple remained nearly constant at 11.1x. Note that this covers all of the industry’s segments, including brick-and-mortar institutions.

Mid-market transactions in the \$10-\$20 million range received a median revenue multiple of 2.2x. Deals above \$160 million in enterprise value had a median revenue multiple of 4.3x. Meanwhile, transactions solely across the industry’s tech-based segments garnered a median revenue multiple of 2.8x.

Median Enterprise Value Multiples



M&A Market Dynamics



Key Trends Per Industry Segment

- K-12 Media and Tech.** The number of transactions in the K-12 Media and Tech segment increased 17 percent from 2013 to 2014. Deals by notable acquirers in the segment during the past year included Hellman & Friedman’s acquisition of Renaissance Learning, a K-12 assessment and analytics company, for \$1.1 billion; Insight Venture Partners’ acquisition of iParadigms, the creator of web-based plagiarism and student feedback solutions provider Turnitin, for \$752 million; Blackbaud’s acquisition of WhippleHill Communications, which provides cloud-based enrollment, learning, content, and student information

management solutions to K-12 private schools, for \$35 million; and Blackboard’s acquisition of ParentLink, a provider of K-12 communications tools that help connect teachers with parents.

Technology investments will continue to drive state and school district expenditures. In an environment of intense discourse on K-12 students’ learning, the online testing landscape varies enormously by state. However, tests and assessments have strong momentum at the individual state level. This is the case whether the state has incorporated the SBAC or PARCC consortium tests, purchased tests and assessments from Pearson, AIR or CTB, or developed its own state test through another test company. Very few states have deferred any action.

- Higher-Ed Media and Tech.** Higher-Ed Media and Tech deal activity declined ten percent, returning to its 2012 level. Acquirers in the space are showing demand for learning platforms and data reporting and analytics. Other areas of interest include hybrid student information systems and of course digital content and tools. Operational solutions in the Higher-Ed market that help institutions reduce infrastructure by combining various functions and also outsourcing solutions are in demand by acquirers as well.

- Professional Training Technology and Services.** The most active market segment in 2014 was Professional Training Services with 70 deals. Moreover, volume in the combined Professional Training Services and Technology

segments increased 19 percent from 2013 to 2014. One notable transaction in the Professional Training segments in 2014 was media company Bertelsmann's acquisition of Relias Learning, a Software-as-a-Service (SaaS) e-learning solutions and course content provider that serves the healthcare and senior care market, for a reported \$540 million. Bertelsmann acquired Relias Learning from Vista Equity Partners, which formed Relias Learning in 2012 after combining Silverchair Learning Systems and Essential Learning.

Other Professional Training deals completed by high profile acquirers during the year included Pluralsight's acquisitions of Smarterer, an online skills assessment platform, for \$75 million and Digital-Tutors, an online training resource for creative professionals, for \$45 million; Kaplan's acquisition of Dev BootCamp, a nine-week software coding program that turns beginners into full-stack web developers; and Providence Equity Partners' acquisition of a majority stake in VectorLearning, which offers online continuing education solutions to the architecture, engineering, and construction (AEC) and facilities management markets, from LLR Partners. Another notable acquirer was SkillSoft, which acquired SumTotal Systems, a provider of cloud-based human resources services. This followed Skillsoft's

acquisition by Charterhouse Capital Partners for \$2.3 billion earlier in 2014.

Conclusion

There is a steady increase in M&A activity in the education and training market as the strategic players in the space seek to adapt to a shift in learning modality and financial sponsors become increasingly interested in the opportunity presented by a sector in transition. In many instances, we are seeing a shift from live, in-person instruction to more of a SaaS model that emphasizes online or blended learning.

About Berkery Noyes

Founded in 1980, Berkery Noyes is an independent investment bank that provides M&A advisory and financial consulting services to middle market companies in the information and technology industries.

The firm offers skilled transaction management to publicly traded and privately held businesses and private equity groups in both sell-side and buy-side transactions. Berkery Noyes has managed over 500 transactions, ranging from several million to more than four billion dollars in value.

SELECTED EDUCATION TRANSACTIONS COMPLETED BY BERKERY NOYES

LRP Publications
HAS ACQUIRED THE EDUCATION TECHNOLOGY EVENTS
FROM
1105 MEDIA

EBIX
HAS ACQUIRED
Oakstone
A BUSINESS OF
bv
INVESTMENT PARTNERS
SINCE 1981

ilsc EDUCATION GROUP
RECAPITALIZATION WITH
Quad Partners

M.E. Sharpe
HAS BEEN ACQUIRED BY
Taylor & Francis
Taylor & Francis Group
A SUBSIDIARY OF
informa

WASSERSTEIN & CO
HAS ACQUIRED
Recorded Books
A BUSINESS OF
Haight Cross Communications

the mandell school
HAS BEEN ACQUIRED BY
ROCKET GROUP