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

White Paper

Introduction

The focus on education access, data analytics, and outcomes-driven technology products and services continues to shape the industry. Acquirers are looking to meet market demands across the entire education spectrum, from PreK-12 to Corporate Training.

Among many sectors, demand is strong for companies that provide solutions and services for professional education, English language training, and childcare. Moreover, the rapid adoption of e-learning technology and the growing training needs of the existing corporate workforce has led to a significant increase in corporate spending on outsourced training resources per employee.

In the K-12 sector, technology investments are having an impact on state and school district expenditures. Other areas of interest include hybrid student information systems and digital content and tools, learning platforms, and data reporting and analytics.

Acquirers throughout the education landscape are also looking for adaptive learning solutions. This includes software that facilitates testing and measurement. In the context of gains in online testing and assessment, automatic scoring and grading of essays are likely to develop more rapidly. This follows the shift in many instances from live, in-person instruction to more of a Software as a Service (SaaS) model that emphasizes online or blended learning.

Unsurprisingly, there has been considerable investment in companies with new assessment products given the

high growth and high profit nature of this sector. Taken as a whole, the flourishing investment levels for early stage education companies should provide a fertile ground for future partnerships and M&A activity.

Current M&A Market Landscape

Total transaction volume remained about constant on a year-to-year basis. Aggregate value more than tripled, from \$5.07 billion to \$16.79 billion. This followed a 73 percent decrease from 2015 to 2016. Of note, there were 24 deals in 2017 with disclosed values above \$100 million, as opposed to seven deals in 2016 and 28 deals in 2015.

Strategic Buyers

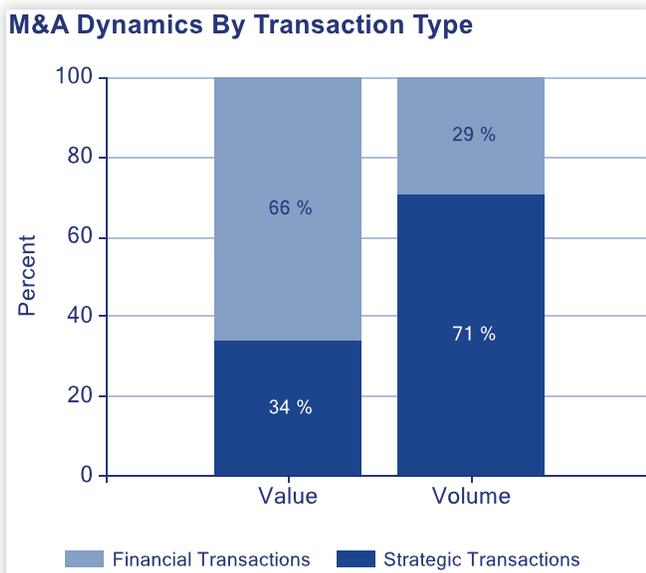
- Strategic volume stayed nearly the same from 2016 to 2017, representing 71 percent on the industry’s total activity over the past year.
- The only strategic deal to reach the top ten list of largest transactions during 2017 was Strayer Education’s announced merger with Capella Education Company for \$786 million.

Financial Sponsors

- Financial sponsors accounted for less than one-third of volume but more than one-half of value in 2017.
- Nine of the Education vertical’s top ten highest value deals during the year were backed by financial sponsors. Four of these nine transactions occurred in the combined Professional Training Technology and Services segments.
- Leeds Equity Partners was a notable acquirer in 2017 with four industry transactions, either directly or through an affiliated business: the CRM and Application Management product lines from Hobsons; Courseval, a provider of online course evaluation software used by higher education institutions to assess faculty and course performance; iLawVentures, which offers J.D., post-J.D. and international programs for law schools in the U.S.; and Navis Learning, a custom learning and development solutions company that serves a wide range of businesses.

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 9.6x.



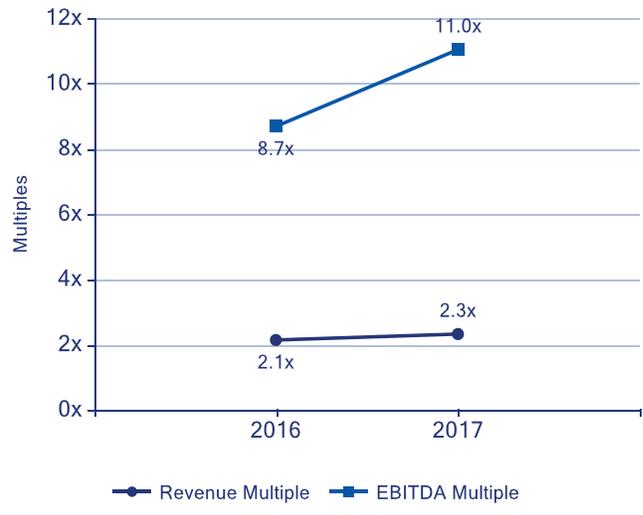
M&A Analysis of the Past Two Years

Berkery Noyes recorded 783 education industry merger and acquisition (M&A) transactions from the beginning of 2016 through the end of 2017.

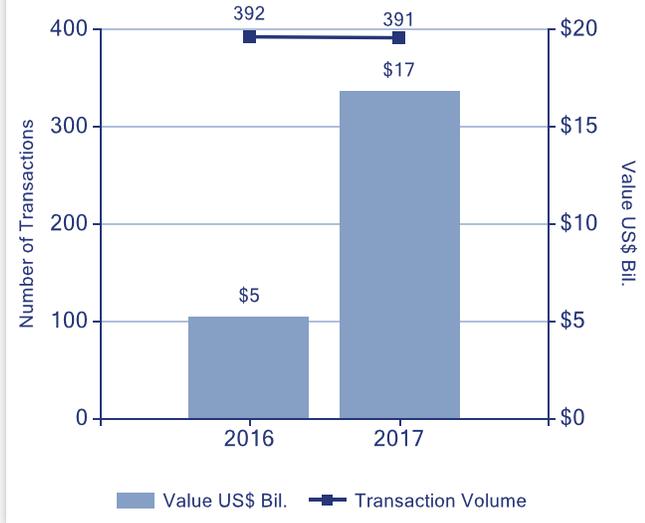
The industry’s median revenue multiple over the past year moved slightly from 2.1x to 2.3x. The median EBITDA improved from 8.7x to 11.0x. Note that this covers all segments, including brick-and-mortar institutions. Transactions solely across the industry’s tech-based segments during this period garnered a median revenue multiple of 2.6x.

Upon further examination, overall industry transactions in the \$10-\$20 million range received a median revenue multiple of 1.4x. Deals above \$160 million in enterprise value had a median revenue multiple of 2.7x.

Median Enterprise Value Multiples



M&A Market Dynamics



Key Activity Per Industry Segment

- **K-12 Media and Tech.** Transaction volume in the K-12 Media and Tech segment declined 16 percent on a yearly basis, which was close to its 2015 level. It retained a slight lead over Professional Training Services as the industry’s most active sector in 2017. Notable deals in the K-12 Media and Tech segment during the year included Thoma Bravo’s acquisition of Frontline Education, which offers cloud-based software solutions for recruiting, hiring, time and attendance, substitute management, and professional growth to school districts in the U.S.; Chegg’s acquisition

of Cogeon, a provider of adaptive math technology and developer of the math app Math 42; School Specialty’s acquisition of Triumph Learning, an educational content company and publisher of print and digital K-12 resources; Scholastic’s acquisition of Ooka Island, an adaptive, game-based learn to read program; and Sylvan Learning’s acquisition of Citelighter, which offers a browser-based tool that aims to increase students’ writing competency.

- **Higher-Ed Media and Tech.** Deal activity in the Higher-Ed Media and Tech segment was nearly constant throughout the last 12 months. The segment’s largest transaction in 2017 was Vista Equity Partners’ announced acquisition of The Advisory Board Company’s education business, which includes Royall & Company, for \$1.55 billion. Other notable segment transactions during the year included Macmillan Learning’s acquisition of Intellus Learning, an educational platform as a service company that gathers information across institutions to help faculty and administrators evaluate digital content; Elsevier’s acquisition of bepress, which offers a hosted institutional repository service used by more than 400 universities, colleges, law schools, and research institutes; and eCampus.com’s acquisition of Rafter, a course materials management company.

- **Professional Training Technology and Services.** The number of deals in the Professional Training Services segment increased 11 percent from 2016 to 2017. Notable transactions in the combined Professional Training Technology and Services segments over the past year included Blackstone Group and Canada Pension Plan

Investment Board's (CPPIB) announced acquisition of Ascend Learning, which offers educational content and online tools for students, educational institutions and employers, with a particular focus on healthcare and other licensure driven occupations, for \$2 billion; CVC Capital Partners' announced acquisition of QA, an IT education and skills business, for \$886 million; and Baring Private Equity Asia and CITIC Capital's acquisition of Wall Street English, a provider of English language training to adults, for \$300 million.

Conclusion

Education M&A activity is occurring at a steady pace. There is currently an opportunity for acquirers to take advantage of the digital adoption in education and the potential to create new pathways for instruction and credentialing.

The large strategic players in the industry are the diversified education companies who are steadily moving away from print and becoming more heavily focused on digital and services. Meanwhile, part of the role that private equity firms play in the sector is to create and grow companies of scale, which the strategic players often see as attractive

acquisition opportunities due to the larger size. An influx of private equity capital creates an environment that allows acquisitions by strategics to be more prevalent and impactful to the organization. This has occurred throughout the last several years.

Lastly, as the migration to digital formats and delivery progresses, the potential for transformation in the industry that is succeeding at the post-secondary level should continue to be substantial in many of the education subsectors.

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



AUTISM LEARNING PARTNERS
MAKING PROGRESS POSSIBLE

HAS BEEN ACQUIRED BY



FFL PARTNERS



RENOVUS CAPITAL

HAS ACQUIRED



PCE PRACTICING CLINICIANS EXCHANGE



eSD eSchoolData

HAS BEEN ACQUIRED BY



iD education

A PORTFOLIO COMPANY OF



LLR partners



Rubicon International

HAS RECEIVED AN INVESTMENT FROM



QUAD PARTNERS



bepress

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