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INVESTMENT BANKERS

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

White Paper

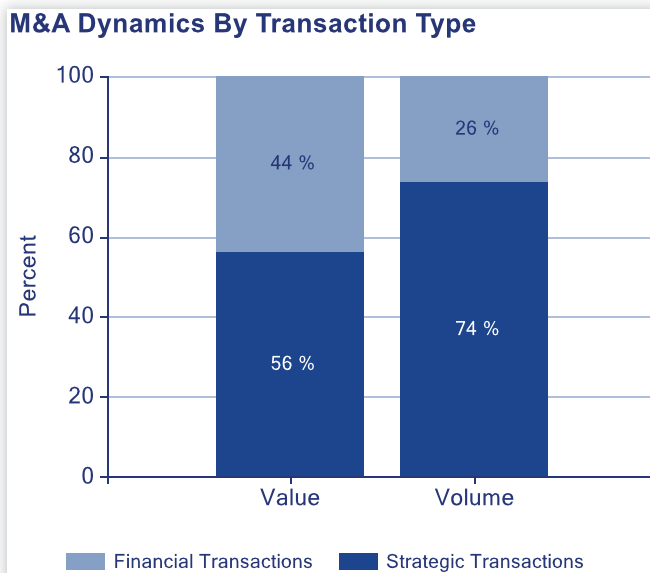
Introduction

Private equity firms are increasingly being drawn to the education industry, given the sheer scale of the market, the favorable lending environment, and the increasing number of companies that are growing with subscription based revenue models in the space. In addition, companies in cyclical sectors such as corporate training tend to benefit from an improving economic environment and are continuing to draw interest from acquirers.

At the same time, increasing utilization of data, the need for efficient interoperability of existing systems, and acceptance of technology that drives student outcomes or employee performance are all enabling factors that have helped to keep education and corporate training M&A activity healthy.

In the K-12 segment, many companies continue to be opportunistic regarding acquisitions, with the most sought after areas being e-learning, intervention and assessments. There has been a long stretch of M&A sector activity that is continuing due to the quality of targets in the market.

System infrastructure spending in both K-12 and Higher Education has become more of a priority among states, school districts, and institutions. The product offerings available for these markets have become more compelling in terms of cost savings, learning impact measurability, and system compatibility. The potential revenue has also created a high stakes environment among existing providers and has encouraged many larger software companies to enter into the market.



Meanwhile, as textbooks go digital, many of the channel problems associated with print textbook sales will likely be alleviated. Digital most frequently has a subscription revenue model with no rentals or used books. The innovation occurring in the education technology sector bodes well for future M&A activity, especially as bridging the learning gap continues to be a high priority. Many publishers have built or acquired important platforms for students, faculty, and administrators to improve outcomes from the education process.

Current M&A Market Landscape

Strategic Buyers

- Strategic acquisition volume declined 15 percent from 2015 to 2016. Strategic buyers represented 74 percent of volume in 2016, which was nearly flat relative to 2015.
- Six of the industry's top ten largest deals in 2016 were completed by strategic acquirers.

Financial Sponsors

- Private equity volume remained almost constant from 2015 to 2016.
- Financial sponsors accounted for 26 percent of volume in 2015, which was about the same as in 2014.
- PowerSchool Group, a portfolio company of Vista Equity Partners, was active in the K-12 Media and Tech segment during 2016 with the acquisitions of Chalkable, a provider of education data management, student achievement, and professional learning solutions to the K-12 public and private school markets; SRB Education Solutions, which offers complementary administrative and ERP solutions for K-12 school boards and districts in Canada; HAIKU Learning Systems, a cloud-based learning management system; TIENET, a software suite designed to help schools manage instructional, assessment and other educational services for special needs students; and Interactive Achievement, an instructional assessment software and analytical solutions company that serves school districts.

Industry Wide Valuations

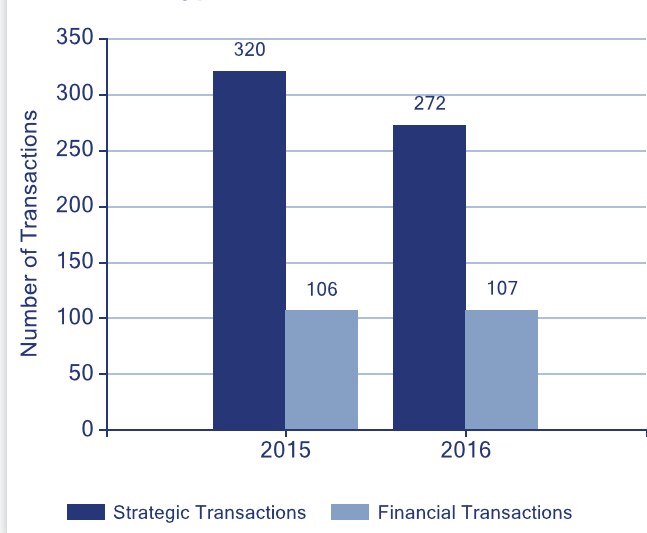
Enterprise value multiples over the past 24 months have been strong. The median revenue multiple during this timeframe was 2.0x, while the median EBITDA multiple was 8.9x.

M&A Analysis of the Past Two Years

Berkery Noyes recorded 805 education industry merger and acquisition (M&A) transactions from the beginning of 2015 through the end of 2016. M&A volume declined 11 percent on a year-to-year basis. This followed a 29 percent rise in 2014. Deal value fell 70 percent annually, which followed a 50 percent increase in 2014. The median revenue multiple over the past year moved slightly from 1.9x to 2.0x. The median EBITDA multiple also saw a minor shift from 9.2x to 8.7x. Note that this covers all of the industry's segments, including brick-and-mortar institutions. Transactions solely across the industry's tech-based segments during this period garnered a median revenue multiple of 2.4x.

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 2.3x.

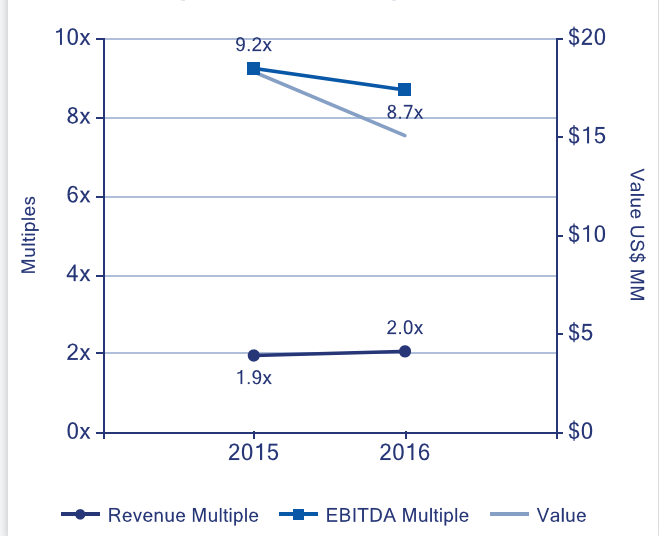
Transaction Type



Key Trends Per Industry Segment

- **K-12 Media and Tech.** M&A activity in the K-12 Media and Tech segment increased 19 percent over the past year. High profile acquirers in the K-12 Media and Tech segment during 2016 included Chegg with the acquisition of Imagine Easy Solutions, a provider of online writing tools that help students properly use citations, bibliographies, and other reference capabilities, for \$42 million with additional payments of up to \$18 million; McGraw-Hill Education with the acquisition of Redbird Advanced

Median Enterprise Value Multiples



Learning, a digital personalized learning company; Khan Academy with the acquisition of Duck Duck Moose, which creates children's mobile applications; Weld North's acquisition of Intellify Learning, a learning data management and analytics solutions company; and Apple's acquisition of LearnSprout, an online data insight service used by K-12 educators to track student performance.

- **Higher-Ed Media and Tech.** Deal volume in the Higher-Ed Media and Tech segment declined by slightly more than half, which marked a return to its 2014 level. Regarding notable Higher-Ed transactions in the tuition and fee payment space, Blackboard acquired Higher One Holdings for \$260 million and Sequoia Retail Systems.

- **Professional Training Technology and Services.** The number of deals in the Professional Training Services segment remained about constant. However, volume in the Professional Training Services segment, following a 22 percent rise in 2015, fell 36 percent. Notable Professional Training transactions in 2016 included Leeds Equity Partners' growth equity investment in Project Management Academy, which teaches over 400 courses annually to more than 8,000 students, and offers in-house training to corporations; Renovus Capital's investment in Red Nucleus Solutions, a design and development provider of learning solutions for the life sciences industry; General Assembly's acquisition of Bitmaker, a Toronto-based coding bootcamp; and Strayer Education's acquisition of New York Code & Design Academy, a provider of non-degree web and mobile app development courses.

• Childcare Services. The Childcare Services segment saw an uptick in volume, from 20 to 23 transactions. Notable Childcare Services deals in 2016 included Morgan Stanley Global Private Equity’s acquisition of Cadence Education, which serves more than 20,000 students across its national platform of more than 150 schools across 20 states; and Quad C-Management’s acquisition of Rainbow Child Care Center, which provides early education services to more than 10,500 students and 121 schools in the Midwest, Mid-Atlantic, and Southeast U.S.

Conclusion

The education industry is going through a period of transition. 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. We expect to see the rise and use of newer learning management systems, adaptive/personalized learning and other platforms that facilitate instruction in both an online and ground environment. In addition, the proliferation of tablets has accelerated the pace at which students are utilizing digital tools and content, allowing the introduction of new entrants into the space and compelling

incumbent education providers to evaluate new technologies and models. All of this bodes well for future M&A activity.

In the corporate and professional education space, the need for continuing education and workforce development continues to expand while technology has improved the delivery and efficacy of instruction. Spending on training and perks to retain existing employees has become more important on the corporate level. Consolidation and market growth in the training sector is also being spurred on by players who can provide the full breadth of human capital management software and services.

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



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