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

White Paper

Introduction

Education M&A activity continues to rebound at a steady pace, as companies in the cyclical subsectors such as childcare services and corporate training benefit from an improving economic environment. 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.

Importantly in K-12 education, a transformation is occurring from the top levels on down due to technology and innovation, some elements of which have succeeded at the post-secondary level. For instance, as textbooks go digital, a digital subscription model with no rentals or used books might become more widespread.

The renewed focus on accountability and measurable results in K-12, driven in large part by the Common Core, means that many of the traditional education companies will be looking to add to their capabilities through acquisition. Likewise, as the migration to digital formats

and delivery continues, 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.

Current M&A Market Landscape

Strategic Buyers

- Strategic buyers accounted for 78 percent of in 2013, compared to 70 percent in 2012. In terms of notable acquirers, both Pearson and McGraw-Hill made acquisitions pertaining to assessment and testing software during 2013.

For example, Pearson’s acquisition of Learning Catalytics was centered on cloud based learning analytics and assessment for Higher-Ed, whereas its acquisition of ExamDesign focused on exam development software and hiring certification tools for businesses. Meanwhile, McGraw-Hill Education acquired ALEKS Corporation, which develops assessment software for both the K-12 and Higher-Ed markets.

- The language training market has also been active as of late. Along these lines, Rosetta Stone was a notable buyer in 2013 with the acquisitions of global language software business Tell Me More and online language learning community Livemocha. Meanwhile, Pearson’s \$829 million acquisition of Grupo Multi, an English language training company headquartered in Brazil, was the largest transaction in this subsector throughout the past year.

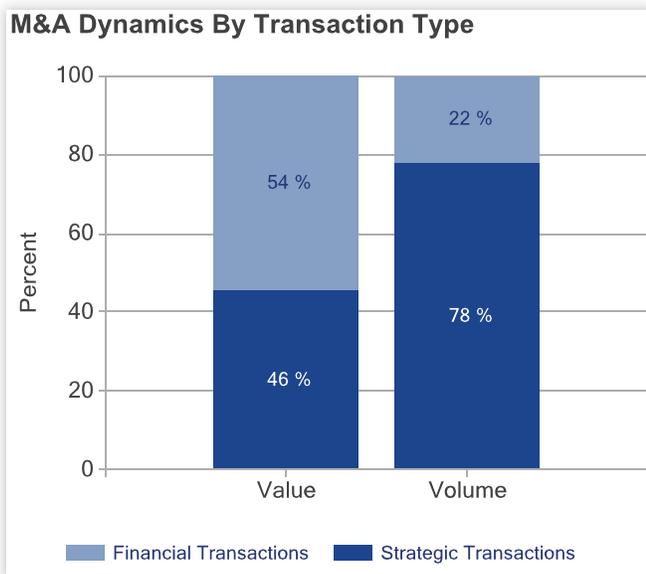
Financial Sponsors

- Private equity acquirers accounted for 22 percent of transaction volume and 54 percent of value in 2013, compared to 30 percent of volume and 63 percent of value in 2012.

- The industry’s largest private equity transaction in 2013 was TPG Capital’s acquisition of TSL Education, a digital education publisher, for \$549 million.

Industry Wide Valuations

Enterprise value multiples over the past 24 months have been strong. The median revenue multiple during this timeframe was 1.5x, while the median EBITDA multiple was 11.2x.

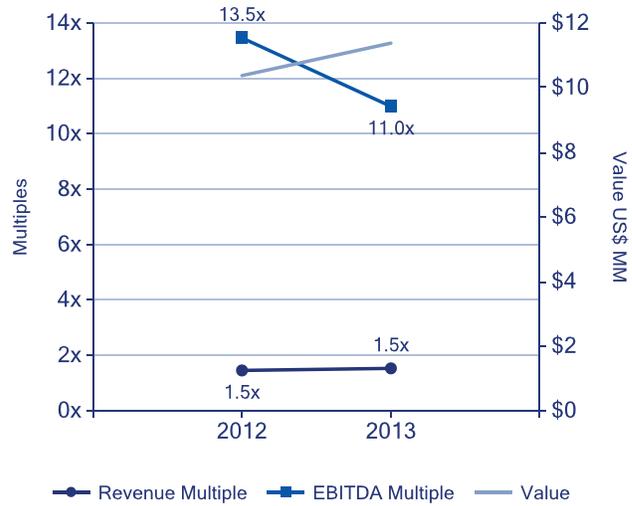


M&A Analysis of the Past Two Years

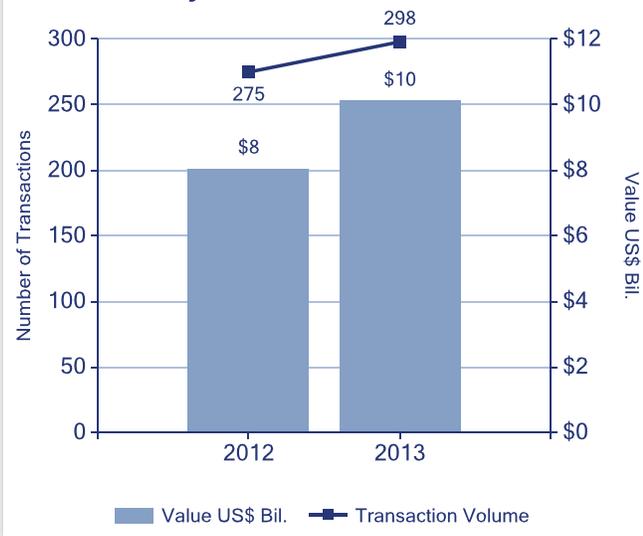
Berkery Noyes recorded 573 education industry merger and acquisition (M&A) transactions from the beginning of 2012 through the end of 2013. M&A volume improved 8 percent on a year-to-year basis, whereas deal value increased 26 percent. The median revenue multiple remained constant at 1.5x, while the median EBITDA multiple declined from 13.5x to 11.0x. This marked a return to the industry's 2011 EBITDA valuation.

Mid-market transactions in the \$10-\$160 million range received a median revenue multiple of 1.3x. Deals above \$160 million in enterprise value had a median revenue multiple of 2.5x. Note that this covers all of the industry's segments, including brick-and-mortar institutions.

Median Enterprise Value Multiples



M&A Market Dynamics



Key Trends Per Industry Segment

- **Childcare Services.** M&A volume in the Childcare Services segment tends to be cyclical given that it usually rises as the economy gains strength, which it appears to be doing now. Likewise, as both parents enter the workforce and secure employment, the need for childcare increases.

One active acquirer in the space has been Bright Horizons Family Solutions, an early education provider that was taken private in 2008 by Bain Capital for \$1.3 billion. Bright Horizons, which went public again in 2013 (NYSE: BFAM), acquired Kidsunlimited for \$68 million and Children's Choice Learning for \$53 million in 2013, as

well as Casterbridge Care & Education for \$116 million in 2012.

- **K-12 Media and Tech.** With the implementation of the Common Core standardized curriculum, the focus on content is becoming less about differentiation and more about delivery through emerging technology platforms. Interactive assessment tools that measure student progress, particularly in the quantitative disciplines, will thus become even more important in K-12 education as schools aim to meet specific testing benchmarks. Acquirers are increasingly interested in e-learning solutions that will both complement and build upon their existing products.

Tablets are also beginning to play a more important role in the classroom, which is drawing the attention of some acquirers. For example, Renaissance Learning acquired Subtext in 2013, an e-reading platform that facilitates learning objectives in line with the Common Core standards.

- **Higher Ed Media and Tech.** Higher Ed is going through a period of transition. This was ignited by the recession, which highlighted the high cost of education as well as student debt loads, poor academic outcomes, and unemployment after graduation. These factors have created an environment where many are questioning the value of the traditional education models.

The large education players continue to make acquisitions to help manage their transformation from print to digital, strengthen their presence in new emerging markets and

increase their services-related revenue streams. Higher-Education institutions are looking to expand their online programs and outsource elements of the student life cycle to reduce costs with the emergence of software-based solutions.

- **Professional Training Institutions and Technology.** The rapid adoption of e-Learning technology and the growing training needs of the existing corporate workforce, coupled with a tepid rate of new hiring, has led to a significant increase in corporate spending on outsourced training resources per employee. As spending on training for employees increases with a recovering economy, corporate and professional training has become a growing area of interest to both financial and strategic acquirers.

In terms of related M&A activity, developer training platform Pluralsight completed three acquisitions in 2013: Tekpub, a screencast provider for technology professionals; TrainSignal, a training network focused on IT professionals, for \$24 million; and PeepCode, an open-source training solution for Web developers. Also of note, Twitter has shown an interest in open-source training solutions, as indicated by the company's acquisition of Marakana. With this transaction, Twitter is creating its own "university" to provide its engineering staff with more technical course offerings and tutorials.

Conclusion

As indicated by recent transactions in Q1 2014, such as the sale of Skillsoft to Charterhouse Capital Partners for \$2.3 billion and Renaissance Learning to Hellman & Friedman for \$1.1 billion, the Education M&A market is showing signs of strength. Strategic buyers are determined to accelerate their own growth by making acquisitions, and private equity has capital available to help entrepreneurs accelerate their growth and achieve liquidity.

In particular, the digital subscription model that is becoming more prevalent across the entire education spectrum, from K12 to professional/corporate training, is especially attractive to acquirers due to the visibility and recurring nature of the revenues.

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.

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