

**BERKERYNOYES**

INVESTMENT BANKERS

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

**White Paper**

## Introduction

The education sector has been very active lately. In particular, companies that are online and digital are attractive acquisition candidates. The industry's largest area of activity in 2015 was in the corporate and professional education space. The need for continuing education and workforce development is expanding as technology improves the delivery and efficacy of instruction.

Moreover, M&A is being driven by consolidation in certain niches within K-12. This includes data and assessment, content management systems, and human capital and talent management, among others. Acquirers are looking for recurring revenue from companies that have traction and repeat sales, and whose products are finding adoption among more school districts.

Many companies are also readily available to be acquired by private equity firms, which can borrow on attractive terms to purchase them. In addition it's worth noting that the education market seems to be bifurcated. Although print is still widely used in the classroom, the long-term trends favor digital content, data analytics, and assessment tools.

In the context of strong gains in online testing and assessment, automatic scoring and grading of essays are likely to develop more rapidly. One of the main challenges to overcome before this technology is more widely adopted is to improve the training in its use and overall understanding of its reliability and cost effectiveness. At the post-secondary level, online homework grading in subjects such as math, chemistry, and other quantitative disciplines

has made some headway. Considerable investment in companies with new assessment products will eventually lead to robust M&A activity with acquirers seeking to participate in this high growth and high profit area.

## Current M&A Market Landscape

### Strategic Buyers

- Strategic acquisition volume improved 30 percent from 2014 to 2015.
- Eight of the industry's top ten largest deals in 2015 were completed by strategic acquirers. The largest strategic deal in 2015 was LinkedIn Corporation's acquisition of Lynda.com, an online learning company that provides video tutorials and courses covering business, software, creative, and other areas, for \$1.5 billion.
- The industry's most active strategic acquirer in 2015, either directly or through an affiliated business, was Bertelsmann with four transactions. Bertelsmann acquired Redilearning, an online learning company that serves the senior care sector; Academy Medical, a provider of continuing education content for various healthcare providers; YoBoHo, a digital media company that specializes in creating original content for children; and Alliant International University, a network of five California-based professional schools.

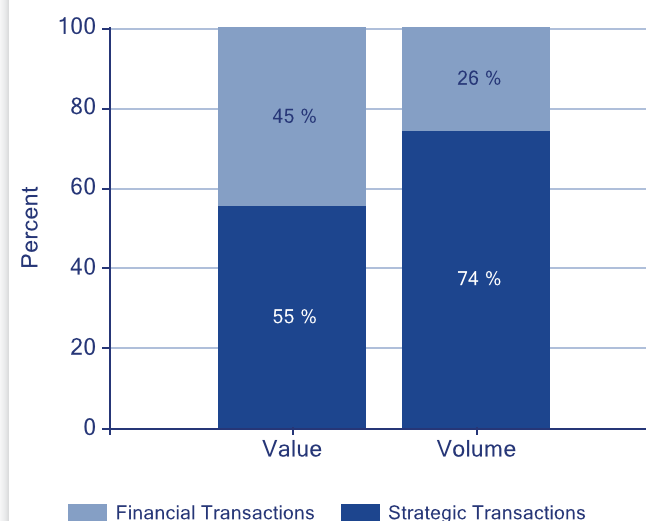
### Financial Sponsors

- Financial sponsors accounted for 26 percent of volume in 2015, which was nearly the same as in 2014.
- The largest sponsored transaction in 2015 was TPG Capital and Leonard Green Capital Partners' announced acquisition of Ellucian, which provides higher education software, services and analytics, for \$3.5 billion. Providing some more historical background, Hellman & Friedman acquired SunGard Higher Education from SunGard Data Systems for \$1.8 billion in 2011. This resulted in a merger under a new holding company with Datatel, which was rebranded as Ellucian.

### 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 10.1x.

## M&A Dynamics By Transaction Type

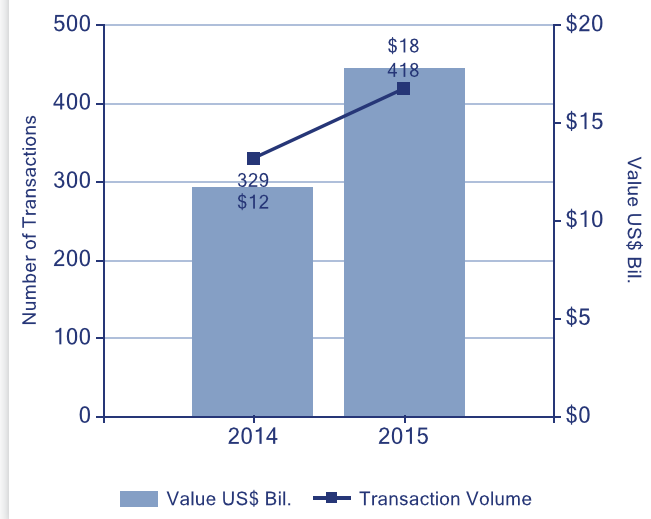


## M&A Analysis of the Past Two Years

Berkery Noyes recorded 747 education industry merger and acquisition (M&A) transactions from the beginning of 2014 through the end of 2015. M&A volume improved 26 percent on a year-to-year basis, whereas deal value gained 52 percent. The median revenue multiple declined from 2.4x to 2.0x, while the median EBITDA multiple decreased from 11.5x to 9.6x. 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 2.7x.

Meanwhile, mid-market education transactions in the \$10-\$20 million range received a median revenue multiple of 2.0x. Deals above \$160 million in enterprise value had a median revenue multiple of 3.9x.

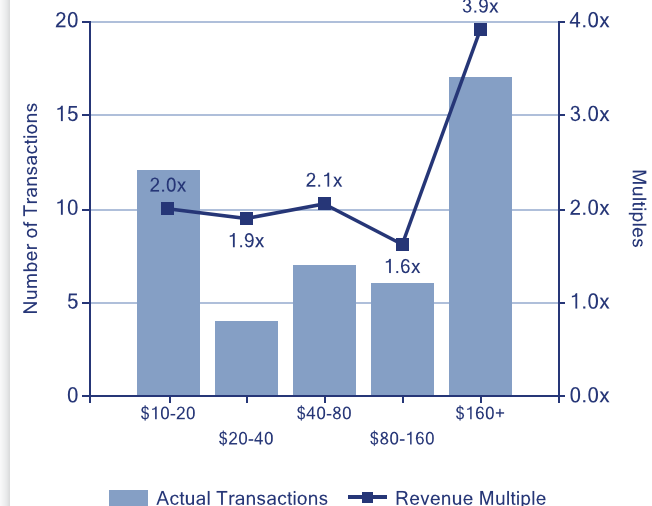
## M&A Market Dynamics



## 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 over the past year. High profile segment deals included Houghton Mifflin Harcourt's acquisition of Scholastic Corporation's Education and Technology Services business for \$575 million; Vista Equity Partners' acquisition of PowerSchool, a web-based student information system, for \$350 million; and Blackbaud's acquisition of SmartTuition, a provider of payment software and services for private schools and parents, for \$190 million. Other notable deals included Pearson's sale of Family Education Network, a

## Median EV/Revenue Multiples By Size



global leader in the consumer informal learning space, which owns one of the largest integrated digital audiences of kids, parents, and teachers in the world, to Sandbox Partners; Data Recognition Corporation's acquisition of McGraw-Hill Education's CTB assessment assets; and Blackboard's acquisition of Schoolwires, an educational website, hosting, and content management provider to K-12 schools.

- **Higher-Ed Media and Tech.** The Higher-Ed Media and Tech segment experienced a 68 percent increase in volume, making it the sector with the largest yearly gain. Notable acquirers in the segment included Cengage Learning with the acquisitions of Pathbrite, a web-based portfolio tool that allows students to store their completed coursework; and Learning Objects, an education technology company with solutions that support customized and adaptive online learning programs and courses; The Gordian Group with the acquisition of Sightlines, a provider of facilities benchmarking data and expertise; and Leeds Equity Partners with the acquisition of Campus Labs, a software platform for colleges and universities to make data driven decisions ranging from accreditation to student retention to effective operations.

- **Professional Training Technology and Services.** Transaction volume in the Professional Training Services segment increased 15 percent, making it the industry's most active market sector during the year. The Riverside Company was active in the space with the acquisitions

of Health and Safety Institute, a training and compliance company; C-Learning, which specializes in online content development, learning management, and other e-learning solutions; and Digital Ignite, SaaS-based continuing education and learning management software company.

In terms of high profile deals relating to the continuing medical education (CME) sector, Premier acquired CECity.com for \$400 million; Wolters Kluwer Health acquired Learner's Digest International for \$150 million; and Relias Learning acquired Academy Medical. Also of note outside the subsector, Relias Learning was acquired in 2014 by Bertelsmann for \$540 million.

- **Childcare Services.** The Childcare Services segment saw a 58 percent gain in volume, from 12 to 19 transactions. The segment's largest deal in 2015 was Anchorage Capital Partners' acquisition of Australian based Affinity Education Group, which owns and operates over 150 childcare centers, for \$166 million. Meanwhile, one notable acquirer in the segment was Bright Horizons Family Solutions with the acquisition of U.K. based Active Learning Childcare, an operator of nine nurseries. Bright Horizons also completed a deal earlier in 2015 with the acquisition of Hildebrandt

Learning Centers, which is based in Pennsylvania and operates 40 childcare centers in the Mid-Atlantic region.

### Conclusion

The education industry's increased deal value in 2015 derived from the significant participation of strategic acquirers. A combination of content with technology yielded the highest transaction value premiums. Despite the recent turbulence in the capital markets, we expect the growing usage of technology in education and training to secure high transaction values in 2016.

### 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

