

PreK-12 Markets Remain Open and Active for M&A

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ADAM NEWMAN joined Berkery Noyes in 2008 as a Director. Prior to joining the firm, Adam served as Managing Vice President at Eduventures, Inc. a leading strategic market research and consulting firm supporting K-12 and postsecondary education businesses, investors, and colleges and universities. Adam ran the firm's Industry Solutions division which worked with executives to develop and drive corporate and growth strategy initiatives. In addition, Adam and his team also provided M&A due diligence support to strategic and financial investors in the education space, offering recommendations and advice on acquisitions, strategic partnerships, and divestitures.

CHRIS CURRAN joined Berkery Noyes in 2004 as a Managing Director and brings a wide range of education, management, and consulting experience to Berkery Noyes. Chris served as a Managing Director at Eduventures, Inc., and was Vice President of business development at I.COMM, Inc., a software design and network integrator specializing in the education, government and healthcare markets. Throughout his career, Chris has led many leading transactions within the education industry including Leeds Equity Partners purchase of Ex Libris Group, Excelsior Software's acquisition by Knowledge Universe, Interwrite Learning's sale to elnstruction Corp., Edstructures sale to Pearson, Kurzweil Education's acquisition by Cambium Learning, Leeds Equity Partners purchase of elnstruction, Monotype's sale to Calvert Street Partners, the sale of Psychological Services Inc. to Abry Partners, and Questar's sale to Touchtone Applied Sciences, among others.

2008 Key Highlights in the PreK-12 Sector

- The largest transaction in 2008 was Bain Capital's acquisition of Bright Horizons Family Solutions for \$1.33 billion. Moreover, the PreK/Early Childhood Education segment was one of the most active ones in 2008, with 15 announced transactions.
- The K-12 Schools segments—which include Pre-K/early childhood businesses, private schools, and special needs/alternative schools—experienced the greatest volume of M&A activity in 2008. Nobel Learning Communities and American Education Group were particularly acquisitive, with each company announcing multiple transactions.

2008 vs. 2007 Key Trends in PreK-12

- Total transaction volume increased slightly in 2008, from 79 deals in 2007 to 80 in 2008.
- At the same time, total transaction value decreased 57% in 2008, from \$9.9 billion in value in 2007 to \$4.3 billion in 2008.
- Median transaction value for K-12 deals was \$13 million in 2008, an 11% decline from the previous year's figure.

PreK-12 Market Forecast: Leading Investment Themes

While the broader economy remains sour, our engagements with leading strategic investors and private equity firms indicate that interest remains extremely strong for education deals in 2009. Moreover, given the median size of K-12 deals over the past several years, tight credit markets should have a limited impact on most prospective deals. We have highlighted below three notable investment themes for 2009.

Tighter integration occurs between administrative and academic systems — The days of K-12 data siloes are coming to an end, driven predominantly by the reporting requirements of NCLB and the recognized impact of well-

M&A Market Dynamics



figure 1

Median Enterprise Value Multiples

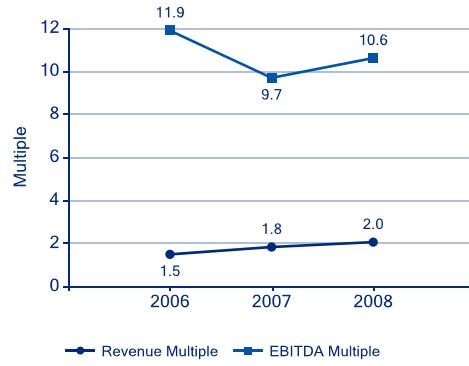


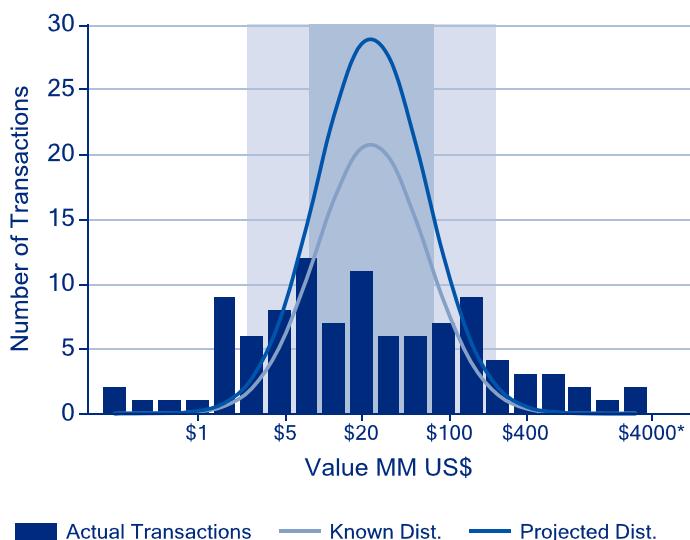
figure 2

Figure 1. Value and volume comparison for PreK-12 transactions between January 2006 and December 2008

Figure 2. Median enterprise value/revenue and enterprise value/EBITDA multiples for PreK-12 transactions between January 2006 and December 2008

Transaction Analysis | January 2006 – December 2008

Bell Curve - Histogram



Mean: \$208 million **Median:** \$23 million **Largest:** \$4,000 million

Figure 3. Shows distribution of transactions among PreK-12 education sector transactions based on publicly available information and Berkery Noyes estimates. Using a logarithmic scale, we determined that nearly two-thirds of companies purchased had enterprise values of \$2.7 million to nearly \$245 million. Based on these data, we estimate the total transaction value of deals done from January 1, 2006 to December 31, 2008 at \$25.1 billion.

Distribution Table

Value in MM US\$	Known Number	Projected Number	Total Number	%	Cumulative %
\$0.2	2	0	2	2 %	2 %
\$0.4	1	0	1	1 %	3 %
\$0.6	1	0	1	1 %	4 %
\$1.0	1	0	1	1 %	5 %
\$1.6	9	1	9	9 %	13 %
\$2.7	6	3	8	6 %	19 %
\$4.5	8	7	15	8 %	27 %
\$7.4	12	14	26	12 %	38 %
\$12.2	7	23	29	7 %	45 %
\$20.1	11	28	39	11 %	56 %
\$33.1	6	28	33	6 %	62 %
\$54.6	6	21	26	6 %	67 %
\$90.0	7	12	19	7 %	74 %
\$148.4	9	6	14	9 %	83 %
\$244.7	4	2	5	4 %	87 %
\$403.4	3	1	3	3 %	89 %
\$665.1	3	0	3	3 %	92 %
\$1,096.6	2	0	2	2 %	94 %
\$1,808.0	1	0	1	1 %	95 %
\$2,981.0	2	0	2	2 %	97 %
Total #		104	145	249	
Total \$ Value		\$21,597	\$3,492	\$25,089	
				Middle 3rd of Industry	Middle 2/3rds of Industry

Figure 4. Presents detailed data that is depicted in the bell curve-histogram (Figure 3)

Strategic vs. Financial Comparison | January 2006 – December 2008

M&A Dynamics By Transaction Type

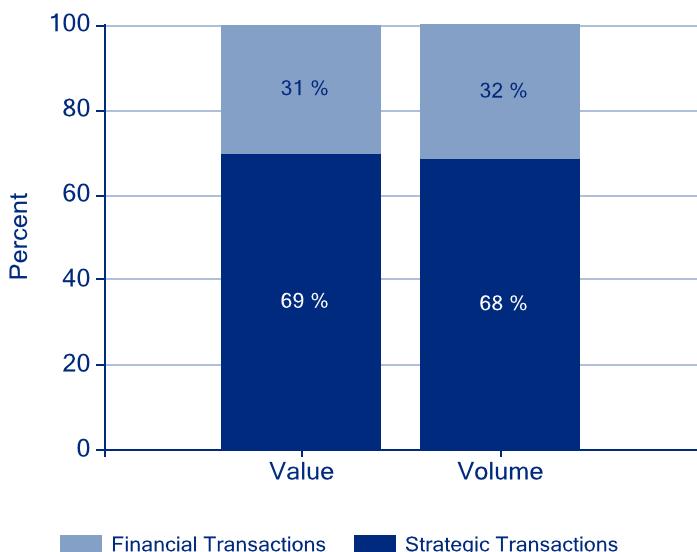


Figure 5. Among the 249 transactions in the K-12 market tracked by Berkery Noyes between 2006 and 2008, strategic investors captured 68 percent of the volume and 69 percent of the aggregate value. This accounts for 170 transactions representing more than \$17.3 billion of enterprise value.

Transaction Type

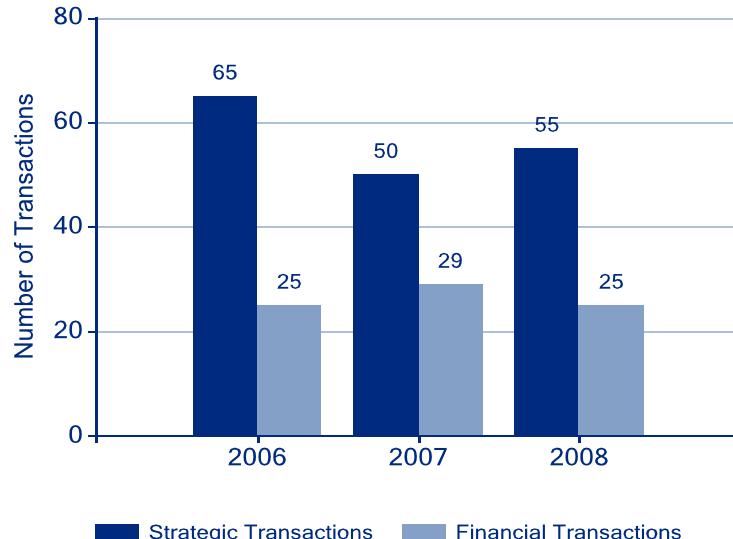


Figure 6. Strategic investors were more active in 2008 as compared to 2007, with a 10 percent increase in the volume of transactions. However, with the three largest deals in 2008 led by financial investors, these firms represented a disproportionate percentage of the transaction value. This trend was in stark contrast to 2006 and 2007, when strategic investors accounted for 87 percent and 69 percent of transaction value, respectively.

Transaction Volume by PreK-12 Segment | January 2006 – December 2008

Transactions By Market Segment

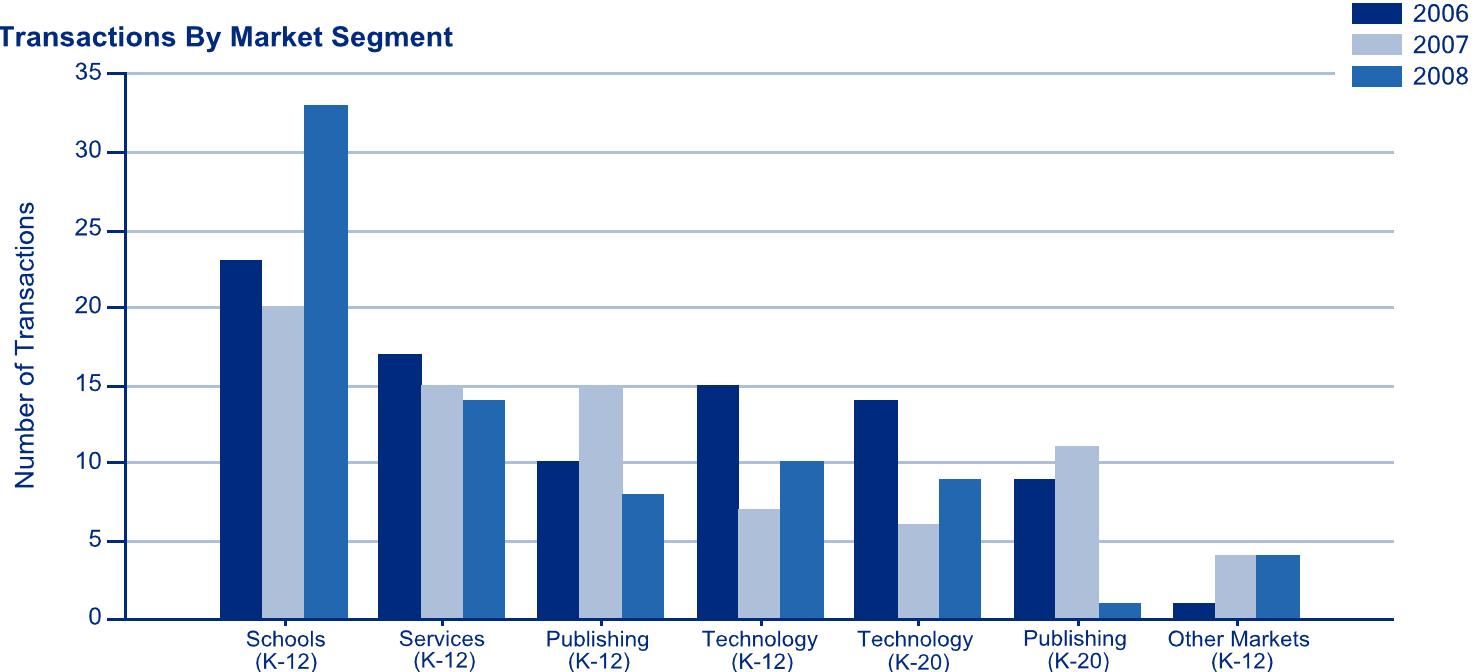


Figure 7. Presents the transaction volume in K-12 markets by year from 2006 to 2008, predicated on the target company's business segment. Key market segments include: PreK/early childhood education, private schools, alternative education/special needs schools (Schools); Core curriculum, supplemental content, assessment, library reference content (Publishing); Academic systems, administrative systems, classroom infrastructure (Technology); Professional development, content development services, tutoring and test preparation, manufacturing and distribution, after/summer school (Services). Companies included in the K-20 segments (i.e., Publishing, Technology) deliver products and services to both K-12 and postsecondary customers.

PreK-12 Purchaser Analysis | January 2006 – December 2008

Median EV/Revenue Multiples By Size

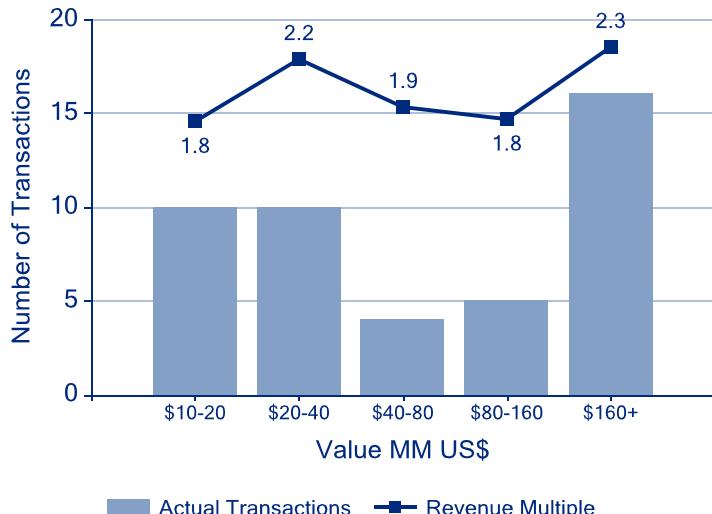


Figure 8. Presents the median enterprise value/revenue multiples paid for companies active in the K-12 markets between 2006 and 2008. Figures are based on both publicly available and selected private sales price and revenue data.

Top Ten Notable Transactions 2008

Deal Date	Target Name	Buyer	Value MM US\$
01/14/08	Bright Horizons Family Solutions	Bain Capital	\$1,327
03/05/08	Learning Care Group, Inc.	Morgan Stanley	\$700
08/07/08	Nord Anglia Education Plc	Baring Private Equity Partners Ltd.	\$338
02/13/08	Data Management business from Pearson plc	M&F Worldwide Corp.	\$225
01/09/08	Alpha Plus Group Ltd	Delancey Estates Ltd.	\$217
01/15/08	NTI Group	Blackboard Inc.	\$194
08/07/08	QSP, Inc.	Time Inc.	\$110
04/08/08	Kidsunlimited	Lloyds TSB Development Capital	\$89
02/05/08	Kinderschule Co., Ltd.	Very & More CO., Ltd.	\$46
08/05/08	Ex Libris Ltd.	Leeds Equity Partners	N/A
2008 Aggregate Transaction Value			\$4,303
Top 9 Aggregate Transaction Value			\$3,246
Top 9 Aggregate Value as a Percentage of All Transactions			75 %

Figure 9. Lists the top ten announced transactions for 2008 and presents their aggregate enterprise value as a percentage of the 2008 total aggregate enterprise value as shown in Figures 1 and 4. If the transaction value is listed as "N/A," Berkery Noyes did not calculate that value into the figures above.

About Berkery Noyes

Founded in 1980, Berkery Noyes is the leading independent investment bank specializing in the information content and technology industries. The firm has initiated, managed and closed more than 400 merger and acquisition transactions for privately held and publicly traded companies in the business, technology, education, health, financial and legal information segments. Berkery Noyes is unique among investment banking firms in that we combine truly independent strategic research and industry intelligence with senior information technology banking expertise. With no equity fund or brokerage business to manage, our partners and investment banking professionals are one hundred percent focused on M&A advisory services. Berkery Noyes employs over 40 individuals with deep industry knowledge and experience who strive to exceed our clients' expectations by maximizing the full value of their information technology and content assets.

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www.berkerynoyes.com

presented data's impact on informing student instruction. Moreover, the American Recovery and Reinvestment Act's allocation of \$250 million to support implementation of statewide longitudinal data systems investment across the next two years will create a further tailwind for this integration. SchoolNet's acquisition of CampusWare and SunGard Public Sector's acquisition of Performance Pathways in the first quarter of 2009 confirm a trend our team has been actively tracking.

Response to intervention (RtI) moves into the mainstream — RtI is a systemic approach for helping struggling learners in the general population before they fail and face a special education referral. Combining elements of targeted intervention, formative assessment, individual learning plans and case management, and professional development, numerous companies are bringing to bear expertise in this emerging area. Many districts will seek strategies for applying their share of the \$11.3 billion in additional IDEA funding to launching and/or extending RtI initiatives.

Growth in K-12 Online Services Firms Serving Districts and Schools — By the end of 2008, 44 states were directly offering some form of online learning options for students. In Florida, legislation was recently passed requiring all 67 counties to set up virtual learning opportunities for elementary and middle school students by August 2009. These—and other—initiatives are being met by a growing number of businesses providing online instructional programs, technology platforms and related services, and academic support services. Educational Options announced acquisition of Siboney Learning in the first quarter of 2009 represents one of the many deals we expect to see in this space in the coming year.

The PreK-12 markets have also witnessed a notable re-entry and expanding group of strategic buyers, buoyed by tight credit markets, and an increasing tendency of active private equity firms to over-equitize transactions and decrease their reliance on high cost of capital leveraging tools. In addition, some private equity buyers are taking advantage of captive debt funds in order to self-finance and gap-fill their investment models to complete transactions.

In addition to the themes noted, Berkery Noyes' education practice is actively tracking trends and opportunities across 15 specific market segments, and related sub-segments in our PreK-12 market taxonomy.

To learn more about the current PreK-12 M&A environment or to discuss your particular organization, please call 212.668.3022 or email us to arrange a confidential discussion.

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