

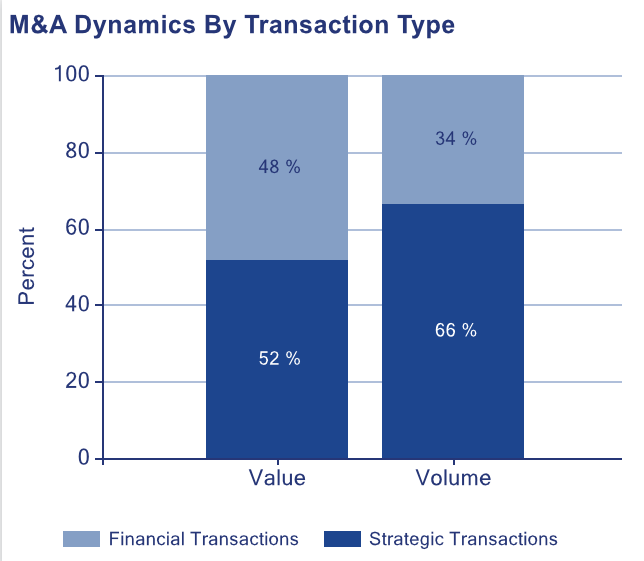
**An Overview of M&A
in the Education
Industry**
White Paper

Introduction

There has been a steady increase in M&A activity in the education market. Strategic players in the space are seeking to adapt to a shift in learning modalities while financial sponsors have become interested in the opportunity presented by a sector in transition. In many instances, there is an ongoing shift from live, in-person instruction to a model that emphasizes online or blended learning.

The K-12 education market remains active, as new technologies and services help improve student performance and teacher efficiency, improving overall outcomes. Companies that offer adaptive learning solutions and assessment products continue to have a meaningful impact. Advancements in online education, digital classrooms, specialized curriculum, and peer-to-peer sharing platforms are transforming the ways in which teachers and students collaborate inside and outside the classroom.

With the emergence of the COVID-19 pandemic and subsequent closure of schools worldwide, remote learning has become more important than ever. Laptops and tablets have 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. However, there is an uneven level of accessibility and preparedness for remote education in K-12 throughout the U.S. The disparities between suburban and inner-city districts presents a plethora of challenges, for example the lack of student access to learning devices and reliable broadband.



The Higher-Ed market has seen online proctoring, testing, and assessment gain traction and rapidly expand. This includes online grading in subjects such as math, chemistry, and other quantitative disciplines. The automatic scoring and grading of essays is also likely to develop over time.

Current M&A Market Landscape

Total transaction volume increased nine percent on a year-to-year basis. Aggregate value declined 21 percent, from \$15.64 billion to \$12.30 billion.

Strategic Buyers

- Strategic volume saw a nine percent gain on an annual basis, from 292 to 318 deals. Strategic acquirers accounted for 66 percent of volume and 52 percent of value from 2018 to 2019.

Financial Sponsors

- Private equity backed volume improved eight percent over the past year, from 149 to 161 deals. Financial sponsors represented 34 percent of volume and 48 percent of value from 2018 to 2019.
- The overall industry's largest deal in 2019 was Thoma Bravo's announced acquisition of Instructure, which is known in particular for its Canvas learning management system (LMS), for \$1.86 billion.
- The most active overall acquirer in the Professional Training Services segment in 2019, either directly or through an affiliated business, was Leeds Equity Partners with four transactions: Kaplan Altior, which delivers classroom-based, online and in-house skills training and assessments to the legal and professional services sectors; VitalSmarts, a communication and leadership development training business; The Center for Legal Studies, which offers online programs and training courses for paralegals and other legal support professionals; and Watermark Learning, a business analysis and project management training company.

Industry Wide Valuations

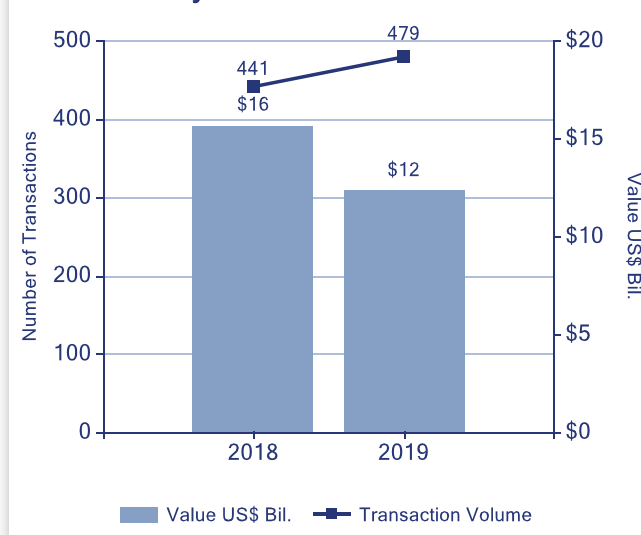
Enterprise value multiples over the past 24 months have been strong. The median revenue multiple during this timeframe was 2.3x, while the median EBITDA multiple was 9.9x.

M&A Analysis of the Past Two Years

Berkery Noyes recorded 920 education industry merger and acquisition (M&A) transactions from the beginning of 2018 through the end of 2019. Note that this covers all segments, including brick-and-mortar institutions. Deals with a tech component accounted for nearly half of aggregate volume. As for specific sectors, K-12 Media and Tech and Professional Training Services were tied as the industry's most active market segments in 2019 with 99 transactions each.

The overall industry's median revenue multiple over the past year rose from 1.8x to 2.8x. The median EBITDA declined from 10.5x to 9.6x. Transactions with enterprise values in the \$10-\$20 million range received a median revenue multiple of 1.9x, compared to 2.6x for those in the \$20-\$80 range and 3.2x for those above \$80 million.

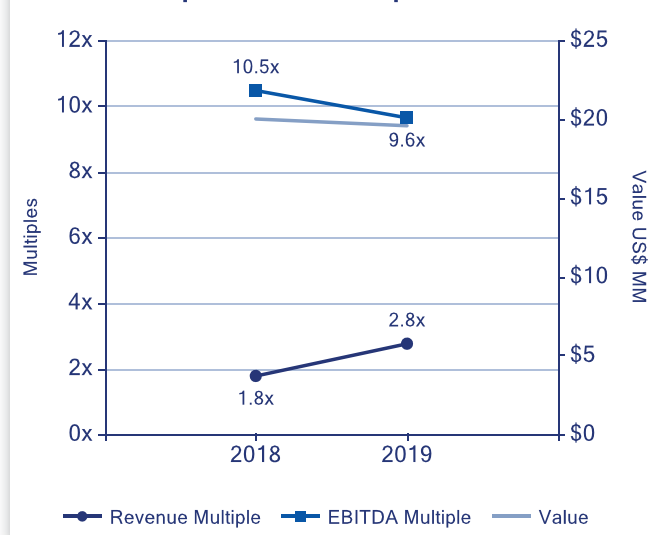
M&A Market Dynamics



Key Activity Per Industry Segment

- K-12 Media and Tech.** Transaction volume in the K-12 Media and Tech segment stayed nearly the same on a yearly basis. High profile segment acquirers during the past year included ACT with the acquisition of Mawi Learning, which provides a suite of social emotional learning (SEL) tools and services for school districts; Houghton Mifflin Harcourt with the acquisition of Waggle, a web-based adaptive learning platform provides differentiated Math and ELA instruction for students in grades 2 through 8; Scholastic with the acquisition of Make Believe Ideas, a UK-based publisher of children's books; and Weld North with the acquisitions of Glynlyon, a digital curriculum company; and

Median Enterprise Value Multiples



Assessment Technology, Inc. (ATI), a provider of instructional improvement and effectiveness technology.

- Higher-Ed Media and Tech.** Deal activity in the Higher-Ed Media and Tech segment underwent a 15 percent rise from 2018 to 2019. Notable segment acquirers in 2019 included John Wiley & Sons' with the announced acquisition of Zyante, a provider of computer science and STEM education courseware; and Elsevier's announced acquisition of Parity Computing, which employs artificial intelligence to transform raw STM content for publishers and researchers.

- Professional Training Technology and Services.** Upon examination of the Professional Training market, Services transactions underwent a four percent uptick in volume whereas the number of Technology deals increased 21 percent. Notable deals in the combined Professional Training segments over the past year included Wendel Group's acquisition of Crisis Prevention Institute, which provides behavior management and crisis prevention training programs, or \$910 million; and 2U's acquisition of Trilogy Education Services, a workforce accelerator that offers skills-based training programs in high-demand tech fields at universities and companies, for \$750 million.

- Childcare Services.** Deal flow in the Childcare Services segment remained constant. UK-based Busy Bees Childcare was a notable acquirer in 2019 with the acquisitions of Educational Playcare, which was its first deal in the US market; and Doremi, its first deal in the Italian market. Meanwhile, Spire Capital portfolio company O2B Kids, which covers the Southeast US,

was also active with the acquisitions of The Village Academy, Brookside Academy, and Home Away From Home.

- **Higher-Ed Institutions.** M&A volume in the Higher-Ed Institutions segment gained 46 percent, making it the sector with the largest rise on an annual basis. The segment's highest value transaction in 2019 was YDUQS' announced acquisition of Adtalem Educacional do Brasil for \$472 million. YDUQS is Brazil's second largest private higher education organization. Adtalem Educacional do Brasil offers programs in healthcare, law, business management, engineering and technology and serves more than 81,000 degree-seeking students.

Conclusion

The innovation occurring in the education sector bodes well for future M&A activity, especially given the need to bridge the learning gap. Many publishers have built or acquired important platforms for students, faculty, and administrators to improve outcomes from the education process. 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 M&A volume healthy.

Additionally, 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 larger software companies to enter the market.

About Berkery Noyes

Founded in 1980, Berkery Noyes is an independent investment bank that provides M&A advisory to middle market companies in the information, software, services, 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

