



# Capstone Partners

## EDUCATION TECHNOLOGY

Q2 2017

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### **MERGER & ACQUISITION ACTIVITY**

Despite a drop in deal volume, several factors indicate a robust deal market for Education Technology (EdTech) companies in 2017. One factor is an accelerating market, which is expected to grow by 17% annually through 2020, according to EdTechXGlobal.

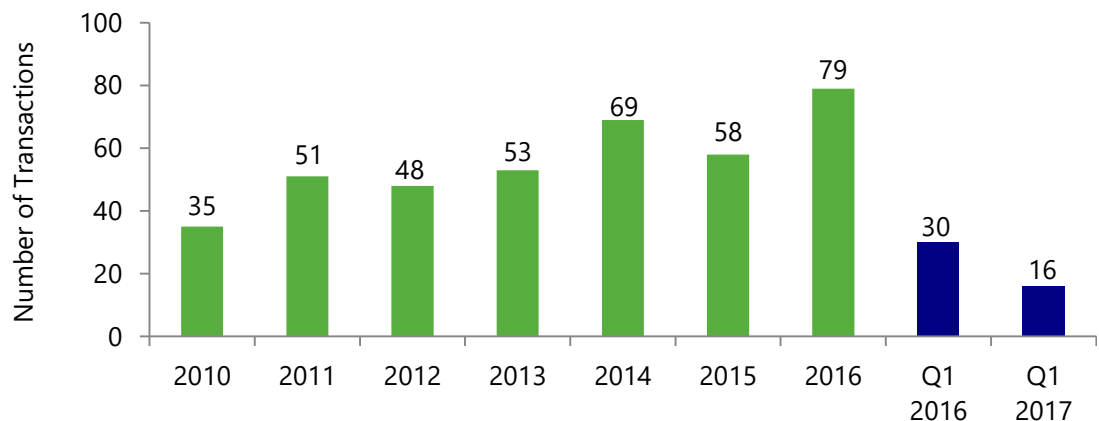
The first thing to note is that the decline in 2017 deal volume is deceptive. Compared to historical data, 2017 deal volume is on par with levels seen in past years. For example, through Q1, there were 13 closed or announced deals in 2015, 17 in 2014 and 13 in 2013—which are all similar to 2017 levels. The level of deals in 2016 was an outlier, making it an unfair comparison to 2017 activity.

Capstone has a positive outlook for EdTech M&A in 2017 due to robust valuations, a fragmented market and continuing innovation in learning processes. Through the end of 2016, the average deal value for companies in the overall middle market reached \$48.0 million, the highest since 2007. Similarly, multiples reached a premium for deals by private equity groups; these buyers have accounted for a significant 53.1% of EdTech deal volume over the past two years. Without recent transaction data available, rising valuations in EdTech can be best seen in increasing public multiples, which have reached 3.3x EV/Revenue—a 7.9% rise over the last twelve months.

Another factor that should drive M&A activity is high levels of fragmentation. Schools have an abundance of platforms to choose from, with no one platform dominating the market. Capstone expects that the industry will consolidate, with the leaders providing a one-stop-solution at competitive prices.

Lastly, innovation in learning processes will further drive deal activity as buyers look to acquire new technology instead of building it in-house. Combined, premium valuations, high fragmentation and technical innovation should spur deal activity in 2017 and result in opportunities for both buyers and sellers.

**Education Technology M&A Transactions**



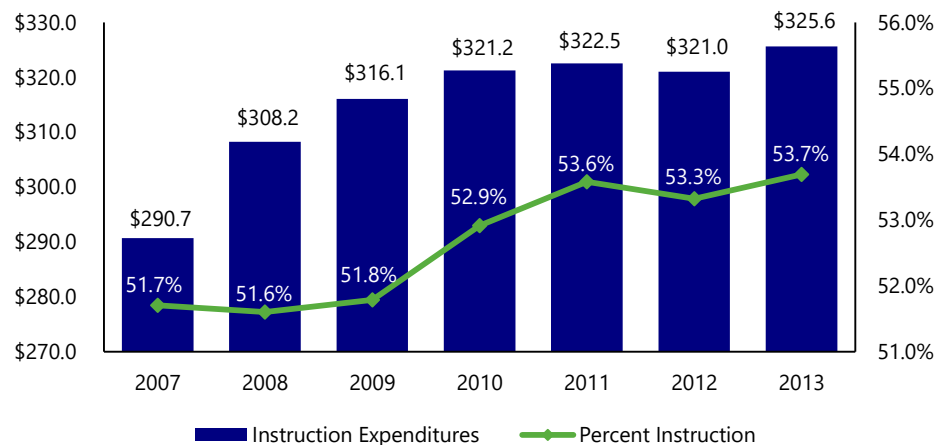
Sources: Capital IQ and Capstone Partners LLC Research

## KEY TRENDS & DRIVERS

There are a number of trends and drivers that have had significant impact on recent EdTech deal activity. Capstone has identified a few of these key factors and has outlined them below.

- ▶ **Growing population of K-12 Students** – A major driving force behind the EdTech industry is the population of K-12 students. As this population grows so will the inherent need for materials and technological resources supplied to each individual student. According to *IBISWorld*, in 2016 there were 55.1 million K-12 students in the US. This figure is expected to grow 3.0% over the next five years reaching 56.8 million by 2021. Capstone expects that this continued growth will increase the demand for EdTech products and services, spurring M&A activity by both strategic and financial buyers.
- ▶ **Instructional expenditures see increased share of government spending** – The proportion of government spending on instructional expenses has shown a consistent increase over the past few years. Instructional expenses as a percentage of total spending on education has steadily increased from 51.7% in 2007 to 53.7% in 2013, the last year with data. The chart below exhibits the US government’s commitment to investing in instructional expenses.

**Instructional Expenditures vs. Total Education Spending (\$b)**



Source: *IBISWorld*

- ▶ **The development of the “maker mindset” and advancements in learning processes** – Schools have continued to embrace makerspaces and tools that enable students to learn by experimenting and building with technology. This has added fuel to the experiential learning movement and is helping to frame the discussion around embracing different learning processes. Companies that have been able to tap into this “maker mindset” are expected to garner demand from both potential clients and potential acquirers. More generally, this also applies to companies that have had success advancing other new learning processes.

**EDUCATION TECHNOLOGY: SELECT M&A TRANSACTIONS**

| Ann. Date | Target                          | Acquirer                           | Target Business Description  | Enterprise Value (mm) | EV / LTM Revenue | EBITDA |
|-----------|---------------------------------|------------------------------------|--|-----------------------|------------------|--------|
| 04/14/17  | Ascend Learning                 | Blackstone, Canada Pension Plan    | Provides technology-based educational, curriculum and assessment solutions.                                | -                     | -                | -      |
| 04/03/17  | AcademicWorks                   | Blackbaud                          | Develops cloud-based scholarship management software.  | \$50.0                | -                | -      |
| 03/31/17  | Smart Technologies              | Hon Hai Precision                  | Designs interactive technology products.   | \$247.3               | 0.7x             | 27.3x  |
| 03/20/17  | TaskStream                      | Tk20                               | Provides web-based software to advance effective assessments and improve student learning.                 | -                     | -                | -      |
| 03/14/17  | Hayes Software                  | Transition Capital                 | Develops textbook management software for school districts.  | -                     | -                | -      |
| 02/21/17  | myON                            | Francisco Partners                 | Develops a cloud-based literacy software program for the K-12 education market.                            | -                     | -                | -      |
| 02/17/17  | 3D Pioneer's Apps               | Adaiah Distribution                | Consists of smartphone apps that educate young children about the environment and natural resources.       | -                     | -                | -      |
| 02/16/17  | Quintessential School Systems   | Harris School Solutions            | Develops administrative software for the K-12 education market.  | -                     | -                | -      |
| 01/31/17  | Match Group's Princeton Review  | ST Unitas                          | Operates a portal that offers one-on-one private tutoring, classes and online preparation.                 | -                     | -                | -      |
| 01/27/17  | Questar Assessment              | Educational Testing                | Offers solutions for the assessment market.  | \$127.5               | -                | -      |
| 01/24/17  | PIP Learning                    | Authentica                         | Provides an online platform for schools to protect student privacy online.                                 | -                     | -                | -      |
| 01/17/17  | TeleMate.Net's NetSpective      | Grom                               | WDevelops programs that provides web filtering services to approximately 400 school districts.             | -                     | -                | -      |
| 01/17/17  | Intellus Learning               | Macmillan Learning                 | Develops a learning platform that enables universities to organize and find digital content and resources. | -                     | -                | -      |
| 01/10/17  | Software Secure                 | PSI Services                       | Offers computer-based testing solutions for distance learning programs.                                    | -                     | -                | -      |
| 12/07/16  | FIS's SunGard Public & Ed. Bus. | Vista Equity and PowerSchool       | Provides technological solutions to address public safety and administration needs of K-12 districts.      | \$850.0               | -                | -      |
| 12/06/16  | Curriculet                      | Waterford Institute                | Provides a digital reading platform.   | -                     | -                | -      |
| 11/21/16  | Hands-On Learning               | Wasena Capital and Millpond Equity | Offers an online distance learning platform for science college students.                                  | -                     | -                | -      |
| 11/17/16  | Valore                          | Follett                            | Operates a collection of online marketplace solutions that distribute textbooks and courseware.            | -                     | -                | -      |
| 11/16/16  | Astute Technology               | Echo360                            | Provides tools for e-learning and virtual meetings.  | -                     | -                | -      |
| 10/18/16  | Chalkable                       | PowerSchool Group                  | Develops a platform to inform and empower teachers, students, parents and administrators.                  | -                     | -                | -      |
| 09/27/16  | WebAssign                       | Cengage Learning                   | Operates an online instructional system to deploy assignments, assess performance and realize goals.       | -                     | -                | -      |
| 09/08/16  | Finalsite                       | Bridge Growth Partners             | Provides content management and Web authoring software for educational organizations.                      | -                     | -                | -      |
| 09/06/16  | Excent                          | Frontline Technologies             | Develops data management software and student curriculums for educators and students.                      | -                     | -                | -      |
| 08/30/16  | Six Red Marbles                 | JOUVE                              | Develops learning software for kids K-12, higher education, professionals and workforce training.          | -                     | -                | -      |
| 08/25/16  | Duck Duck Moose                 | Khan Academy                       | Offers children's educational applications.  | -                     | -                | -      |

**PUBLIC COMPANY TRADING & OPERATING DATA**

| Company                      | Price<br>04/24/17 | % 52 Wk<br>High | Market<br>Cap | Enterprise<br>Value | LTM       |         |        | 3-Yr<br>Rev<br>Growth | EV / LTM |        |
|------------------------------|-------------------|-----------------|---------------|---------------------|-----------|---------|--------|-----------------------|----------|--------|
|                              |                   |                 |               |                     | Revenue   | EBITDA  | Margin |                       | Revenue  | EBITDA |
| 2U, Inc.                     | \$43.30           | 97.5%           | \$2,045.1     | \$1,883.9           | \$205.9   | NM      | NA     | 35.3%                 | NM       | NM     |
| 3P Learning Limited          | \$0.73            | 74.9%           | \$102.1       | \$117.5             | \$39.0    | \$7.5   | 19.3%  | 14.6%                 | 3.0x     | 15.6x  |
| Blackbaud Inc.               | \$78.91           | 99.5%           | \$3,664.0     | \$3,989.7           | \$730.8   | \$124.7 | 17.1%  | 13.2%                 | NM       | NM     |
| Cambium Learning Group, Inc. | \$4.90            | 83.7%           | \$226.4       | \$296.0             | \$152.4   | \$25.5  | 16.7%  | 0.4%                  | 1.9x     | 11.6x  |
| Chegg, Inc.                  | \$8.25            | 94.0%           | \$757.6       | \$680.3             | \$254.1   | NM      | NA     | (0.2)%                | 2.7x     | NM     |
| Cornerstone OnDemand, Inc.   | \$36.80           | 77.1%           | \$2,085.0     | \$2,021.3           | \$423.1   | NM      | NA     | 31.7%                 | 4.8x     | NM     |
| Houghton Mifflin Harcourt    | \$11.70           | 55.5%           | \$1,441.0     | \$1,912.9           | \$1,372.7 | \$22.0  | 1.6%   | (0.1)%                | 1.4x     | NM     |
| K12, Inc.                    | \$19.63           | 95.0%           | \$798.4       | \$642.3             | \$892.9   | \$41.3  | 4.6%   | 0.7%                  | 0.7x     | 15.6x  |
| Pearson plc                  | \$8.18            | 64.7%           | \$6,670.5     | \$8,290.1           | \$5,818.5 | \$733.7 | 12.6%  | (3.5)%                | 1.4x     | 11.3x  |

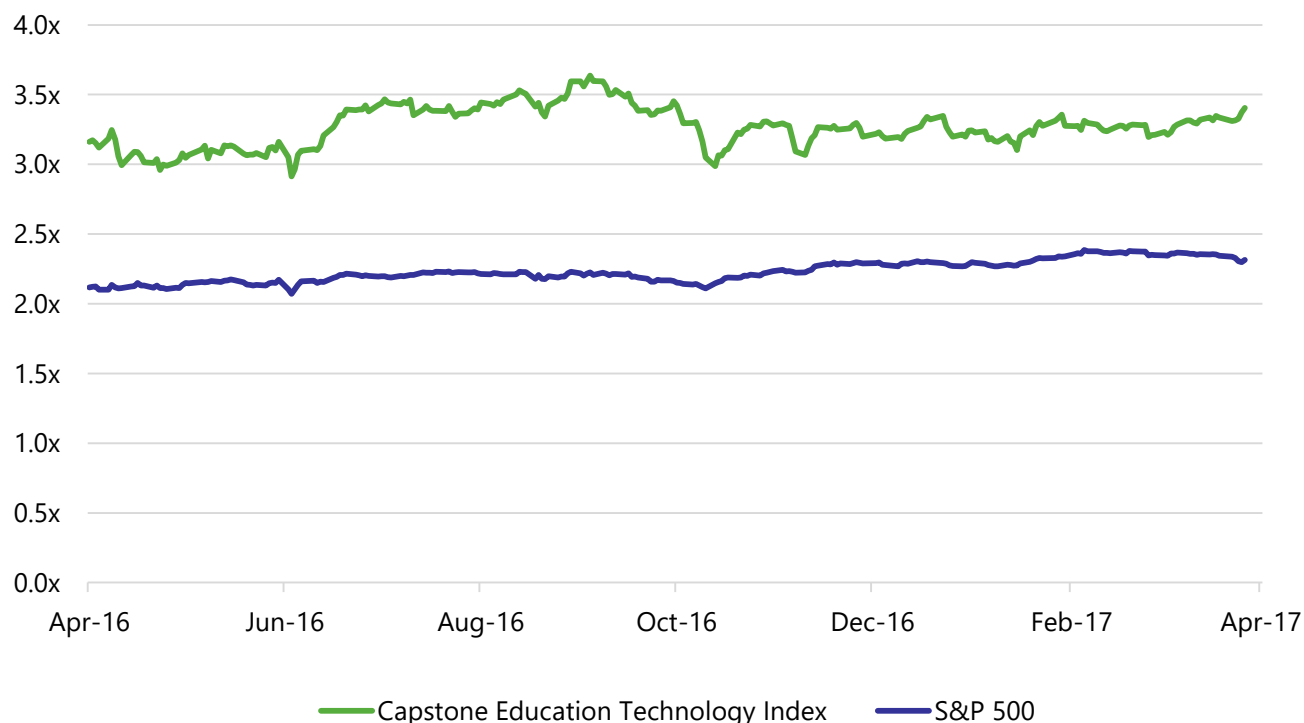
\$ in Millions, except per share data

EV = enterprise value; LTM = last twelve months

NM = not meaningful

|                      |              |              |             |              |
|----------------------|--------------|--------------|-------------|--------------|
| <b>Mean</b>          | <b>12.0%</b> | <b>10.2%</b> | <b>2.3x</b> | <b>13.5x</b> |
| <b>Median</b>        | <b>14.7%</b> | <b>0.7%</b>  | <b>1.9x</b> | <b>13.6x</b> |
| <b>Harmonic Mean</b> | <b>5.5%</b>  | <b>NA</b>    | <b>1.7x</b> | <b>14.0x</b> |

**Average Public Company Revenue Multiple**



Source: Capital IQ as of November 7, 2016

## CAPSTONE PARTNERS: EDUCATION TECHNOLOGY TRANSACTIONS IN MARKET

### **CONFIDENTIAL, (In Market/In Process) Project Sabal:**

The Company is a leading provider of adaptive learning online educational software to explore strategic alternatives, including the possible sale of the Company. The instructional online platform provides algorithmic driven learning content with adaptive artificial intelligence to promote student learning in over 20 English and math courses.

### **CONFIDENTIAL, (In Market/In Process) Project Rockstar:**

The Company is an e-learning platform that offers a complete portfolio of custom e-learning and curriculum building solutions including; employee training, curriculum development, professional development, salesforce enhancement, strategic consulting, and gamification.

### **CONFIDENTIAL, (In Market/In Process) Project Tango:**

The Company is a leading provider of online-based computer programming education geared more to the high-end software engineer track with multi-year offerings although the company has revised the curriculum to also begin to cater to beginners.

### **CONFIDENTIAL, (In Market/In Process) Project Triangle:**

The Company is a developer of critical and creative thinking methodologies focused on visualization and eight specific thought processes that are integrated into lesson plans and curriculum of K-12 districts.

### **CONFIDENTIAL, (In Market/In Process) Project Radix:**

The Company provides a Software-as-a-Service (SaaS) platform that enables online, live and interactive student engagement throughout the college enrollment process to a customer base of over 200 private, public and non-profit universities as well as state and federal agencies.

### **CONFIDENTIAL, (In Market/In Process) Project Glengarry:**

The Company develops and markets a unique suite of on-demand sales performance improvement SaaS applications for enterprise clients through a comprehensive web and mobile software suite is built on the Salesforce platform and includes modules for account planning and management, opportunity management, online learning and sales coaching.

### **CONFIDENTIAL, (In Market/In Process) Project Usul:**

The Company is the largest regionally accredited university providing computer science degrees and corporate training focused on high-end software/network engineer instruction and cybersecurity.

### **CONFIDENTIAL, (In Market/In Process) Martin:**

The Company is an online provider of certifications in the healthcare and business fields, primarily providing services to active military personnel and their families.

*If there is interest in learning more about these opportunities, please contact Jacob Voorhees at:  
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**CAPSTONE PARTNERS: A SAMPLING OF COMPLETED EDUCATION & TRAINING TRANSACTIONS**

Capstone Partners maintains the most active education & training practice in the middle market, having represented clients across various specialties. This market presence allows Capstone to provide education companies with real-time transaction feedback and immediate access to key decision makers among the industry's most active acquirers and investors.

|   |   |  |  |
|---|---|--|--|
| <p><b>CONFIDENTIAL</b></p> <p>corporate sale<br/>(IN MARKET)</p> <p><b>Custom Elearning Solutions</b></p>   | <p><b>CONFIDENTIAL</b></p> <p>corporate sale<br/>(IN MARKET)</p> <p><b>Cognitive Thinking Tools</b></p>   | <p><b>CONFIDENTIAL</b></p> <p>corporate sale<br/>(IN MARKET)</p> <p><b>SaaS College Admissions Process</b></p>   | <p><b>CONFIDENTIAL</b></p> <p>corporate sale<br/>(IN MARKET)</p> <p><b>Online Computer Bootcamp</b></p>  |
| <p><b>CONFIDENTIAL</b></p> <p>corporate sale<br/>(IN MARKET)</p> <p><b>SaaS Sales Training Provider</b></p>   | <p><b>CONFIDENTIAL</b></p> <p>corporate sale<br/>(IN PROCESS)</p> <p><b>Online Military Training</b></p>  | <p><b>CONFIDENTIAL</b></p> <p>corporate sale<br/>(IN MARKET)</p> <p><b>Math Adaptive Learning Software</b></p>   | <p><b>CONFIDENTIAL</b></p> <p>corporate sale<br/>(IN PROCESS)</p> <p><b>Computer Science Degrees</b></p>   |
| <p> NEUMONT UNIVERSITY</p> <p>has been acquired by</p> <p> Caltius<br/>Equity Partners</p>        | <p> CYBERGRANTS</p> <p>has recapitalized with</p> <p> Waud Capital</p>  | <p> BrightStar<br/>EDUCATION GROUP</p> <p>has been acquired by</p> <p> GREYBULL<br/>STEWARDSHIP</p>                | <p> Tricore®<br/>Educate. Influence. Motivate.</p> <p>has been acquired by</p> <p> highroad<br/>CAPITAL PARTNERS</p> |
| <p> PENNFOSTER</p> <p>has recapitalized with</p> <p> VISTRIA.</p>                                 | <p> O&amp;B BRIDGE<br/>ACADEMIC<br/>PROGRAMS</p> <p>has been acquired by</p> <p> WORLD STRIDES®<br/>ORDER YOUR WORLD<br/>a portfolio company of<br/>THE CARLYLE GROUP</p> | <p> TRIUMPH<br/>HIGHER EDUCATION GROUP</p> <p>has received<br/>growth capital from</p> <p> CAMDEN<br/>PARTNERS</p> | <p> e<br/>expression<br/>college</p> <p>has been acquired by</p> <p> navitas</p>                                     |
| <p> Edvisors®<br/>Go Higher.</p> <p>has been acquired by</p> <p> College Loan<br/>Corporation</p> | <p> McKissock<br/>Your education solution.</p> <p>has been acquired by</p> <p> ALPINE</p>   | <p> NTT<br/>Workforce Development Institute</p> <p>has been acquired by</p> <p> ecpi UNIVERSITY</p>                | <p> TrainingPro</p> <p>has recapitalized with</p> <p> Riverside</p>  |

THE EDUCATION TECHNOLOGY TEAM



**Jacob Voorhees, Managing Director, Head of Education Practice**  
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Jacob is a founding member of Capstone Partners. He focuses on asset positioning, strategy articulation, due diligence and negotiations coordination. Formerly, Jacob was with Andersen Corporate Finance LLC, where he focused his efforts on the software and direct marketing industries. He started his career in New York City with Rabobank International, a multi-national Dutch investment bank headquartered in Utrecht, the Netherlands. While at Rabobank International, Jacob worked in the mergers and acquisitions group focusing on cross-border transactions in the consumer products, food and beverage industries.



**David Michaels, Managing Director, Head of Technology & Telecom Practice**  
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David Michaels is a Managing Director of Capstone where he is responsible for managing the firm's Technology & Telecom Group (TTG). David founded SagePoint Advisors in 2008, a boutique investment banking firm focused on providing M&A advisory services to technology and telecom companies. Prior to founding SagePoint, David was a Co-Founder, Partner and Managing Director at Montgomery & Co., a leading investment bank focused on serving emerging-growth technology companies. David co-founded Montgomery's investment banking business in 1996 and played an instrumental role in building the business to over \$50 million in revenues and 80 employees. Mr. Michaels also ran the firm's Communications and Digital Media Technology practice areas prior to his departure.



**David DeSimone, Director**  
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David DeSimone rejoined the Boston office of Capstone Partners in 2015 as a Director in the Technology & Telecom Group. David brings more than 15 years of investment banking experience to Capstone and will help expand the firm's technology sector coverage in the Northeast. David has worked on equity, debt and M&A transactions collectively valued at more than \$4 billion. Previously, David was a member of the Capstone team for nearly seven years where he led efforts in the Technology Solutions vertical as a Vice President and Director. Prior to rejoining Capstone, David served as a Principal at Bowen Advisors, an M&A and strategic advisory firm focused on technology companies including communications and healthcare IT. David has also worked as a Vice President at Boening & Scattergood, a Philadelphia-based middle market investment bank, where he worked with clients across a variety of industries and developed the firm's technology practice. He spent his early career working at Needham & Company, RobertsonStephens and J.P. Morgan.

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## ABOUT CAPSTONE PARTNERS

**Capstone Partners LLC** is an award-winning investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. Over the past 15 years, Capstone has earned a reputation as one of the most innovative firms in the industry, offering corporate sale & divestiture, merger & acquisition, private placement, corporate restructuring, valuation and financial advisory services. The firm maintains seven industry practices, including: Business Services, Consumer Products, Education & Training, Government Services, Health & Medical, Manufacturing & Industrial, and Technology & Telecom. Headquartered in Boston, Capstone has offices in Chicago, London, Los Angeles, New York, Orange County, Philadelphia, San Diego, Silicon Valley and Tampa with an international presence that spans 450+ professionals in 70 offices across 31 countries.

**For more information  
about our expertise,  
please visit  
[www.capstonellc.com](http://www.capstonellc.com)**



# Capstone Partners

World Class Wall Street Expertise. Built for the Middle Market