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INVESTMENT BANKERS

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

White Paper

Introduction

An increasingly receptive buyer universe is an important factor driving M&A activity in the education space. The larger strategic players are focusing a bit more externally and a surging number of financial sponsors are demonstrating interest. We’re also seeing strong levels of investment in early stage edtech companies.

Acquirers are showing robust demand for e-learning solutions that both complement and build upon their existing products. Moreover, online and digital companies as a whole tend to be attractive acquisition candidates. Many are being acquired by private equity firms, which can borrow on attractive terms to purchase them.

Those in certain niches such as adaptive/personalized learning platforms, data and assessment firms, and blended learning solutions continue to make a meaningful impact in the K-12 and postsecondary segments. Additional areas with appeal to acquirers include English language learning solutions and education market-focused infrastructure software.

Also of particular interest right now are education services and technology that help improve teacher efficiency and effectiveness. This includes assessment and teacher professional development companies as well as other instructional improvement systems.

Meanwhile, corporate and professional training companies in general have shown good top-line growth and profitability recently. The prevailing attitude is that the corporate

training and continuing education sector is very cyclical. This notion is quite relevant for private equity firms, which are looking to deploy their capital in sectors they believe will be growth areas.

Current M&A Market Landscape

Total transaction volume increased nine percent on a year-to-year basis. Aggregate value declined eight percent, from \$16.81 billion to \$15.52 billion. However, value more than tripled in 2017 over 2016.

Strategic Buyers

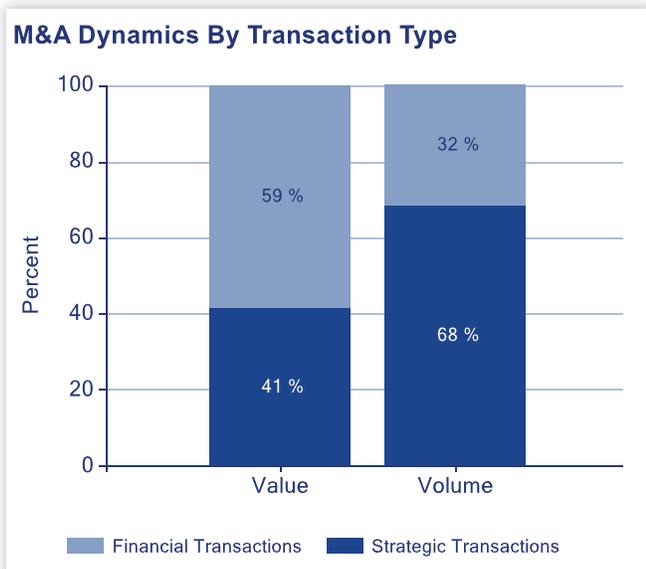
- Strategic volume saw a three percent uptick from 2017 to 2018.

Financial Sponsors

- Private equity backed volume gained 25 percent over the past year, from 115 to 144 transactions. Financial sponsors represented 32 percent of total volume and 59 percent of total value, respectively.
- The largest sponsored education deal in 2018 was Platinum Equity’s acquisition of Josten’s, which provides school related products such as yearbooks and class rings, for \$1.3 billion.
- The industry’s most active overall acquirer in 2018, either directly or through an affiliated business, was Leeds Equity Partners with seven transactions: Pass Perfect; Keir Educational Resources; Education Partners; Bluepoint Leadership Development; Chalk & Wire; Endeavor Schools; and select assets from the IT Management and Leadership Institute.
- Two of Leeds Equity’s deals involved companies that serve the financial sector. Pass Perfect is a provider of Financial Industry Regulatory Authority (“FINRA”) license exam training and Keir Educational Resources offers various training solutions for financial services professionals.

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 11.9x.



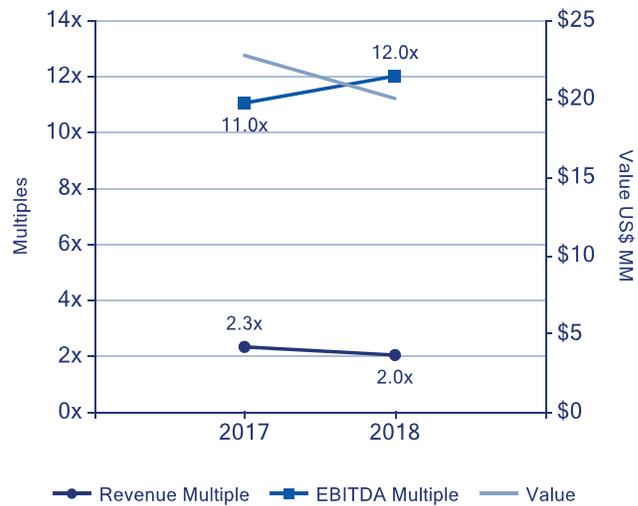
M&A Analysis of the Past Two Years

Berkery Noyes recorded 821 education industry merger and acquisition (M&A) transactions from the beginning of 2017 through the end of 2018.

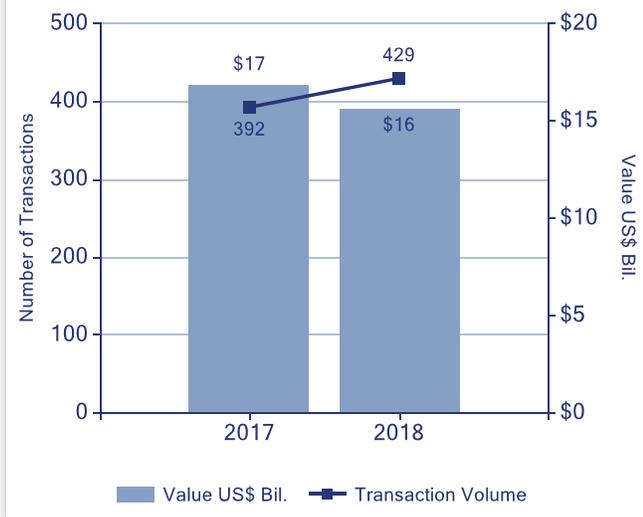
The industry’s median revenue multiple over the past year declined from 2.3x to 2.0x. The median EBITDA improved from 11.0x to 12.0x. Note that this covers all segments, including brick-and-mortar institutions. Transactions solely across the industry’s tech-based segments during this period garnered a median revenue multiple of 2.6x.

Upon further examination, overall industry transactions in the \$10-\$20 million range received a median revenue multiple of 1.5x. Deals above \$160 million in enterprise value had a median revenue multiple of 3.4x.

Median Enterprise Value Multiples



M&A Market Dynamics



Key Activity Per Industry Segment

- **K-12 Media and Tech.** Transaction volume in the K-12 Media and Tech segment improved 19 percent on a yearly basis, which was close to its 2016 level. Notable deals in the K-12 Media and Tech segment during the year included Veritas Capital Partners’ acquisition of Cambium Learning Group, an educational technology company that delivers solutions through its instructional products Learning A-Z, ExploreLearning, and Voyager Sopris Learning, for \$703 million; Alpine Investor’s announced acquisition of Riverside Clinical and Standardized Testing from Houghton

Mifflin Harcourt for \$140 million; NetDragon WebSoft’s announced acquisition of Edmodo, a communication and collaboration platform that targets teachers, students, administrators and parents, for \$138 million; and Francisco Partners Management’s announced acquisition of a majority stake in Discovery Education, a provider of digital content and professional development for K-12 classrooms, for \$120 million.

- **Higher-Ed Media and Tech.** Deal activity in the Higher-Ed Media and Tech segment underwent a ten percent rise from 2017 to 2018. Notable segment acquirers in 2018 included Wiley with the acquisition of The Learning House, a cloud-based technology platform that helps colleges and universities create, manage, and grow online degree programs and courses, for \$200 million; LendingTree with the acquisition of Student Loan Hero, a personal finance website that helps student loan borrowers manage their student debt, for \$60 million; Elsevier with the acquisition of Aries Systems, a provider of scientific publication workflow solutions; Oracle with the acquisition of Vocado, a cloud-based financial aid solution for higher education institutions; and Blackbaud with the acquisition of Reehr, which offers software and services to improve the efficiency and effectiveness of higher education fundraising efforts.

- **Professional Training Technology and Services.** The number of deals in the Professional Training Services segment increased 28 percent from 2017 to 2018. Of note, Professional Training Services nearly overtook K-12

Media and Tech as the industry's most active sector in 2018. One of the largest related deals during the year was Intertek Group's acquisition of Alchemy Systems, a provider of food and workplace safety training for production workers, for \$480 million.

Other high profile transactions in the combined Professional Training Technology and Services segments over the past year included Bertelsmann's announced acquisition of OnCourse Learning, a continuing education, pre-licensing, and corporate training solutions company; NYSE's announced acquisition of Radiate, which offers a library of more than 2,000 short-length video lessons taught by over 100 global CEOs and thought leaders; Golden Gate Capital's acquisition of Vector Solutions, an eLearning and workforce training company; and Oracle's announced acquisition of Iridize, a creator of interactive product guides and walkthroughs for employee training.

Conclusion

Strategic buyers are determined to accelerate their own growth by making acquisitions. At the same time, private

equity firms have the capital available to help entrepreneurs accelerate their growth and achieve liquidity. The market overall is fragmented, which presents an opportunity for consolidation and scale. M&A is being driven by consolidation in many niches such as content management systems, technology-based instruction, and tools for data collection and analysis. Acquirers also remain especially keen on recurring revenue from companies that have traction and repeat sales.

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.

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