

M&A update

Education & Training

Summer 2017



“The next 12-18 months could be exciting for M&A in the Education sector. A healthy level of interest means demand should remain strong for quality education assets. With sustained interest from China and South East Asian investors, it is possible that 2017 could see some of the largest private equity-backed education assets change hands at eye-catching prices.”

Jeremy Harrison
Partner,
Head of Education & Training

UK M&A in education remains strong

Apprenticeship Levy scheme underway

April sees the implementation of the Apprenticeship Levy, where businesses with payroll costs of £3 million or more will be obliged to pay a 0.5% levy for apprenticeships. An estimated £3 billion of funding will be generated, as the government aims to create three million apprenticeships by 2020. Despite potential issues around funding caps and how much cash is recycled to non-levy paying SMEs, the Levy should create opportunities for outsourced training providers in the future. This should prompt increased investment into vocational skills training businesses. Attractive assets will be those with good B2B relationships, sector focus and operating in disciplines attracting a high level of funding, such as health and financial services.

Significant global capital seeking K-12 investment opportunities

Private school groups continue to attract interest from trade and financial acquirers keen to take advantage of demand for Western schooling and increasing disposable incomes in emerging markets (particularly Asia). A scarcity of acquisition targets has resulted in high valuations, with notable deals being Eaton House Schools' sale to Sovereign Capital and Sailing Capital's acquisition of Astrum Education. Meanwhile, Kaplan moved

into the private college market with the acquisition of sixth form college group MPW. Canada Pension Plan's and Baring's \$4.3 billion take private of 'sector bellwether', Nord Anglia is also testament to sustained investor appetite for the sector.

Private equity continues to invest

Private equity was more active in 2016 in comparison to the prior year, with a number of sizeable acquisitions and secondary buy-outs. Overseas financial investors have shown interest in the UK education market, such as Germany-based Aurelius which acquired vocational skills and welfare to work services provider Working Links. The sector has also benefitted from alternative sources of capital, such as credit fund Pricoa's investment in The Gap Partnership, which provides procurement training.

Consolidation in the pre-school market

The last few years have seen significant interest and consolidation in the nursery sector. Often with extensive property interests, these businesses are attractive to overseas investors and consolidating groups. Premium valuations paid for the likes of Treetops Nurseries and Asquith Nurseries continue to demonstrate this appetite.

M&A analysis: Volumes remain steady

Recent secondary private equity deals

Sovereign Capital backed the £18m SMBO of specialist education recruitment business Synarbor from Baird Capital (as well as its subsequent acquisition of Just Teachers). It also exited investments in vocational skills training provider Lifetime Training and private colleges operator Astrum Education to Silverfleet Capital and Sailing Capital respectively.

The UK education market has also attracted interest from overseas financial investors, with US PE firm Levine Leichtman acquiring school assessment solutions provider GL Education from Investcorp for £218m

Vocational skills and Apprenticeship Levy

Apprenticeship training across the UK is set to undergo significant reform, which should lead to unprecedented growth opportunities, particularly for private sector training providers. The coming year could see a period of consolidation amongst apprenticeship providers; companies able to implement a growth strategy will prosper and strengthen their market position. The Levy has made vocational skills deals more accessible, as evidenced by recent private equity investment in the sector, such as the acquisitions of Babington by RJD Partners (£22 million) and Learning Curve by MML.

Services into schools and 'academisation'

There are increasing opportunities for providers of services into schools. Compulsory academisation of all schools has been dropped, however it is likely that the vast majority of schools will be academies, and many will be part of multi-academy trusts, in the next five years. Opportunities here should stem from centralised back office functions and procurement policies. External service providers should find marketing to such groups easier and cheaper.

Teacher recruitment and retention continues to be a challenge, with the DfE estimating 50% of teachers are

considering leaving the profession in the next two years. This is an opportunity for education recruitment companies; providers have been growing and consolidating, with many looking for support from private equity. Last year Sovereign Capital's Synarbor acquired Just Teachers, while TES Global acquired Smart Education. Other deals are expected in this market.

Edtech valuations and activity

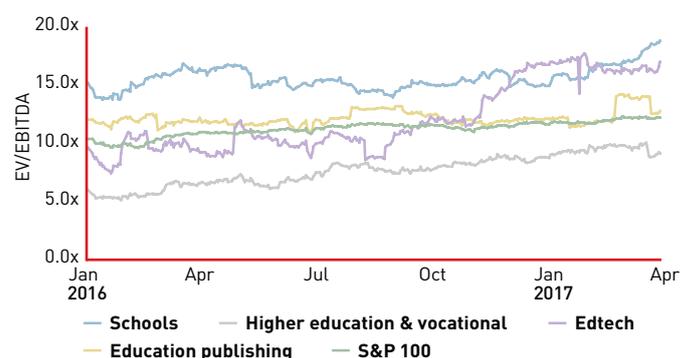
The Edtech landscape remains fragmented, with few players of scale in the UK. Global valuations are high, driven by strong market fundamentals, as governments worldwide are putting pressure on schools to become more efficient. Listed UK e-learning services provider Learning Technologies Group continued to make acquisitions, most recently of US-based Rustici Software for £26m (13.5x EBITDA). Internationally, especially in the US, venture capital and private equity firms are investing in new Edtech businesses. In May 2016, Carlyle made a multi-million-pound investment in Learning Pool, a UK online learning business. Recently, Catalyst sold leading LMS software supplier PS Financials to HgCapital-backed technology group IRIS Software Group.

Figure 1: M&A activity since 2008



Source: Catalyst Corporate Finance, Zephyr (Bureau van Dijk)

Figure 2: Catalyst Education & Training valuations index



Source: Catalyst Corporate Finance, S&P Capital IQ

In focus: International schools

International school groups continue to attract investment due to increasing demand from Asia, high barriers to entry and attractive financial characteristics

Favourable drivers

There are several long term features that make school groups attractive to investors and drive high multiples:

- Fragmented sector – there are over 8,000 international schools worldwide, although only around 5% are part of a group. There are few global groups of scale
- High barriers to entry – a global, reputable brand takes many years to build
- Recurring revenues and predictable margins – groups benefit from a portfolio effect which increases as they grow
- Global groups have reduced exposure to geography-specific market conditions. In times of economic instability, those with the best brands suffer the least (as demand weakens, top schools fill places by attracting pupils from lesser schools)
- Groups are valued much higher than individual schools.

High valuations

There have been a number of recent acquisitions in the international schools market, such as Providence Equity Partners' £296 million investment in NACE, Blackstone and Fajr Capital's

investment in GEMS Education at an enterprise value (EV) of £1.1 billion, and Nord Anglia's acquisition of six Meritas schools for £379 million. In the wider private schools sector, Hong Kong-based investment firm Sailing Capital acquired Astrum Education, a UK operator of private colleges, for an EBITDA multiple well into double digits in September 2016.

Due to their rarity, resilience and high barriers to entry, school groups enjoy a higher trading multiple than individual schools.

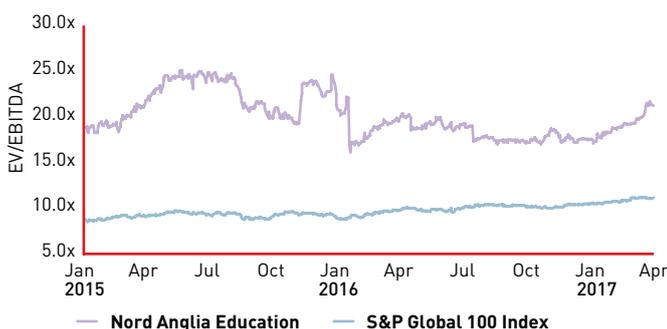
Nord Anglia, the only publically traded international schools group, showed resilience to the global economic slowdown and currently trades at c.15-20x EV/EBITDA (a significant premium to the wider market).

Another valuation metric that investors often consider is the number of students as a ratio of EV, with typical valuations in the range of £30-50k per student for mature capacity K-12 schools. Nord Anglia's acquisition of six Meritas schools in June 2015 reflected an EV of £47k per student.

Key features investors look for in private school groups

- Local demand greater than supply; for international schools the expat base and city location is key
- Growth potential (site capacity and plot size, fee rates, new locations)
- Optimum class sizes, which is linked to profitability
- Differentiation (academic results, sporting excellence, reputation etc.)
- Stability in the teacher staff base, including a committed headteacher
- Cost control, with investment in high quality teaching staff
- Good external inspection reports

Figure 3: Nord Anglia trading multiples



Source: Catalyst Corporate Finance, S&P Capital IQ

Figure 4: Largest international curriculum schools groups

Group	Owner	Curriculum	Schools
GEMS Education	Blackstone	IB, UK, US, others	87
Cognita Schools	KKR, Bregal	IB, UK, US, others	68
Nord Anglia Education	Public	IB, UK	43
Educas	Oakley Capital	IB, UK, others	23
NACE Schools	Providence	IB, UK, FR, ES	21
ISP	Partners Group	IB, UK, others	16
Bellevue Education	Private	IB, UK, US	14
Orbital Education	Private	IB, UK	10

Source: Catalyst Corporate Finance

Selected Catalyst Education & Training sector transactions



Selected transactions

Date	Target	Target country	Target description	Acquirer	Acquirer country	Deal value (£m)
Mar-17	Treetops Nurseries	UK	Nurseries	Busy Bees	UK	94.0
Feb-17	NetDimensions	Hong Kong	Learning and performance management solutions	Learning Technologies	UK	42.0
Jan-17	Learnlight Software	Spain	Online business language training software	Beech Tree Private Equity	UK	n/d
Jan-17	Magic Nurseries	UK	Nurseries	LPCR Groupe	France	n/d
Jan-17	Hotcourses	UK	Educational courses search platform	IDP Education	Australia	30.1
Jan-17	PS Financials	UK	Financial software for education and other sectors	IRIS Software	UK	n/d
Nov-16	Asquith Nurseries	UK	Nurseries	Bright Horizons	US	166.0
Nov-16	The Training Foundation	UK	Online e-learning platform	QA	UK	n/d
Sep-16	International School of Europe	Italy	K-12 educational services	Educas	UK	n/d
Sep-16	Astrum Education	UK	Sixth form education services	Sailing Capital	UK	n/d
Aug-16	Arden University	UK	Distance and blended learning services	Global University Systems	Netherlands	15.0
Jun-16	Lifetime Training Group	UK	Apprenticeships, recruitment and training courses	Silverfleet Capital	UK	n/d
Jun-16	Eaton House School	UK	Private schools	Sovereign Capital	UK	n/d
May-16	GL Education Group	UK	Assessment services into schools	Levine Leichtman CP	UK	218.0
May-16	Strictly Education	UK	Services into schools	Education Services Solutions	UK	11.3
Apr-16	Babington Business	UK	Business training courses	RJD Partners	UK	22.0
Feb-16	Just Teachers	UK	Teacher recruitment to schools	Synarbor	UK	n/d
Jan-16	Rustici Software	USA	Digital learning interoperability software	Learning Technologies	UK	26.0
Dec-15	Mander Portman Woodward	UK	College education services	Kaplan International	UK	n/d
Aug-15	Wealth at Work	UK	Financial education services	Equistone Partners	UK	50.0
Jul-15	Eukleia Training	UK	E-learning to financial services sector	Learning Technologies	UK	11.0
Jul-15	Promethean World	UK	Learning educational technology solutions	Digital Train	China	77.0
Jul-15	Quipper	UK	E-learning content and platforms	Recruit Holdings	Japan	25.0
May-15	Epigeum	UK	Publisher of online courses	Oxford University Press	UK	10.7
May-15	Time Education	South Korea	Provider of K-12 tuition services	Intermediate Capital Group	UK	11.0
Apr-15	A4e	UK	Employment and skills training	Staffline	UK	34.5
Apr-15	Lynda.com	US	Online vocational courses	LinkedIn	US	912.0
Apr-15	Meritas	US	6 K-12 schools	Nord Anglia	UK	379.0
Apr-15	Endeavour Learning	Australia	HEI and vocational skills	Study Group	Australia	39.0

Contact us

If you would like to discuss this report in more detail or the opportunities for your business, please email our Head of Education & Training Jeremy Harrison at jeremyharrison@catalystcf.co.uk or call +44 (0) 121 654 5000.

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