Parthenon Perspectives

The "New Normal" in Post-Secondary: Opportunities for Operators and Service Providers

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Boston • London • Mumbai • San Francisco

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The Parthenon Group

January 2012

Education Center of Excellence
A global set experiences

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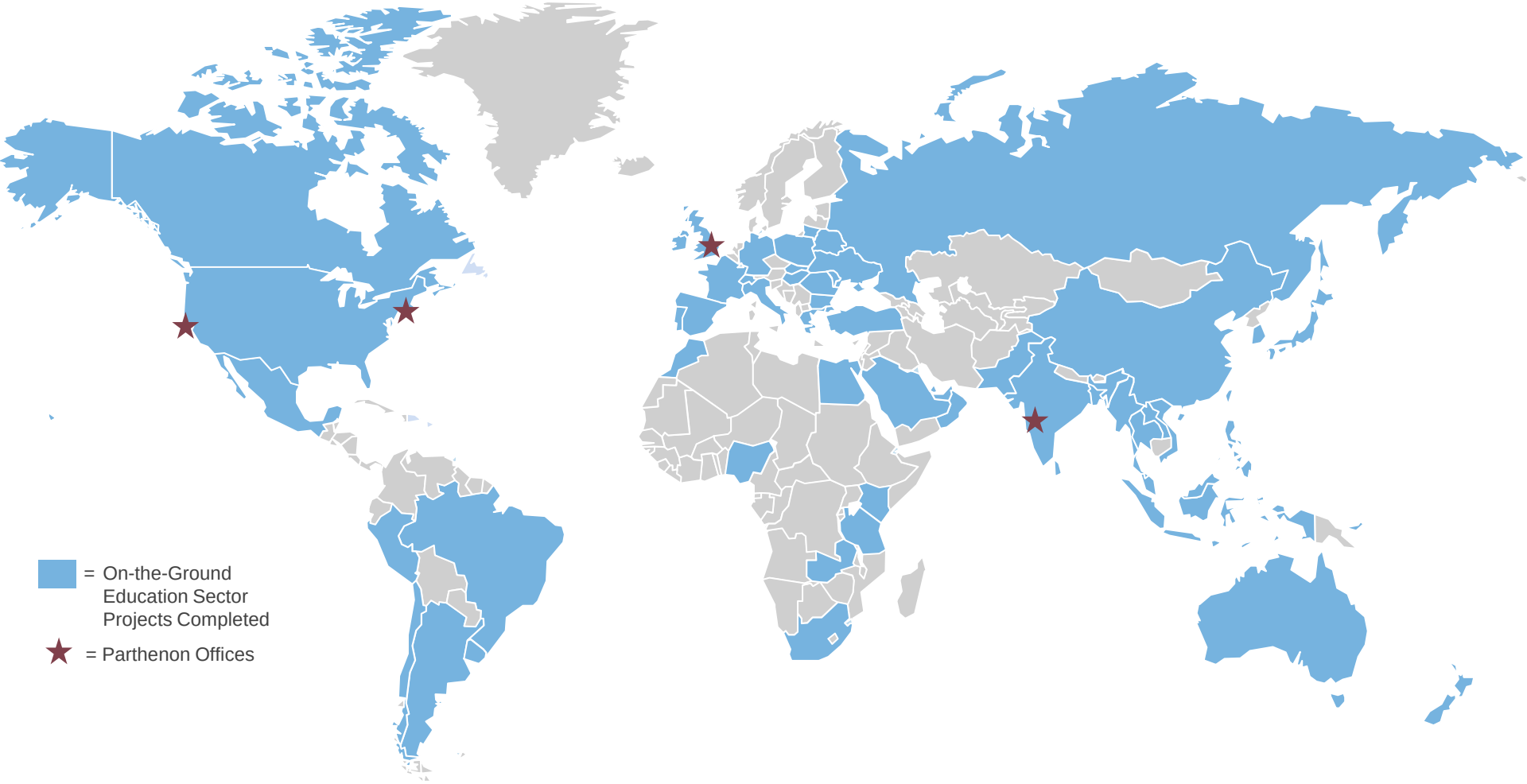


Pre-Kindergarten → K-12 → Career and Professional → University → Vocational and Other

The "New Normal" – Why it Matters

Regulatory, economic, competitive dynamics are all creating a very different environment

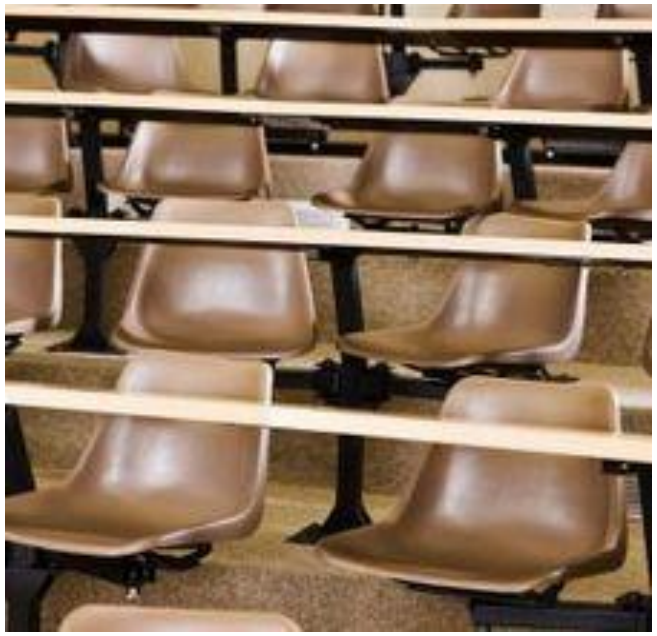
- Gainful Employment
- 90/10
- Program Integrity
- Cohort Default Rates
- Growing Public and Non-Profit Competition
- Economic Stagnation

"The New Normal" – Why it Matters

Managing regulatory complexity, at both a strategic and tactical level, is necessary

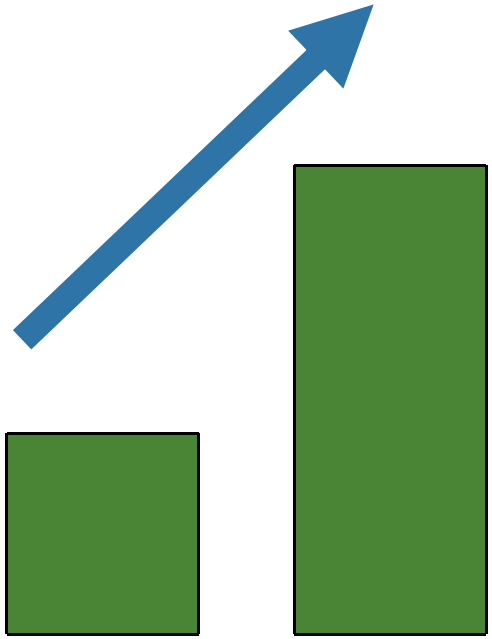
Viability

- **Failure threatens the enterprise**



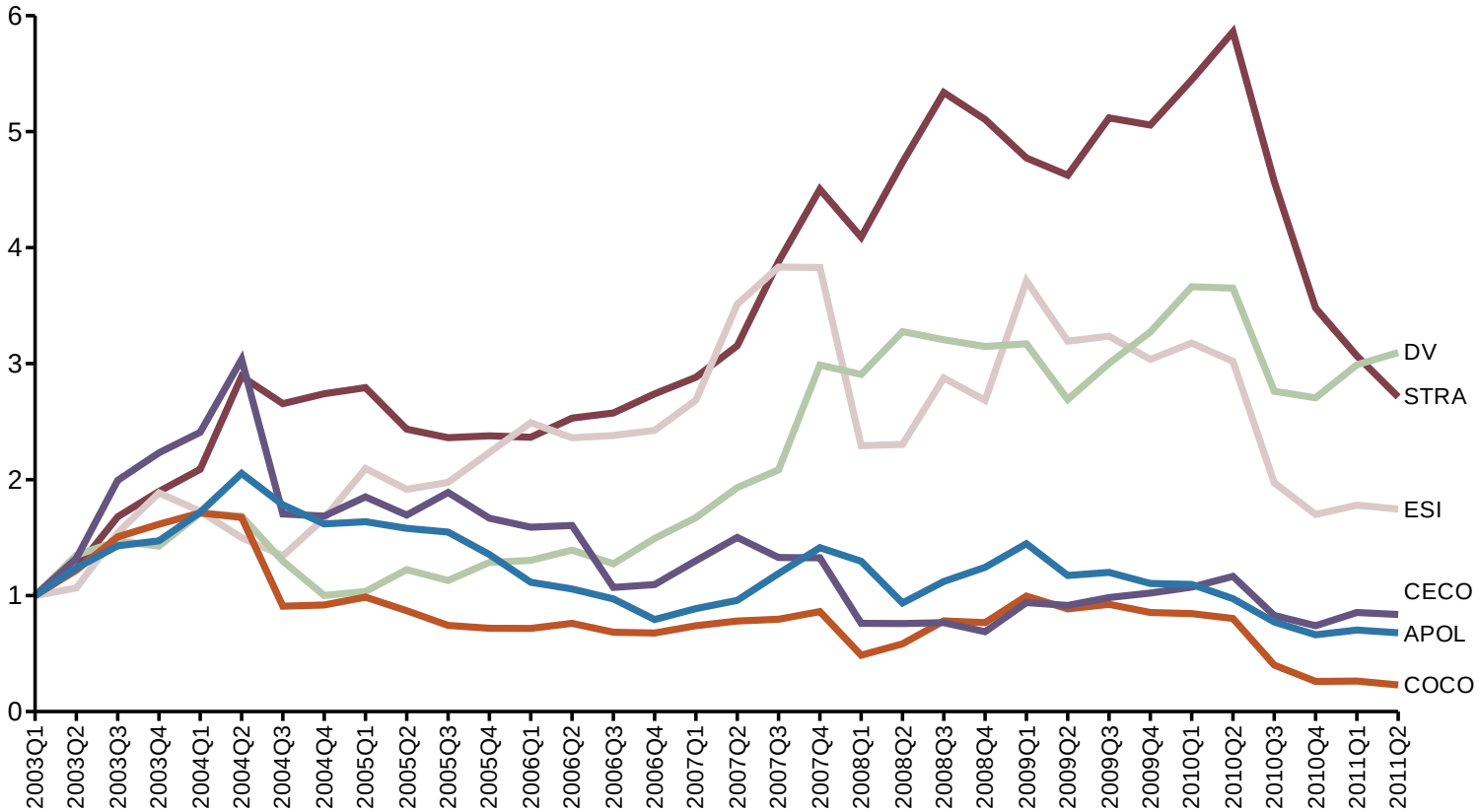
Valuations

- **Absolute and relative success is highly correlated with valuations**



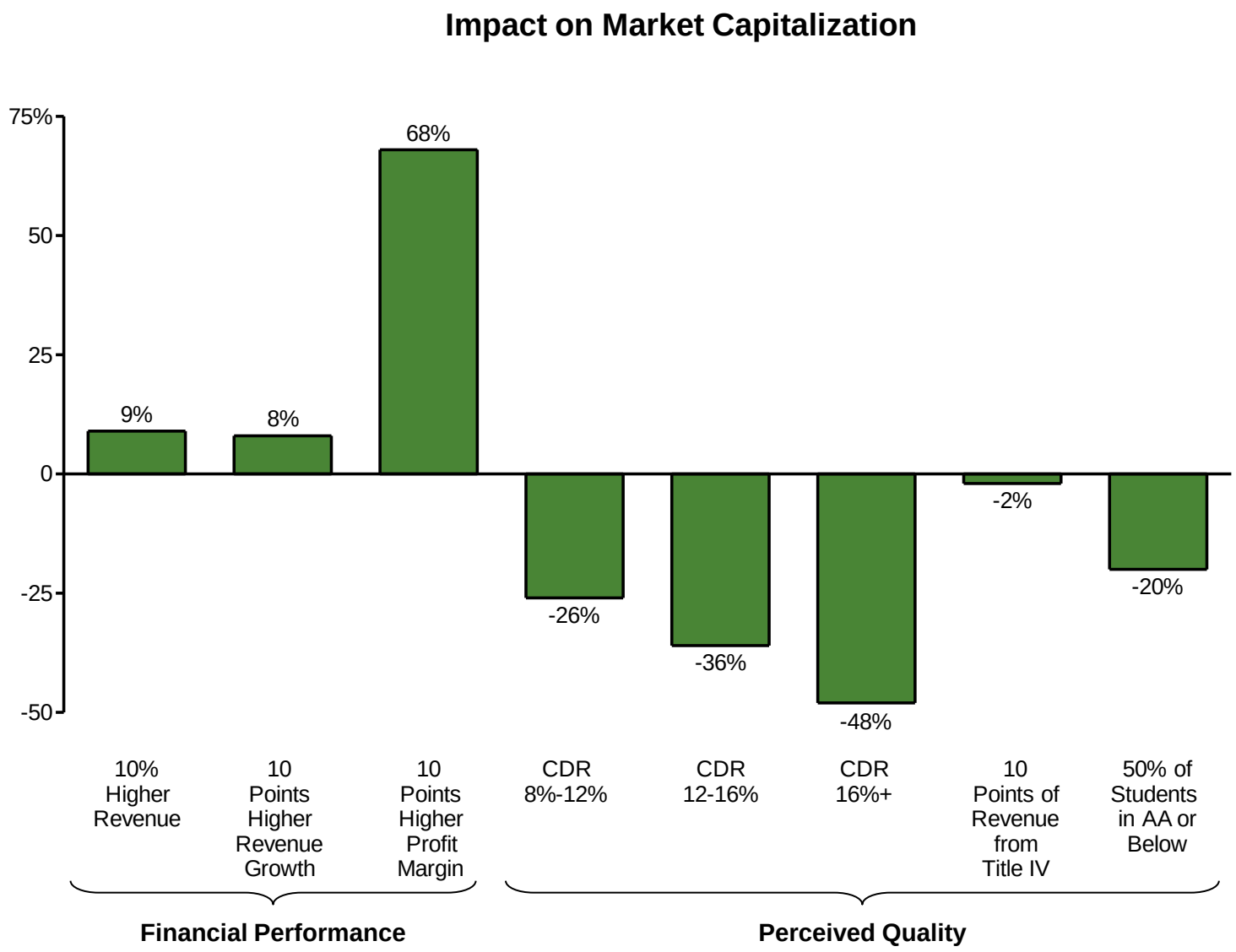
It might be hard to convince you that the market is rational, but valuation does move predictably

Average Market Capitalization (Indexed to 2003 Q1)



Variation in market capitalization can be explained by differential revenues, incomes, sector participation and regulatory exposures

Overview of market capitalization drivers



Impact on market capitalization for regulatory and persistence initiatives can be measured

	Initiative #1	Initiative #2	Initiative #3	Initiative #4
Net Income Change	-$3M	-$4M	-$7M	-$10M
CDR Impact	No change	-24bps	-34bps	-48bps
1-Year Cohort Retention Impact	+56bps	+34bps	+86bps	+23bps
Execution Risk				
Market Cap % Change (Including Profit Impact)	-0.7%	7.7%	9.4%	3.7%

Tradeoffs between current profitability and market risk can be appropriately balanced

Taking Action – Focus on 90/10

Parthenon's perspective is the removal of ECASLA provision appears to have 'surprised' some

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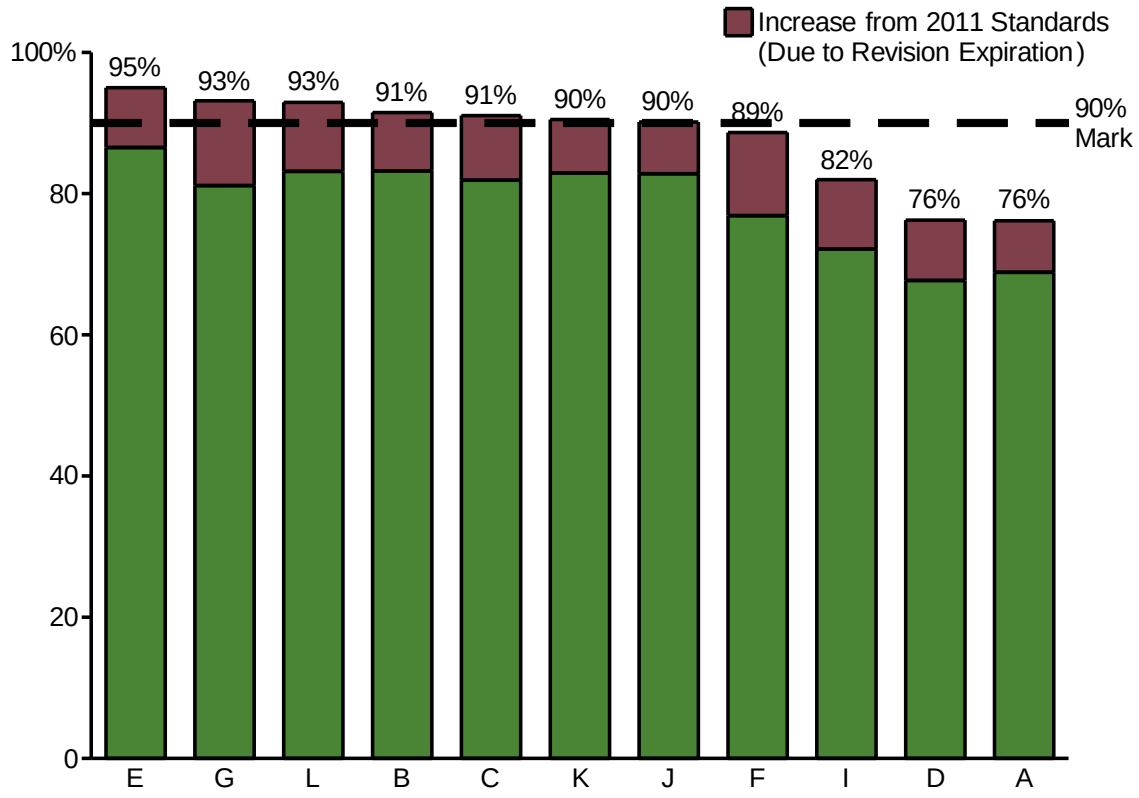
Summary of Original Revision and Impending Expiration

- **Original revision affecting 90/10 calculation:**
  - Unsubsidized Stafford loan limit was increased by $2,000 effective July 1, 2008
  - To offset this increase, schools were able to count a portion of the $2,000 as non-Title IV revenue effective July 1, 2008
  - Additionally, Bona fide institutional loans counted as non-Title IV revenue effective July 1, 2008
- **Expiration of revision:**
  - The revision outlined above (ability to count a portion of this $2,000 as non-Title IV) expired on June 30, 2011 and will affect the Fiscal Year 2012 90/10 calculations
  - The Bona Fide institutional loan exception will expire next year, on June 30, 2012

Revision Expiration Implications for 90/10 Rates by Combined OPEIDs, FY 2011*



Total FY 2011 Funds	$14M	$6M	$36M	$3M	$15M	$56M	$19M	$14M	$28M	$14M	$3M

Taking Action – Focus on 90/10

Title IV exposure is significant across all companies

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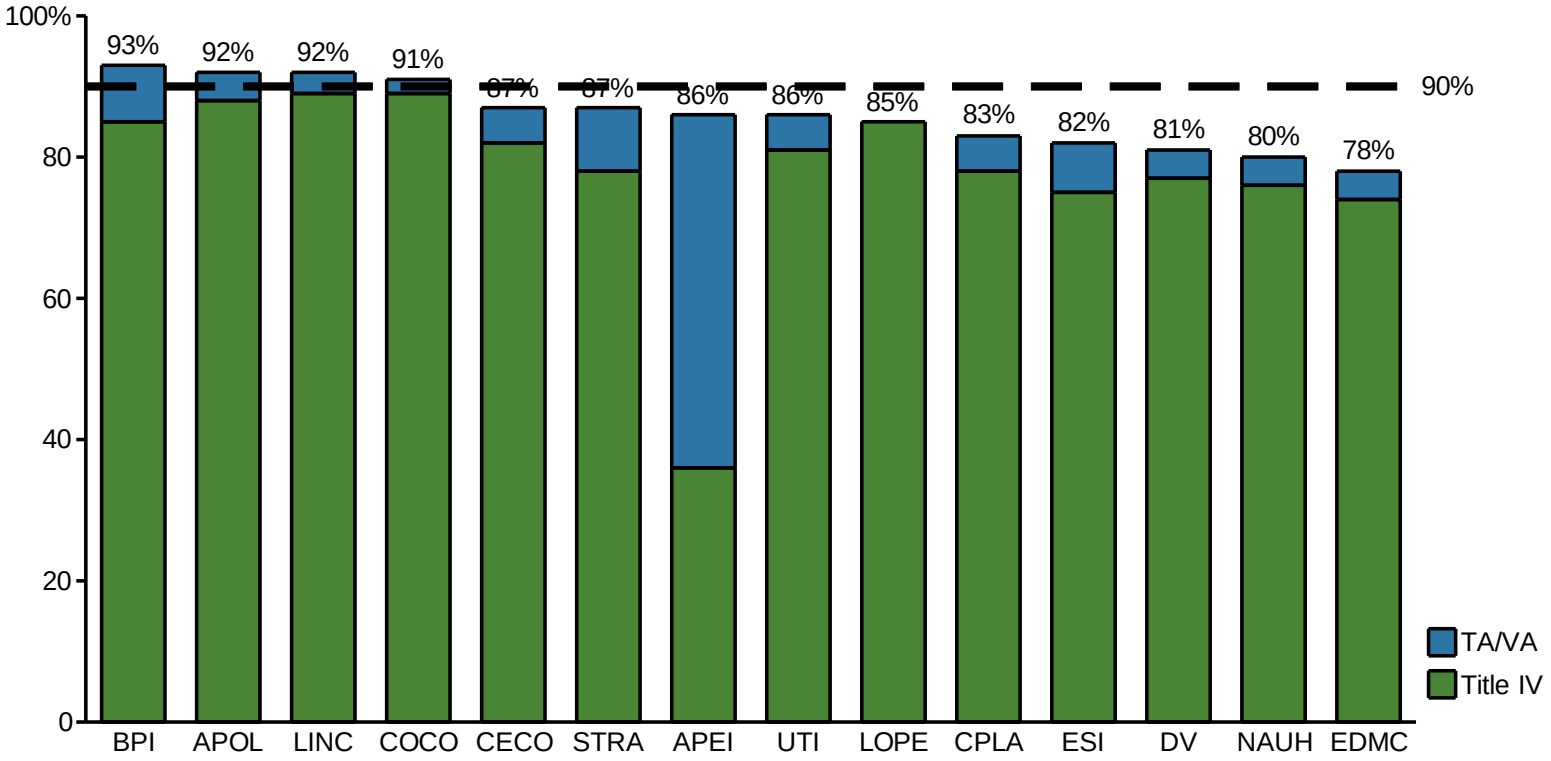
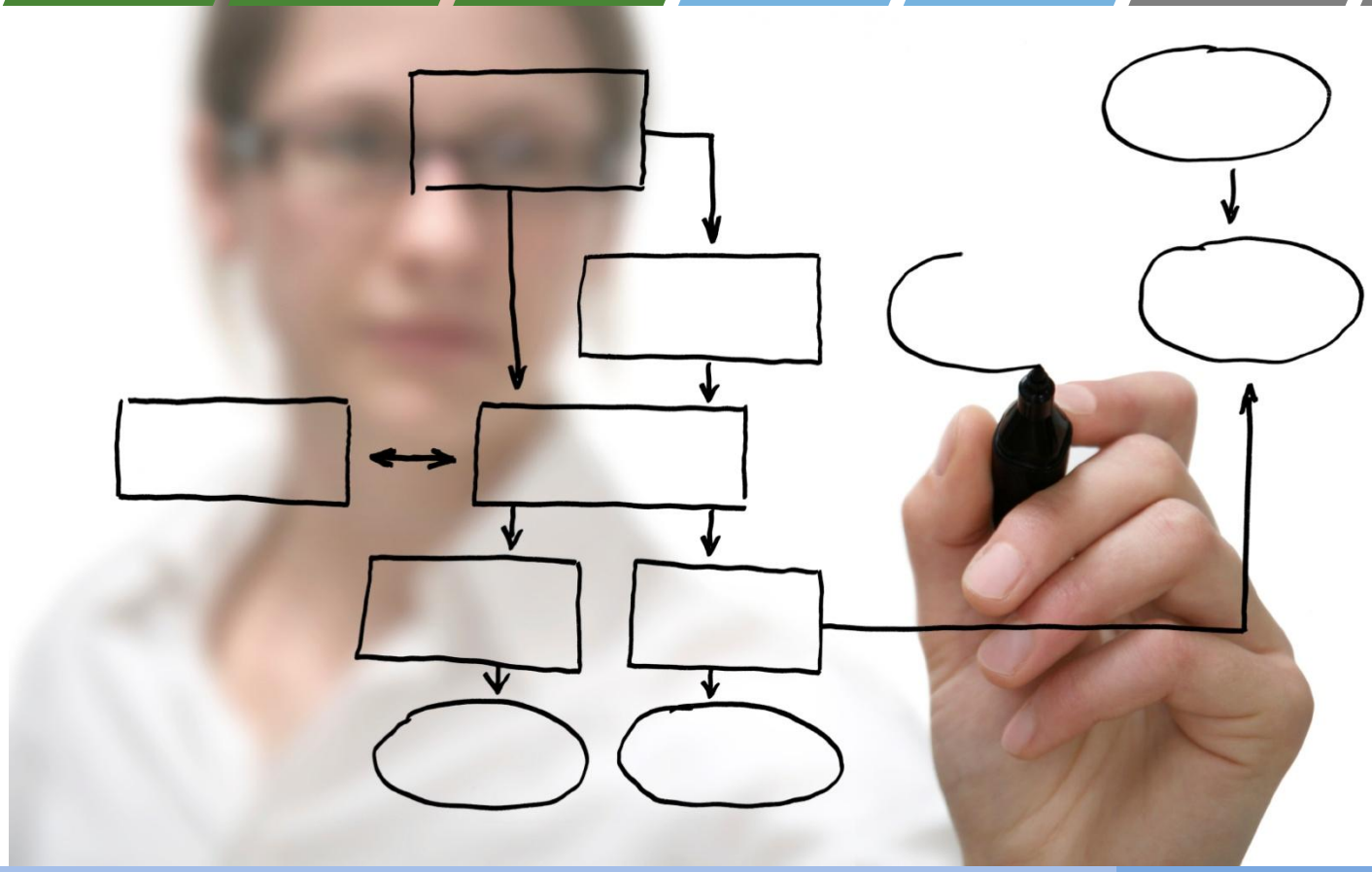
90/10 Ratios with and without TA/VA Funds Included (2011)



Taking Action – Long-Term Process Design

Process design and tight controls are critical to success

Program Design → Inquiry → Admission → Fin Aid → Onboarding → Instruction & Student Support → Exit Processes → Accounts Receivable Collection



Taking Action – Program Design Actions

Program design is mostly about institutional actions with limited service provider opportunities

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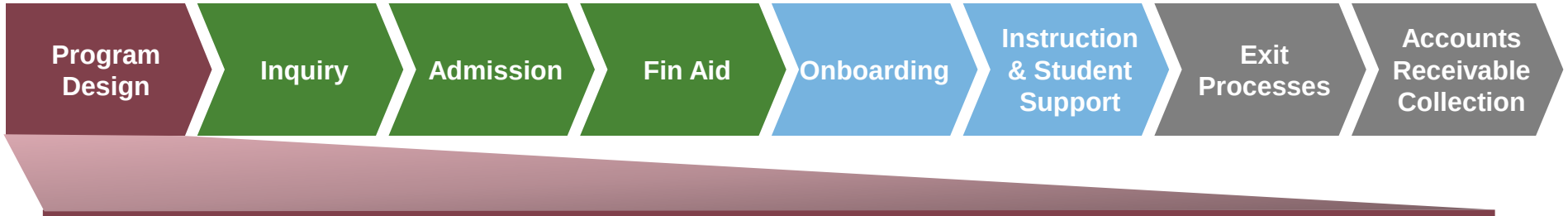
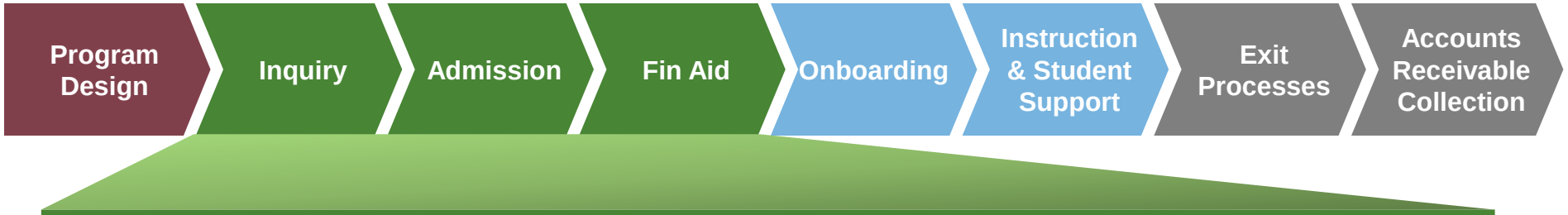


Program Design Actions	
• OPEID consolidation	• Shift from Associates to Diploma/Certificate
• Tuck-in acquisitions (with OPEID consolidation)	• Shorten programs to minimum licensure requirements
• Teach-out/eliminate programs	• Enhance courses (e.g., Gen Ed pacing, financial literacy, persistence skills, career orientation, incorporation of 'events')
• Develop programs with better metrics	• Change from credit to program measurement (for Title IV)
• Cross pollinate programs with better outcomes	• Pricing
• Focus on states with more favorable dynamics	• Faculty hiring and training processes
• Non Title IV programs: WIA/Agency, cash (corporate), cash (consumer)	• Changing faculty profile (e.g., adjunct vs. full-time, credentialing, attitudinal)

Taking Action – Admissions Actions

Outsourced admissions services are already well established but will need enhancements



Admissions Actions	
• Focus on non-Title IV Channels	• Cognitive assessment (academic preparation)
• Inquiry channel evaluation (retention, 90/10, GE, NPV)	• Non-cognitive assessment (non-cognitive capabilities)
• Enhanced admission standards	• Scholarship funds
• Debt calculators (particularly when aligned with admissions and financial aid practices)	• Course load, modality, and degree requirements
• Intensive focus on alternative funding sources	• “Second Interviews” in both Admissions & Financial Aid
• Predictive modeling (typically with FAFSA forms)	• Tighter processes and hand-offs between admissions, financial aide, and academics

Taking Action – Instruction and Student Support

There are rapidly evolving opportunities providing instructional and student support services

Program Design → Inquiry → Admission → Fin Aid → Onboarding → Instruction & Student Support → Exit Processes → Accounts Receivable Collection

Instruction and Student Support Actions	
• Remediation Programs (Cognitive & Non-Cognitive)	• Tracking and monitoring of early success
• Provisional programs with teeth (e.g., register on day 29 but rigorous requirements)	• Changing nature and frequency of student touch-points
• Formal on-boarding programs	• Coaching
• Minimum course load requirements	• Financial Literacy/Discipline:
• Intensive focus on attendance	• Adaptive learning
• Peer support networks	• Creating public commitments and challenges

Taking Action – Post Graduate Management

Post graduate management is an area where there is clear demand but limited offerings

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Program Design → Inquiry → Admission → Fin Aid → Onboarding → Instruction & Student Support → Exit Processes → Accounts Receivable Collection

Post Graduate Management	
• Alumni relations programs	• Student loan center
• Financial literacy / exit coaching	• Deep placement resources
• Partnerships with placement firms	

Taking Action – Full Solution Providers

Financial motivations, to augment (or replace) income from taxes or endowments, are powerful

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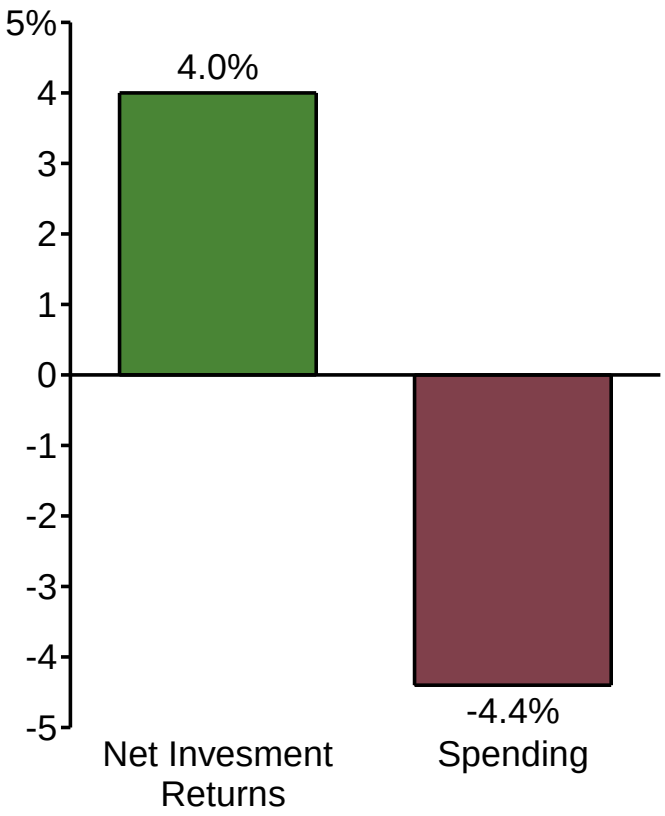
10-Year Average Endowment Returns and Spending
(Net of Fees)



Online Economics

1,000 Students
X
$12,000/Student
X
33% Margin

$4 Million

$100M Endowment @ 4% Returns

Source: CommonFund January 2010, based on 842 colleges and universities

Taking Action – Full Solution Providers

There is now a growing cadre of willing partners stimulating the public and non-profit sector

- Brand
- Price
- Employer Relationships
- Physical Infrastructure
- Political Tailwind

Current Assets

High-Performing Learning

Willing Partners

Bisk Education

embanet – Grow Students. Grow Reputation. Grow Online.

Deltak – WHERE ACADEMICS AND INNOVATION CONVERGE

AP ACADEMIC PARTNERSHIPS

2tor

AltusEd

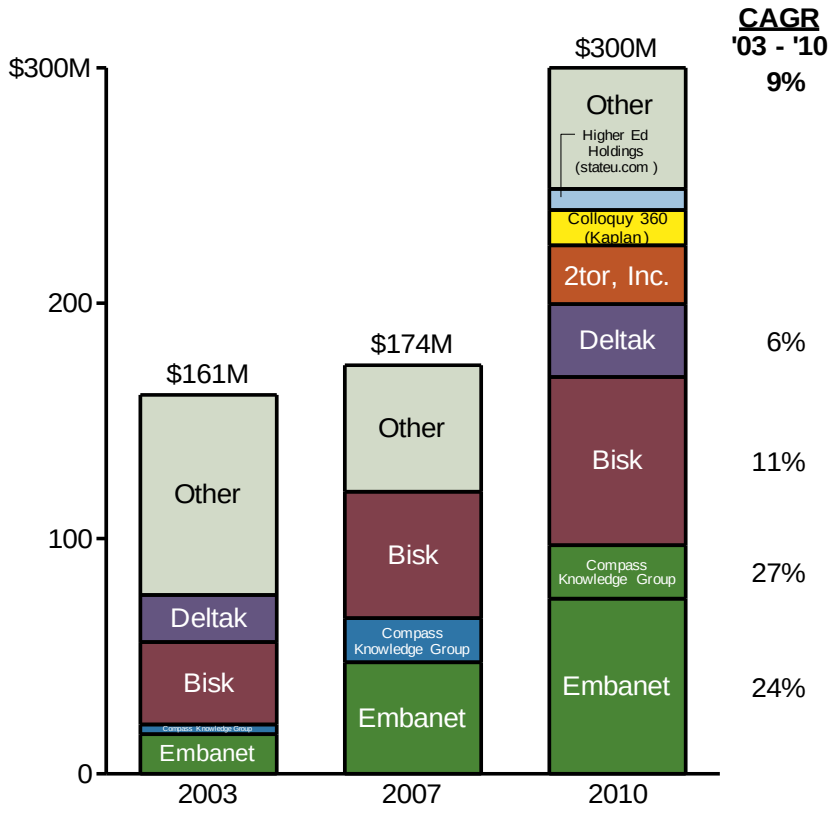
COLLOQUY

CAPITAL EDUCATION – Online Excellence in Higher Education

Taking Action – Full Solution Providers

The market has grown at 20% in the last three years

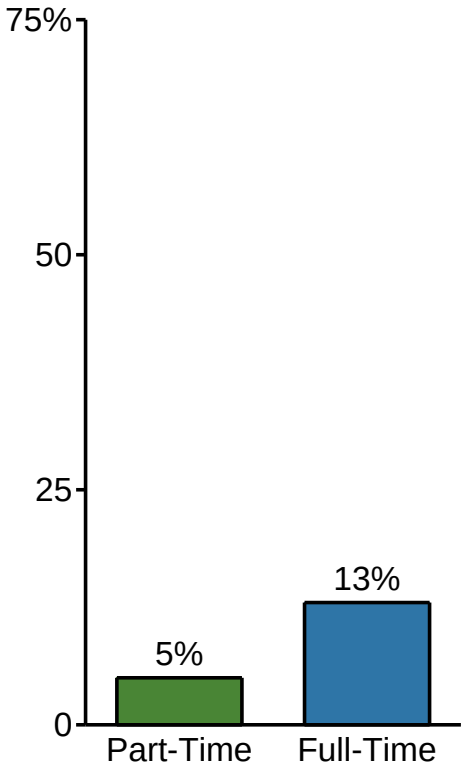
Online Enabler Market, 2003 – 2010



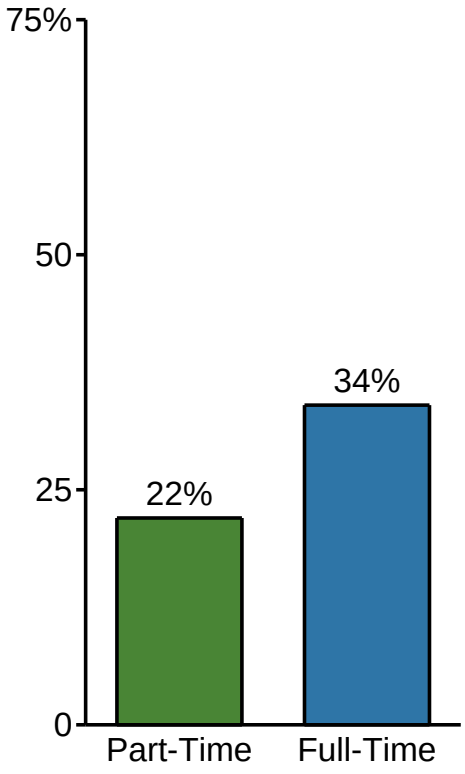
A Parting Thought

Parthenon sees graduation rates as the next political, press, and regulatory frontier

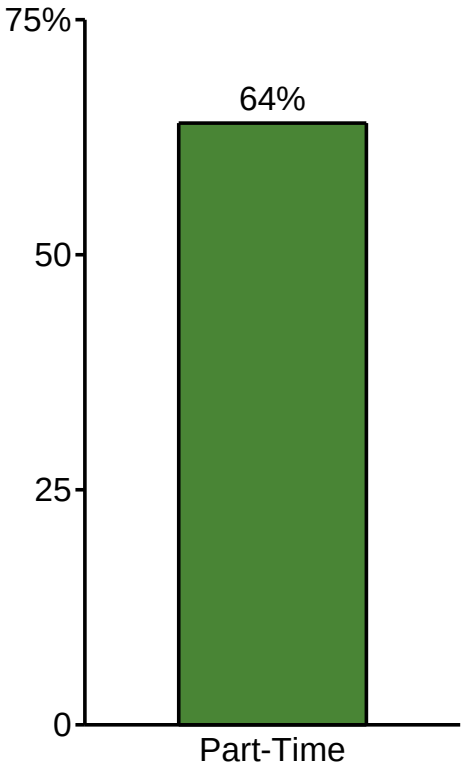
Associates Degree
(3-Year Graduation Rate)



Bachelors Degree
(6-Year Graduation Rate)



Masters Degree
(3-Year Graduation Rate)



About The Parthenon Group and our advisory services for investing in education

About The Parthenon Group

The Parthenon Group is a leading advisory firm focused on strategy consulting, with offices in Boston, London, Mumbai, and San Francisco. Since its inception in 1991, the firm has embraced a unique approach to strategic advisory services built on long-term client relationships, a willingness to share risk, an entrepreneurial spirit, and customized insights. This unique approach has established the firm as the strategic advisor of choice for CEOs and business leaders of Global 1000 corporations, high-potential growth companies, private equity firms, educational institutions, and healthcare organizations.

Advisory Services for Investing in Education

The Parthenon Group advises clients in all stages of investing in education companies, including target identification and screening, strategic due diligence, portfolio company strategy and operational improvement, and sell-side support. The combination of Parthenon's Private Equity Practice, which has advised clients on over 1,000 transactions, and our Education Center of Excellence, which has worked across all aspects of for-profit and non-profit education, make The Parthenon Group the preeminent advisor to private equity firms considering investments in the education industry.

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