



Investing in Education

THE PARTHENON GROUP

Boston • London • Mumbai • San Francisco

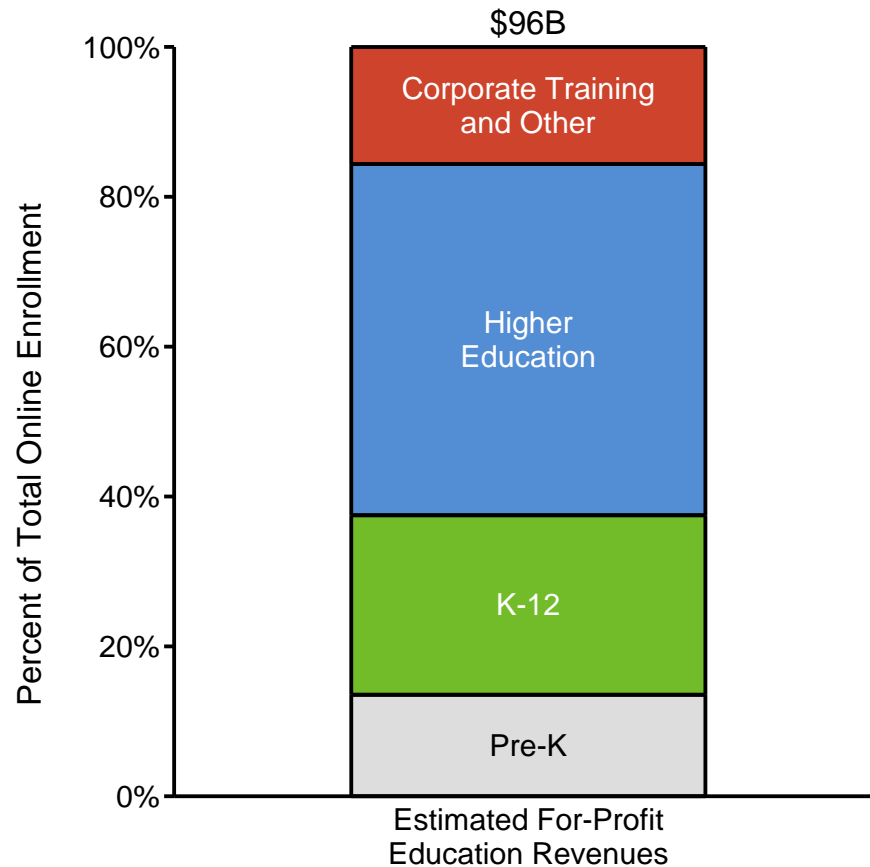
**Where are opportunities and how
can you capture them?**

Robert Lytle

Summer 2009



The United States is the single largest education market in the world with a for-profit sector roughly \$100B in size



- The U.S. spends ~40% more per K-12 student on average than other industrialized nations; the gap is even larger for post secondary spending
- Our enormous public K-12 system presents vast opportunities
 - ~50MM students in the public system
 - ~ 6.2MM in private schools
 - Only a small fraction on-line
 - ~14,200 public school districts containing 97K public schools (including 4K charter schools)
- We have a post secondary system second to none — perhaps one of the U.S.’s next great ‘exports’
 - Over 18MM students are attending 2- and 4-year colleges and universities
 - Over 4,200 degree-granting institutions

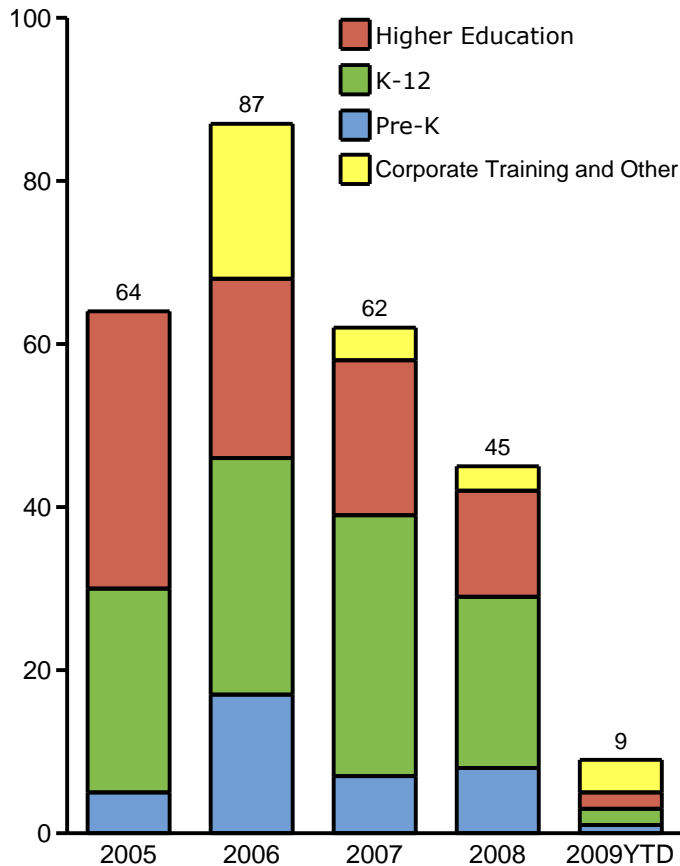
Where can financial investors play?

Many of you are moving to make education an explicit investment focus



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Education Sector Investment Activity



- Many big, high profile deals every year...



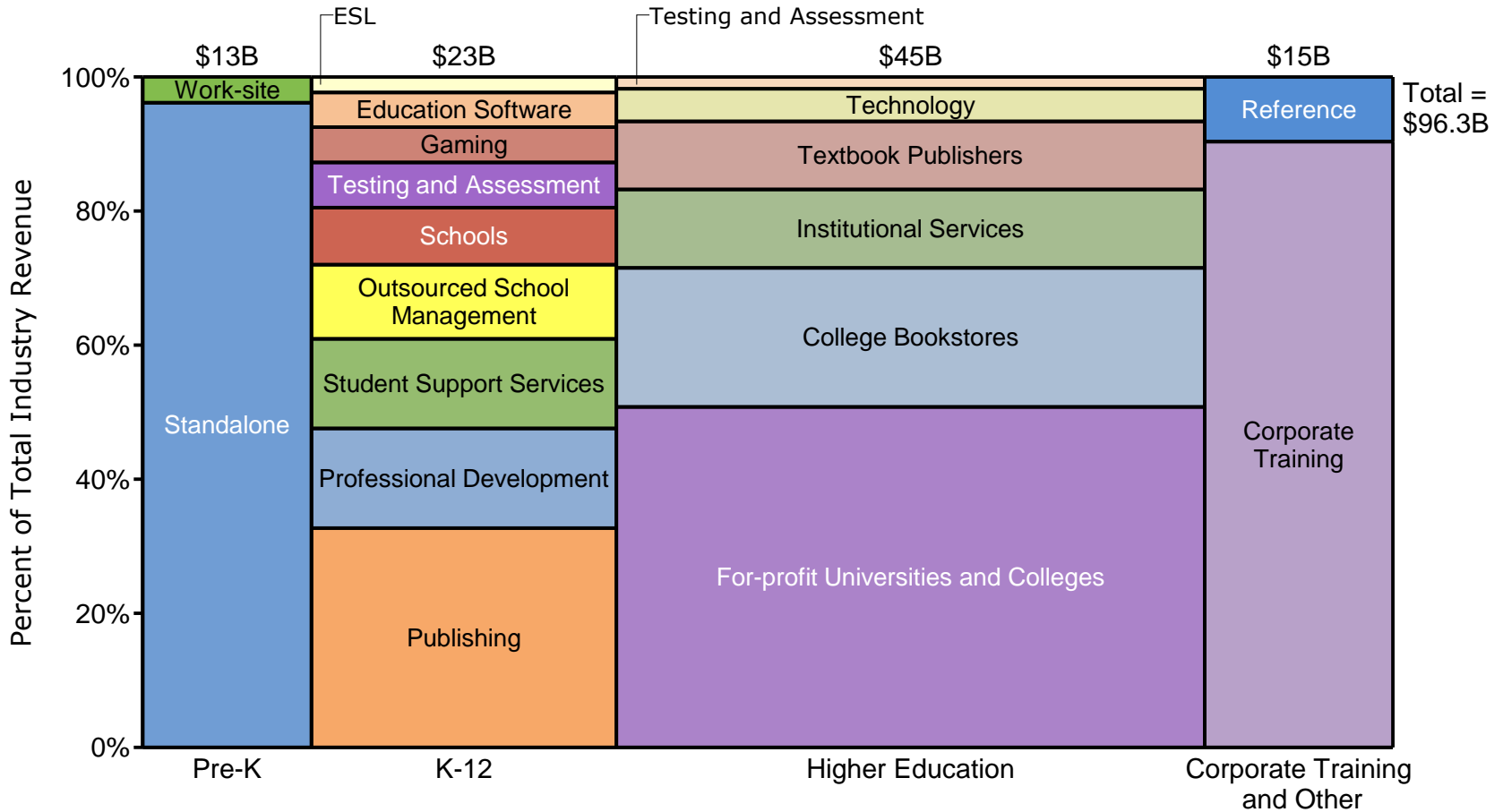
- Activity that continued even in the trough of the deal market....
- Expectations of many to come over the next 12-18 months....
- And fertile ground for proprietary opportunities

Parthenon sees significant investment opportunities across this vast education landscape



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U.S. Estimated For-profit Education Revenues



Deals are everywhere, but require different approaches and the understanding of radically different business models

In the last year, Parthenon met with ~100 investment firms around the world to talk about education investing
– *You all ask us variations of the same questions*



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You Ask Us ...

Where are the deals?

Can this growth continue and is it really counter-cyclical?

What impact should I expect from regulatory changes and stimulus money?

How can I ever justify these multiples?

And We Ask You ...

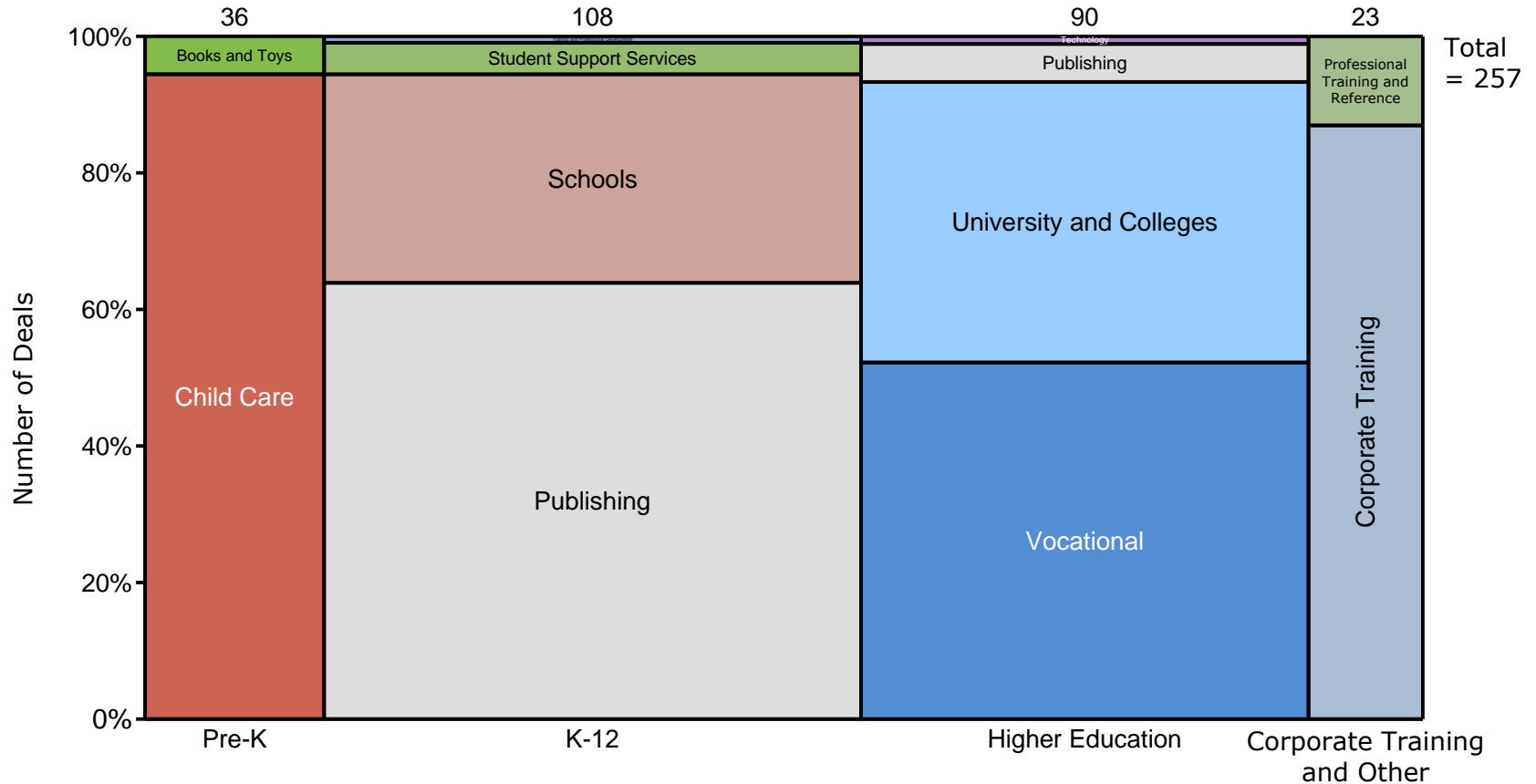
- What is your target transaction size?
- What business models are most comfortable to you?
- Will you do non-traditional structures (e.g., non-profit conversions, JV / NewCo structures, minority interests)?
- What sector are we talking about?
- Over what duration? (*Note: many different penetration curves exist in the education space*)
- When you say growth, do you mean market growth or the opportunity for share gain?
- Are you interested in primary impacts (e.g., stimulus money available to your target, effects of announced regulatory changes)?
- Secondary and tertiary effects that are more political, directional, and speculative in nature?
- Do you know the sector dynamics and the business model really, really well?
- Do you have a strong post acquisition play book?
- How well can you supplement the management team post acquisition and what is your experience as an activist owner?

-or-



Where are the Deals?

U.S. Education Market Investment Activity



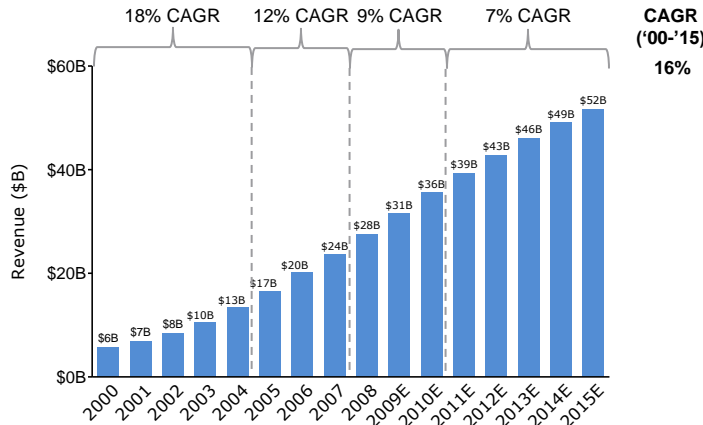
Over the past four years, over 250 transactions have occurred in the U.S. education market



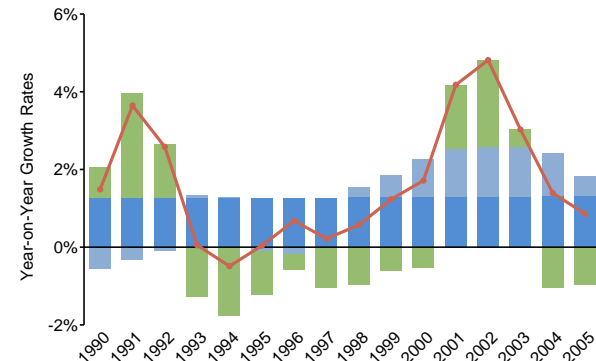
Can this growth continue and is it really counter-cyclical?

High, but slowing growth...

Post Secondary Enrollments

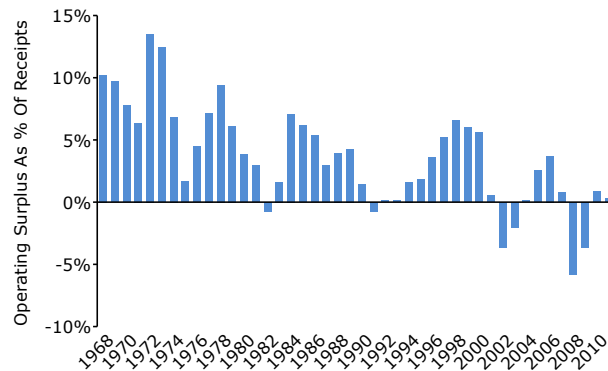


Coupled with clear counter-cyclicality...

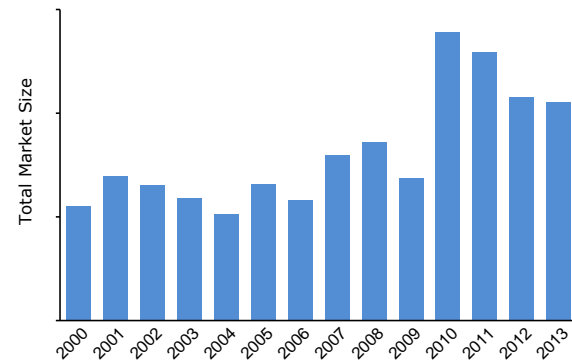


Cyclicity is tied to state budget surplus...

Basal Textbook Sales



But masked by a byzantine adoption sales cycle...



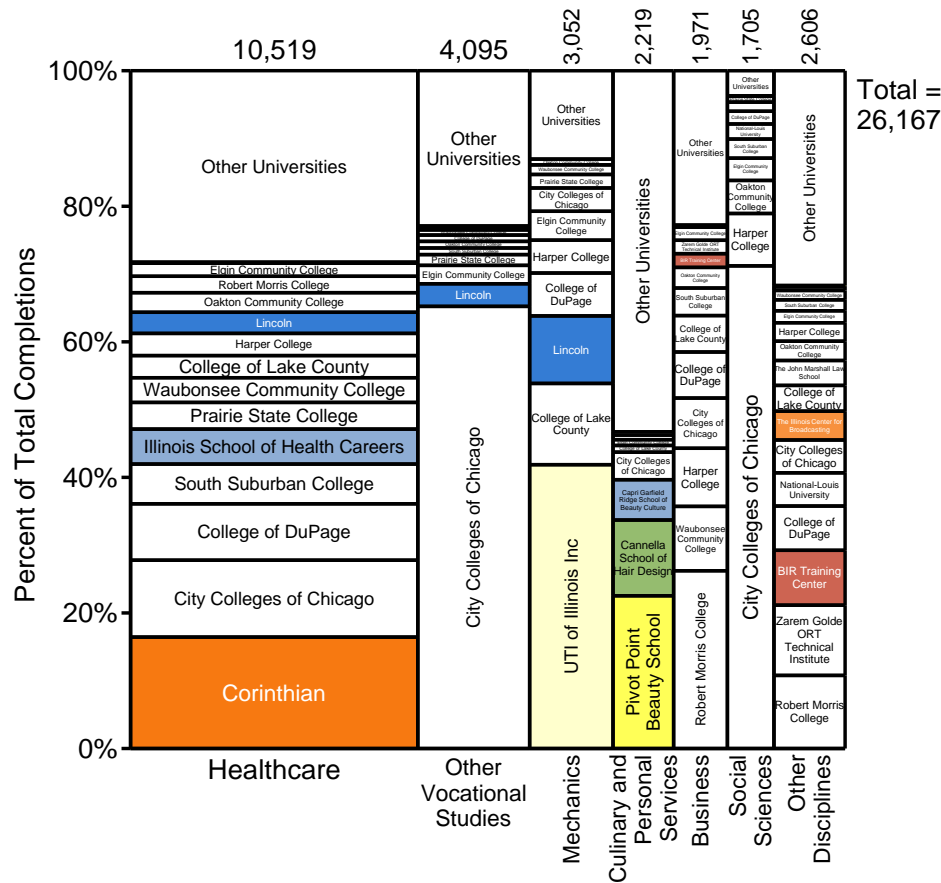
In education, many interactive forces cloud trends, making it difficult to answer growth and cyclicity questions accurately

Can this growth continue and is it really counter-cyclical?

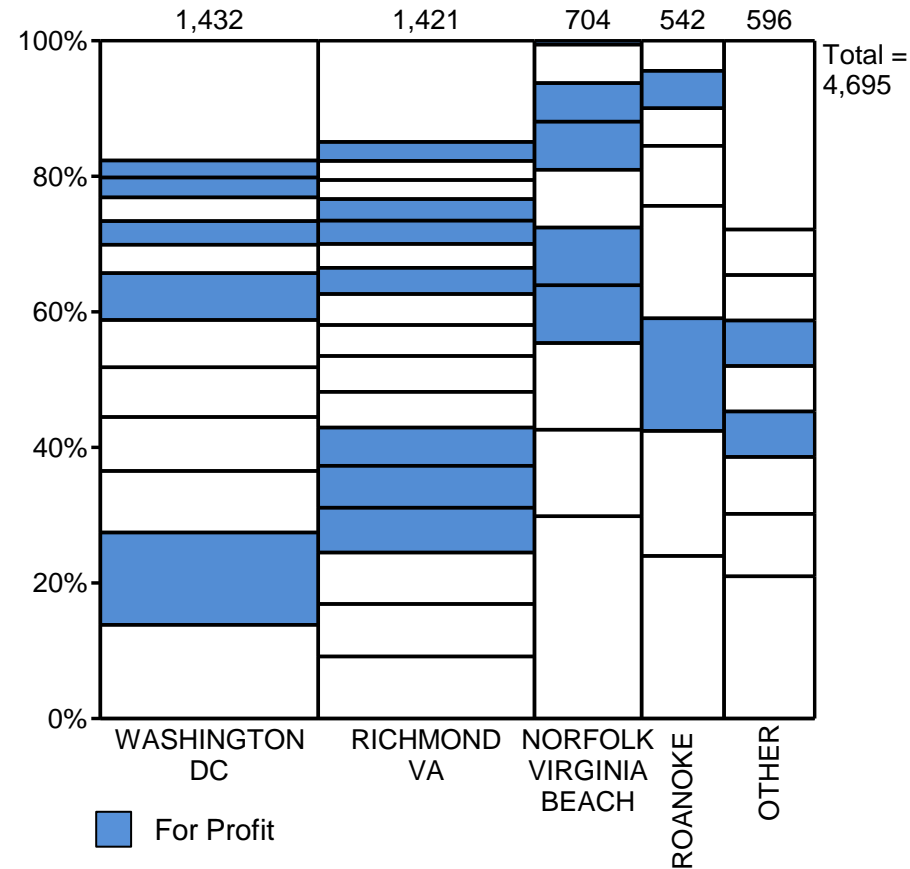


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Greater Chicago Area Certificate Degrees, 2007



Private Special Education Placement, Virginia



Do not forget the ability to gain share quickly in highly fragmented markets

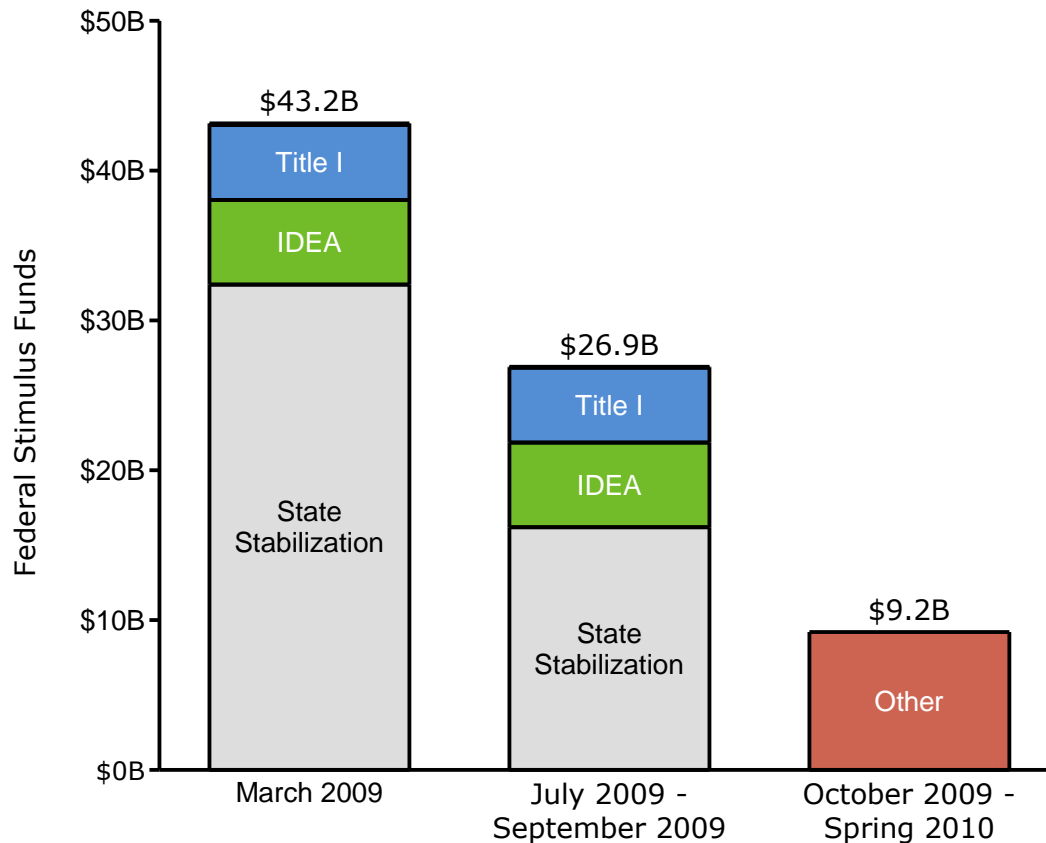
What impact should I expect from regulatory changes and stimulus money?

Example – Understanding the K-12 Stimulus Impact



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Timing of Stimulus Package Education Funds



Other Category, October 2009 – Spring 2010

- Title I School Improvement Grants (\$3B)
- Education Technology State Grants (\$650MM)
- Some sources of funding will be awarded competitively:
 - State Incentive Grants (\$4.35B) and Local Innovation Grants (\$650M)
 - Teacher Incentive Fund (\$200M) and Teacher Quality Enhancement (\$100M) funding
 - Statewide Data System funding (\$250M)

Weekly or monthly, there is a regulatory or funding 'event' in education – staying on top of them and interpreting their impact is a real task

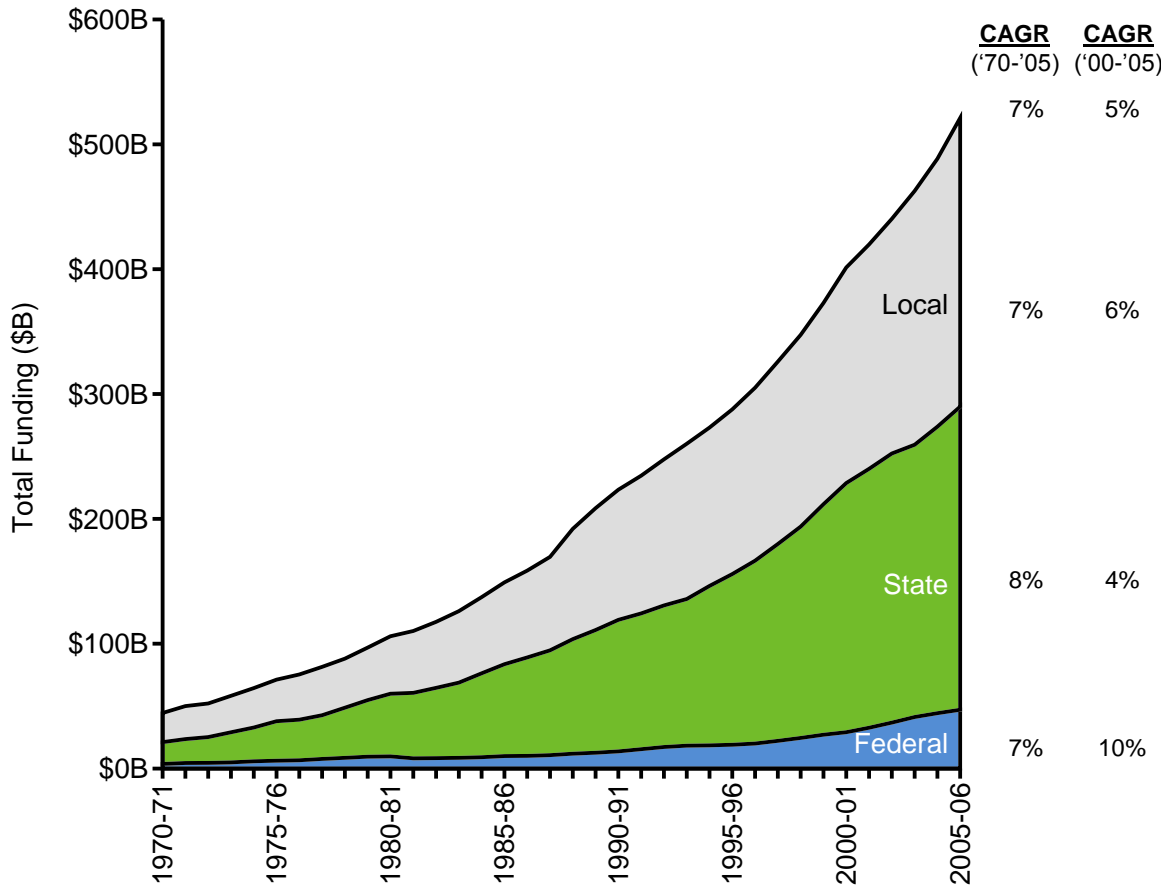
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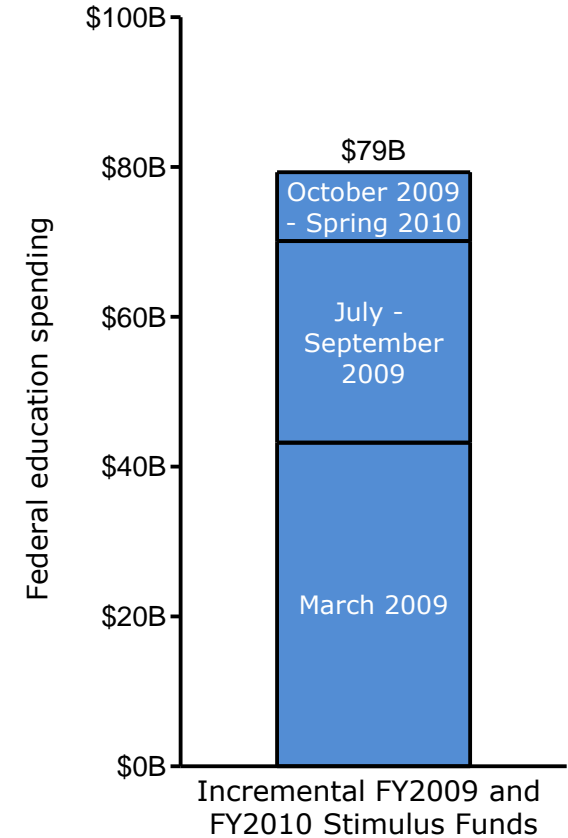


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K-12 Funding Sources, 1970-2006



Stimulus Spending

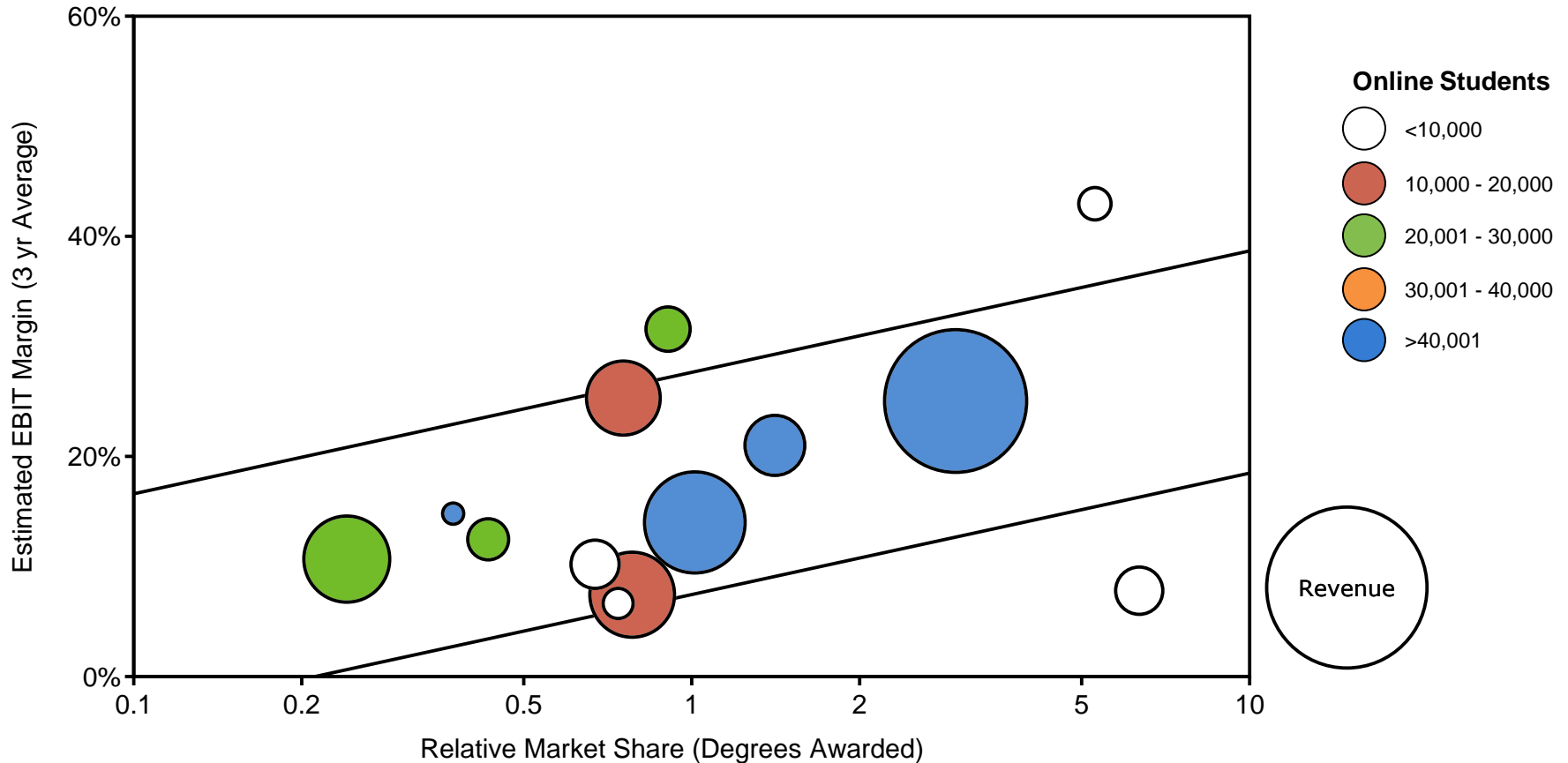


Understanding long term political effects is even more critical; what impact does a *doubling* of federal monies imply?



How can I ever justify these multiples?

For Profit Education: Online and Ground Program Locally Weighted
Relative Market Share vs. Profitability (3-Year Average Ending 2007*)

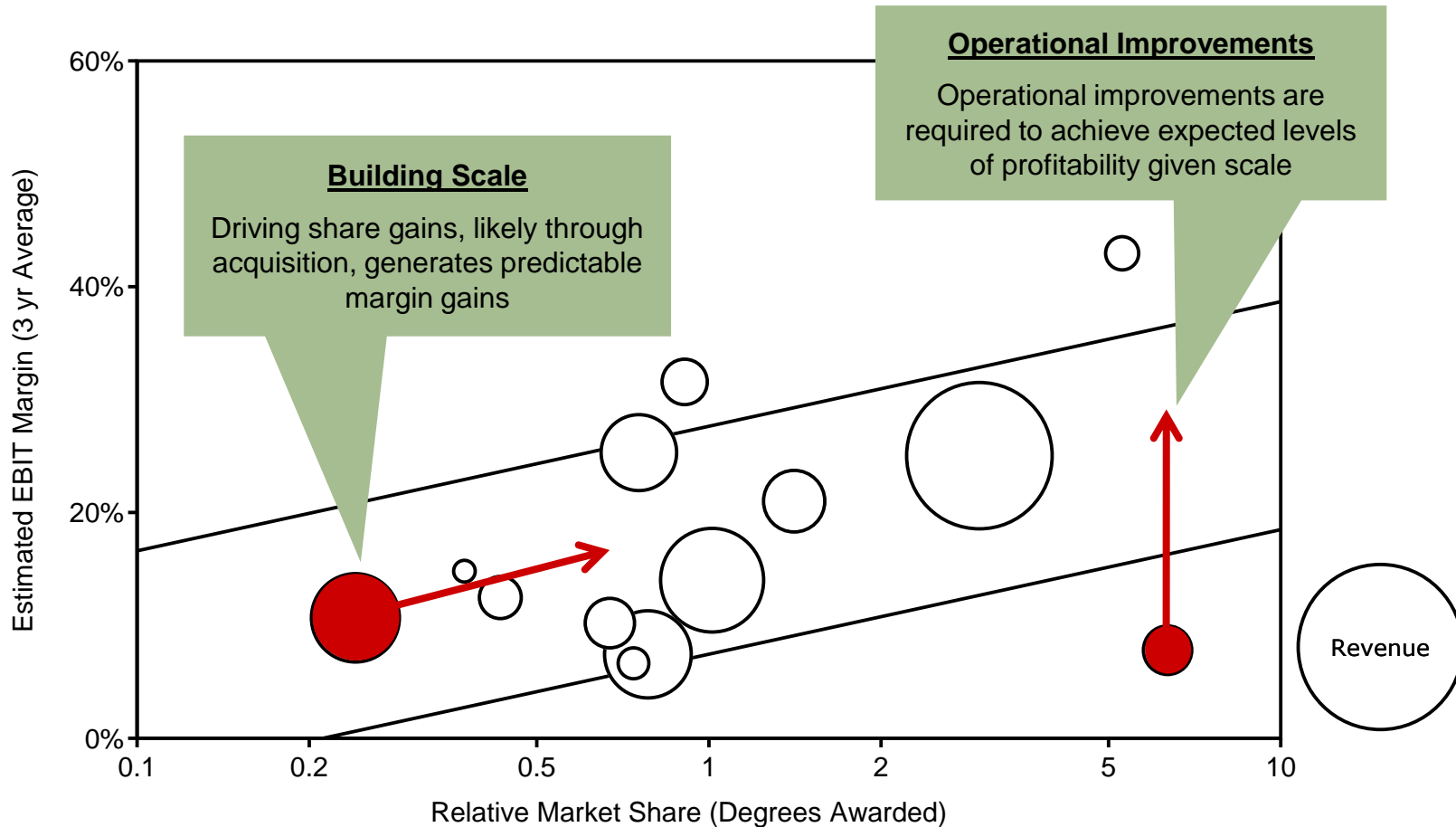


Scale matters in every one of these businesses – how we measure it and the degree of impact may differ, but it always matters

*Market defined by degree type and discipline; Markets include public, non-profit, and market funded institutions; Public company financial data from 10K's; private company data from NECS reporting



How can I ever justify these multiples?



Optimizing the current business and building scale are critical in every education business that we have seen



How can I ever justify these multiples?

A Classic Post Secondary 'Play Book'

Optimize Core Programs

Fight the slowing market growth by supporting and filling the core...

- The market is large and will continue to grow at a strong pace; but, that pace is decelerating

...Focus on operational profitability by driving incremental utilization...

- All students are not equal; some are more profitable than others

- Marketing Effectiveness
- Student Experience
- Pricing

- Retention
- Utilization

Expand Into Adjacencies and Build Scale

...Expand from core strength into nearby adjacencies

- Core areas of strength can be leveraged profitably into close adjacencies of delivery method and degree types

- New Degrees (Associate, Master)
- New Verticals
- Online Expansion

...Build out scale positions and consolidate...

- The current marketplace is too fragmented for long-term success and there is significant opportunity for further consolidation

- In-Fill Territories
- Phase II Consolidation

You will need a clear post acquisition plan and, in education, you will typically need to supplement the current team and be an activist investor

There are always issues to resolve, but education represents one of the most compelling sectors for investment



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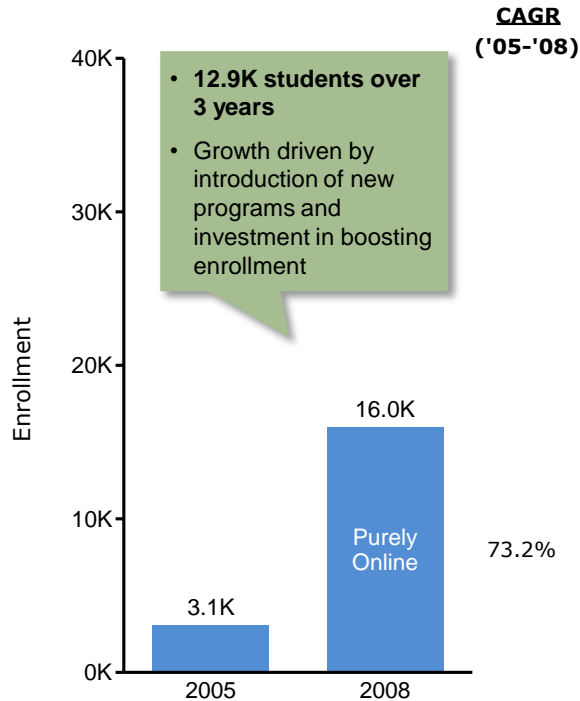
Our Perspective...

- Deals are everywhere. However, be very aware that each sector represents fundamentally different core business models and value drivers (e.g., distributed retail, direct marketing, sales force management)
- Different sectors have different dynamics, most of which are not straightforward
- Be prepared for weekly or monthly 'events,' yet retain the long-term perspective that 'this has happened before and we kept on growing'
- Historically, leverage...
- In most instances you are buying long-term growth with low volatility – be very sure about the sector, the business model, your target company's position, and your post acquisition plans



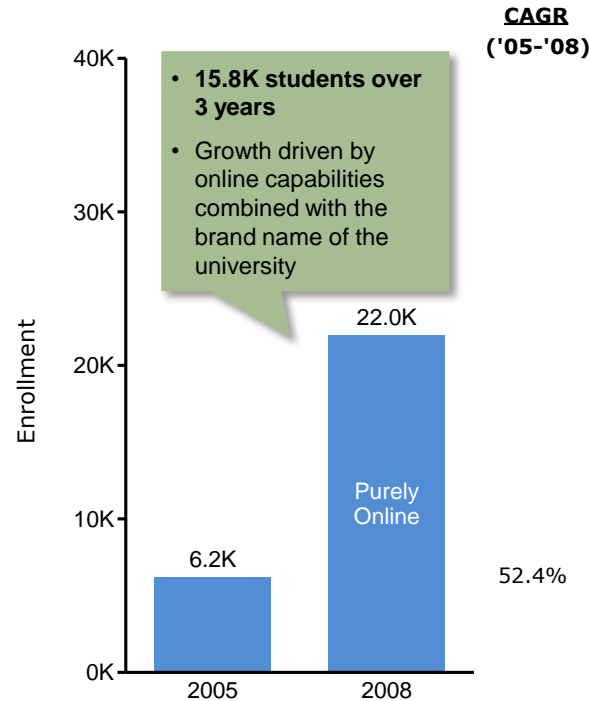
But let us not forget the explosive growth you can experience in this market place!

Education Management Corporation



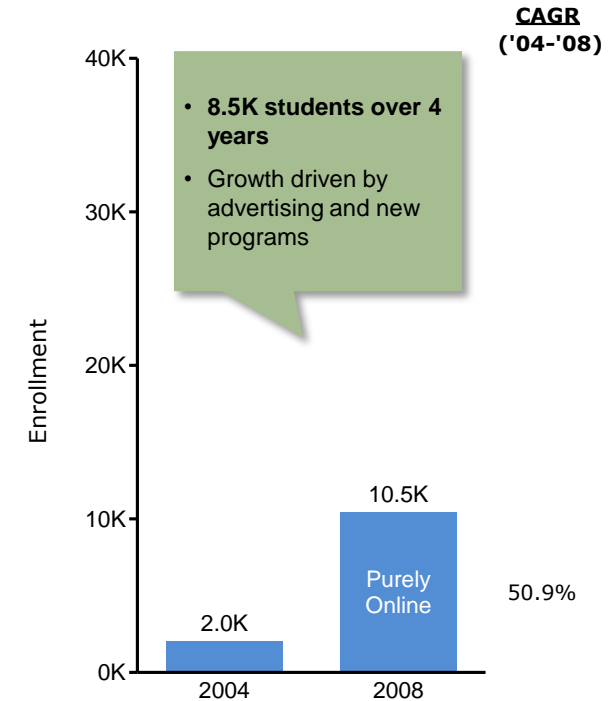
# of programs	47
% of Total Enrollment Purely Online	4.8% 17.5%

Grand Canyon University



# of programs	67
% of Total Enrollment Purely Online	73.8% N/A

Corinthian College



# of programs	16
% of Total Enrollment Purely Online	3.4% 15.2%

“Getting to 10,000 starts in a five year time-frame is pretty much the industry standard. Grand Canyon, Corinthian, Westwood College and Virginia College all did something similar.”

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



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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; long-term client relationships, a willingness to share risk with our clients, an entrepreneurial spirit, and customized insights are the hallmarks for which The Parthenon Group has become recognized in the industry. 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 1000 transactions, and our Education Center of Excellence, which has worked across all aspects of for-profit, public sector and non-profit education, make Parthenon the preeminent advisor to private equity firms considering investments in the education industry.

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