



RAPID CHANGES *Drive* EDUCATION MARKET M&A

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School's back in session, and students are working toward new milestones. What are yours?

As students prepare for their first exams of the new academic year, owners and investors in the education markets are sharpening their pencils for 2010 and beyond, grappling with the imperative of growing their businesses in a rapidly changing market.

There is an increasing awareness among suppliers to the education market that the desire to leapfrog competitors and capitalize on evolving customer demands requires near-term action.

M&A-driven growth has returned as a critical component of companies' strategy, as smaller, entrepreneurial innovators deliver products and services fueling the transformation of education as we know it.

Key secular trends driving M&A activity

Several secular market trends underpin the anticipated increase in M&A activity in the coming year:

- Based on historical patterns, the pace of mergers and acquisitions across the various education markets we cover is poised to accelerate dramatically. Sharp drops in M&A activity are always followed by equally sharp spikes.
- Pricing has firmed up to the point where valuations based on revenue and EBITDA multiples are consistent with historical norms – neither inflated to bubble-induced heights nor softened to post-burst lows.
- Significant pent-up demand among cash-rich buyers and an increasing influx of investors pursuing a dynamic sector creates a strong selling climate for well-performing businesses.

While these conditions apply to high-quality companies across a wide spectrum of industry sectors, there are additional considerations that are unique to the education marketplace.

Federal policy clarity is sharpening the focus on attractive industry segments

As the policy priorities of the Obama administration and Secretary of Education Arne Duncan have become more explicit over the past several months, the markets have gained greater confidence in those solutions and segments that stand to benefit.

In K-12, some of the companies that should benefit are those that:

- Measure, track, and analyze student performance and teacher efficacy;
- Deliver longitudinal data management and analytics solutions;
- Strengthen the pipeline, preparation, and professional development of educators;
- Provide innovative school models (e.g., charters, online) that offer options to parents and those students who are struggling or dissatisfied with traditional public models.

From a postsecondary perspective, a strong focus on community colleges has highlighted opportunities and challenges facing that segment, while increased Federal funding resources for Pell Grants and the new GI Bill has flooded the market with additional resources for students. Companies that benefit include those that:

- Deliver vocational and career-oriented certificate and degree programs in areas with expanding labor needs (e.g., allied health, education, green/clean technology);

Capitalizing on evolving customer demands requires near-term action

- Augment the study and academic skills of students and adults seeking to enroll in post secondary programs;
- Strengthen mission-critical, student-focused administrative and academic processes for institutions.

Expansion into global and consumer education channels

Many companies are increasingly taking a more aggressive stance toward accessing new markets outside the United States and/or finding opportunities to deliver products and services into consumer channels. The biggest beneficiaries of this movement have been language learning businesses, both center- and/or site-based models delivering instructional programs to students and professionals and online-delivered instructional programs and resources. Similarly, a host of consumer-directed online businesses have emerged marrying remedial and enrichment math and language arts programs with engaging gaming and competition-like qualities.

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Solid track record for education IPOs in 2009

The industry has delivered four strong education IPOs through October—Grand Canyon University, Bridgepoint, Rosetta Stone, and Education Management Corporation – with recent filer Archipelago Learning waiting in the wings. As the public markets provide a showcase for a diverse collection of education businesses, strategic and financial buyers are redoubling efforts to find attractive companies enabling them to tap into these emergent areas.

These trends, combined with the macro-economic shifts described above, are already raising the temperature for education market mergers and acquisitions.

Owners and investors in education-related businesses understand that the road to growth is paved with creative acquisitions, and many are working with advisors like Berkery Noyes to formulate and execute the strategies that will enable them to prosper in a market that promises only more and faster change over the near and longer terms.

About Berkery Noyes

Founded in 1980, Berkery Noyes is the leading independent investment bank specializing in the information content and technology industries. The firm has initiated, managed and closed more than 400 merger and acquisition transactions for privately held and publicly traded companies in the business, technology, education, health, financial and legal information segments. Berkery Noyes is unique among investment banking firms in that we combine truly independent strategic research and industry intelligence with senior information technology banking expertise. With no equity fund or brokerage business to manage, our partners and investment banking professionals are one hundred percent focused on M&A advisory services. Berkery Noyes employs over 40 individuals with deep industry knowledge and experience who strive to exceed our clients' expectations by maximizing the full value of their information technology and content assets.



For a more detailed discussion of these concepts and how they apply to your individual situation, contact Chris Curran or Mark DeFusco, managing directors, or Vivek Kamath or Adam Newman, directors, in the Berkery Noyes Education Group at 212.668.3022.

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