

DealNotes

Only the important stuff . . . from your education insiders.

Q1 2016 EDUCATION M&A MARKET SNAPSHOT

The education market has seen a considerable amount of M&A activity in Q1 2016 with over 50 transactions announced through March 31. Strategic buyers have been very active, accounting for two-thirds of all acquisitions in the space. As education technology businesses continue to mature and demonstrate increased levels of recurring revenue, they contribute to the industry's growth and become highly attractive acquisition targets. Looking forward, MHT MidSpan believes that companies providing curriculum in tandem with assessment and student data feedback will be among the most desirable assets in this market. The need for high-quality data in education remains high, and businesses capable of improving student outcomes through data tracking, analysis and measurement will have a large impact on future M&A activity.



Q1 2016 Education Industry Recap May 2016

NOTABLE TRANSACTIONS

APOLLO EDUCATION GROUP TAKEN PRIVATE?



In February 2016, a group of investors including The Vistria Group, funds affiliated with Apollo Global Management and Najafi Companies announced the planned acquisition of Apollo Education Group, the owner and operator of the University of Phoenix. In recent years, for-profit educational institutions have been criticized for inadequate student outcomes, deceptive advertising and compliance shortfalls. The investor group is expected to lead a transformational plan at the University of Phoenix and to prompt positive changes for the industry overall.

VTECH HOLDINGS ACQUIRED LEAPFROG ENTERPRISES



VTech Holdings, a Hong Kong-based educational toymaker, acquired LeapFrog Enterprises for \$72 million in February 2016. The deal represents an opportunity for the U.S. company to penetrate new markets amid declining demand for its electronic learning devices in the U.S. LeapFrog is expected to leverage VTech's innovative products and technology, boosting its product portfolio and ability to compete with educational tablet providers.

APPLE ACQUIRED LEARNSPROUT



In January 2016, Apple, Inc. acquired LearnSprout, an education startup that develops APIs and other tools that make data from school information systems (SIS) more readily accessible. The transaction is representative of the strong demand for digital assets and actionable student data. Apple is strengthening the iPad's capabilities in the classroom, as evidenced by recent software updates that improve SIS applications and the management of Apple IDs for students.

Education Investor Lingo Bingo

Having recently attended the latest South by Southwest edu conference (or #SXSWedu for the initiated), we found ourselves once again wondering if educators, entrepreneurs and investors are speaking the same language when it comes to educational tools. We had the chance to sit in on what was advertised as a panel discussion on “adaptive” learning techniques and tools. Unfortunately, what it turned out to be was a session on “individualized” learning techniques and tools. More on the differences later, but sitting through that discussion got us thinking about the language of education investing today.

The world of education is full of jargon and acronyms, yet another example of an industry with its own set of code words that only insiders are meant to understand. The old thinking was that this proprietary nomenclature would keep the riff-raff out of the industry and “preserve” it for those meant to dwell in the hallowed halls of educational institutions and pursue the noble task of textbook publishing.

While the jargon has changed, it very much remains a staple of operating, or investing, in the education market. The difference today is that outsiders have grabbed all of those trendy terms and are using them to drive investment decisions. From venture capitalists in Silicon Valley and Silicon Alley to staid buyout firms throughout New York and New England, money is rushing into the education market in an attempt to be part of the next, or maybe the first, real education revolution in this country.

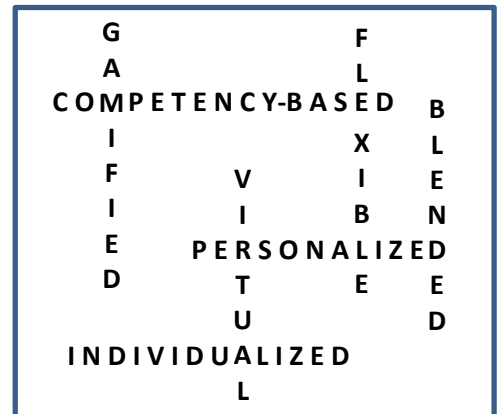
In 2013, venture capital investment in education topped \$1 billion for the first time. That number has nearly doubled since and is expected to continue growing in the years ahead. Recipients of that capital have been varied, but the largest “bets” have been made in supposedly disruptive education providers and in large enterprise software solutions meant to revamp the way students learn and the way educators, students and administrators communicate and move information. Much of this change is driven by a trend toward “individualizing” the learning process for each student.

The MOOC (Massively Open Online Courses) providers such as EdX, Coursera and others led the way at the post-secondary level. The idea was that each student could craft his/her own learning path by taking whatever course fit the progression being sought. That trend continues with another trendy buzzword – “credentialing” – gaining steam as the preferred form of recognition for completing MOOC-delivered coursework. The MOOCs, however, were far from alone in this high-minded endeavor.

As much as individualization appears to be the overarching trend in progressive education circles, the hot button for many of the investors we interact with is “adaptive.” Money has poured into platforms such as Knewton and DreamBox, two of the forerunners of the movement toward adaptive learning solutions. Unfortunately, the concepts of individualized and adaptive tend to be used interchangeably and mixed in with other related terms, including: blended learning, flipped classrooms, project-based learning and a host of others. The real concept behind adaptive, and the reason many consider it the “holy grail” of modern education, is that a digital curriculum base (or any learning content for that matter) can be adjusted, on the fly, based on how an individual student is performing at any given moment. Knewton, as one example, has invested tens of millions of dollars to develop the technology, including the proprietary algorithms, needed to parse content and deliver it on an as-needed basis in a fully automated manner. The complexities are substantial and must still be adapted to actual digital content before the technology can be put to use.

As noble as the pursuit of the ultimate “adaptive engine” has been and will continue to be, many of the investors we spend time with are easily lost in the terminology. They have a tendency to ask us if our clients’ products are adaptive when they really want to know if they can support individualized instruction. As noted here, those are actually two very different things. As more and more investors cross the threshold into the education market, it will be increasingly important to peel back the proverbial onion and really understand what it is that these new disruptive solutions do and what they do not.

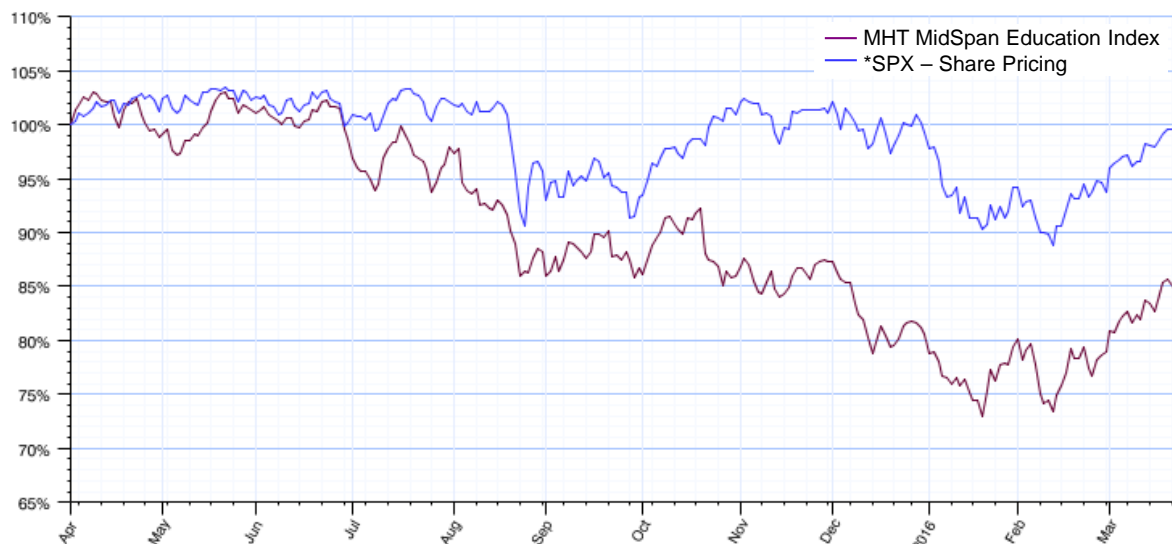
Not all concepts are created equal, and in many cases, the buzz around certain trends will create an investment frenzy that far outpaces the actual value created by the underlying solution. As has been the case with adaptive solutions, investors should tread lightly and make sure that the market being served actually needs, or is ready for, that level of technological capability. In many cases, the reality is far different from the theory, and that initial frenzy results in piles of poorly allocated research and development resources. Our hope is that increased investor attention in the education market will bring an increasingly critical investment eye, resulting in capital being directed toward entrepreneurs and innovators with real solutions that positively impact student outcomes.



Education Industry Public Valuation Snapshot

Public Company Sector Performance

Over the first three months of 2016, MHT MidSpan's education industry index tracked the improvements of the S&P 500 Index. Both indices have partially recovered from the decline in stock market performance in late 2015, with education exhibiting approximately 5% stock price growth since December 31. Despite recent gains, most of the companies in our index continue to trade below, and in some cases well below, 52-week highs reached in 2015.



TICKERS USED: 3PL, ABCD, CHGG, DISC.A, GHC, HMHC, INF, INST, JW.A, LRN, ONE, PSON, REN, RST, SCHL, TWOU

Educational Content & Services Comparables

Prices as of: 3/31/2016

(\$ Millions, except per share data)

Company	Enterprise Value	Equity Value	Share Price	52-Week High	52-Week Low	% of 52-Week High	EV / Revenue		EV / EBITDA	
							LTM	2016E	LTM	2016E
RELX Group	\$37,503	\$37,497	\$17.48	\$19.07	\$14.40	91.6%	4.3x	4.0x	14.3x	11.0x
Discovery Communications, Inc.	23,292	15,855	28.63	34.94	23.74	81.9%	3.6	3.5	9.5	9.6
Pearson plc	11,333	10,227	12.60	21.39	9.28	58.9%	1.7	1.8	10.9	10.4
Infoma plc	7,772	6,479	10.00	10.33	7.68	96.7%	4.3	4.2	14.1	13.1
John Wiley & Sons Inc.	3,256	2,827	48.89	61.55	39.88	79.4%	1.9	1.9	10.8	8.0
Houghton Mifflin Harcourt Company	2,818	2,453	19.94	27.14	16.00	73.5%	2.0	1.8	12.0	11.2
Graham Holdings Company	1,997	2,705	480.00	1,119.54	425.14	42.9%	0.8	0.8	7.2	6.9
Scholastic Corporation	941	1,276	37.37	46.28	30.34	80.7%	0.6	0.6	9.6	7.8
2U, Inc.	855	1,039	22.60	39.69	14.94	56.9%	5.7	4.3	NM	NM
Instructure, Inc.	400	491	17.94	23.63	13.21	75.9%	5.5	3.7	NM	NM
Chegg, Inc.	316	401	4.46	8.84	3.15	50.5%	1.0	1.3	NM	19.6
Cambium Learning Group, Inc.	288	195	4.27	5.97	2.85	71.5%	2.0	--	12.1	--
K12, Inc.	248	385	9.89	17.63	7.11	56.1%	0.3	0.3	2.8	2.6
Higher One Holdings, Inc.	197	188	3.91	4.45	1.85	87.9%	1.2	1.4	NM	6.5
3P Learning Limited	152	151	1.08	2.19	0.97	49.5%	3.1	3.3	8.8	10.2
Rosetta Stone, Inc.	102	147	6.71	9.19	6.17	73.0%	0.5	0.5	NM	NM

High:	5.7x	4.3x	14.1x	19.6x
Mean:	2.3	2.1	9.8	9.6
Median:	1.9	1.8	10.2	9.6
Low:	0.3	0.3	2.8	2.6

MHT MidSpan's Education Practice

Select Recent MHT MidSpan Transactions

 <p>has been recapitalized by</p>  <p>LINSALATA CAPITAL PARTNERS</p> 	 <p>MetaMetrics. LINKING ASSESSMENT WITH INSTRUCTION</p> <p>has been recapitalized by</p>  <p>PAMLICO CAPITAL</p> 	<p>TEXAS TEACHERS ALTERNATIVE CERTIFICATION</p> <p>has been recapitalized by</p>  <p>GAUGE CAPITAL</p> 	<p>INREACH CONTINUING EDUCATION SOLUTIONS</p> <p>a portfolio company of</p>  <p>TEAKWOOD CAPITAL Your partner in building new angles</p> <p>has been acquired by</p>  <p>JONAS SOFTWARE a subsidiary of Constellation Software Inc.</p> 	 <p>Parker SCHOOL UNIFORMS</p> <p>a portfolio company of</p>  <p>Blue Sage Capital</p> <p>has been acquired by</p> <p>Salem Investment Partners, Argosy Capital & Plexus Capital</p> 
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About MHT MidSpan

MHT MidSpan is a leading national middle market investment bank focused on high-growth companies and industry leaders. The team at MHT MidSpan assists clients with seller advisory, acquisition advisory, corporate finance, and strategic advisory assignments. With a tightly integrated combination of Wall Street, middle market, and strategic consulting expertise, we are uniquely qualified to serve the distinct advisory needs of successful companies. Over the last 10 years, MHT MidSpan has become one of the most active investment banks in the education sector. Our practice spans all segments of the market, including curriculum, software and outsourced services from pre-K to continuing professional education. We have active relationships with senior level management at the most active public and private education acquirers across the globe. Meet our education team:



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