

DealNotes

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

2015 EDUCATION M&A MARKET SNAPSHOT


The 2015 climate for deal making in the education marketplace was a favorable one. As expenditures increasingly went into ed-tech rather than basic instructional materials, the large strategic players demonstrated a shift away from print-based instructional materials and directed their focus toward digital products and services. At the same time, financial buyers remained highly attracted to the education space, given the overall shift to digital delivery and subscription-based business models. While interest in education-driven opportunities remained high, investors have become increasingly discerning. Premium technology-enabled businesses with strong growth profiles and a high degree of recurring revenue were able to generate values representing double digit multiples of EBITDA. Response to other non-technology assets has become bifurcated, resulting in fewer completed transactions and, in some cases, lower valuations.




2015 Education Industry Recap February 2016

NOTABLE TRANSACTIONS

LINKEDIN ACQUIRED LYNDA.COM

lynda.com  In April 2015, LinkedIn acquired lynda.com, a leading online learning company that helps people achieve their professional goals. lynda.com offers an extensive online library of video tutorials and courses to assist with the development of specific career-driven skills. When integrated with the hundreds of millions of members and millions of jobs on LinkedIn, it represents a powerful tool to help people prepare for or advance in a particular career. The transaction was emblematic of a new breed of strategic buyers becoming active in the education market.

VISTA EQUITY PARTNERS ACQUIRED POWERSCHOOL FROM PEARSON

 Private equity firm Vista Equity Partners acquired PowerSchool from Pearson for \$350 million in June 2015. The deal represents an opportunity for the SIS leader to operate independently of former parent companies, Pearson and Apple. The company is expected to focus on its core growth initiatives while adding complementary solutions through acquisition, as evidenced by the purchase of InfoSnap in November.

TPG CAPITAL AND LEONARD GREEN PARTNERS ACQUIRED ELLUCIAN

ellucian. TPG Capital and Leonard Green Partners acquired a majority stake in Ellucian, a global provider of software and services to higher education institutions, for an estimated value of \$3.5 billion in August 2015. The transaction is representative of the strong demand for digital assets and platforms with strong recurring revenue models in the education sector by financial sponsors.

Digital Revolution Takes Hold in K-12

After years of discussion and speculation, the digital content “levy” in K-12 education has finally broken. What was once considered a hard-to-imagine future in which students engaged with content in a one-on-one setting has, at long last, become reality. The world of education has undergone a major transformation as technology continues to permeate schools and classrooms. While best practices for academic standards, learning methodologies, and assessment measures are ever-changing, one notable constant today is that technology underpins most all of the change underway in education.

The pervasiveness of technology in the classroom is due in large part to widespread availability and connectivity. Over 98% of schools have at least one computer in the classroom every day. Schools utilize laptops and tablets in the traditional classroom as a means to improve the learning experience for students. Digital content has proliferated along with these devices and is proving to be a powerful value proposition to schools and users. Unlike its print-based counterpart, digital content is easily refreshed, provides flexible usability as both a core and supplemental instructional tool, and is considered more engaging to students. The combination of digital devices and content provides a powerful replacement to print-based



instructional materials, as evidenced by the growth in digital textbook market share from 9.0% in 2012 to 18.0% in 2015. A national survey of public school districts found that 84% of school technology officials expect instructional materials and whole-course solutions to be at least half digitally-based by 2018*. We have officially reached the tipping point in the digital revolution, and the shift will only accelerate going forward.



As digital content is becoming more prevalent, it has evolved into a multi-faceted solution. Schools with limited resources utilize digital learning for remediation, alternative education or to provide courses not otherwise available by the district due to resource constraints. At the same time, it is also used as a tool to support blended learning in the traditional classroom due to its interactive nature and ability to tailor content for a specific lesson. One of our now former clients, Glynlyon, Inc., (among others) sits squarely in the realm of digital curriculum. Glynlyon’s Odysseyware™ platform is used to solve a variety of challenges faced by districts, offering extreme flexibility with respect to how it is deployed. As a result, it offers superior academic solutions

for every style of learning and type of classroom, rewarding forward-thinking schools and students with superior learning outcomes. As schools realize the many applications of high quality digital content and curriculum, it no longer is viewed as a “nice to have” supplemental product but is quickly replacing outdated print curriculum and earning a slice of the annual school textbook/content budget.

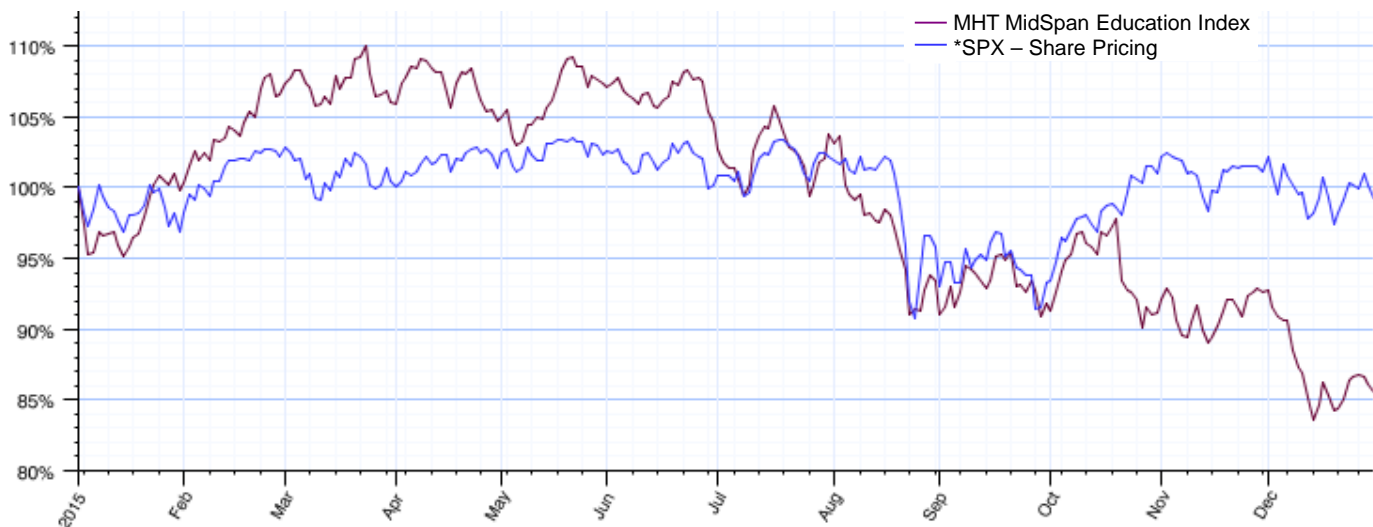
When done well, digital instruction makes learning dynamic for the student, resulting in a more engaging experience and higher achievement. For most schools, the next level of technology in education involves personalized learning and consistent feedback loops that inform curriculum and assessment. While personalized learning is undoubtedly the way of the future, best practices for implementation are still being determined. Look for additional information on the digital wave in education from MHT MidSpan in Q2 2016.

* Outsell, Inc.

Education Industry Public Valuation Snapshot

Public Company Sector Performance

Over the first seven months of 2015, MHT MidSpan's education industry index consistently outperformed the S&P 500 Index. During the last third of the year, however, the index declined approximately 15%. The poor performance in the latter part of 2015 was largely caused by more significant declines for the larger publishers, namely Pearson, as continued challenges surfaced and negative earnings forecasts were released. The majority of companies in the index continue to be well off 52-week highs.



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

Educational Content & Services Comparables

(\$ Millions, except per share data)

Company	Enterprise	Equity	Share	52-	% of 52-	52-	% of 52-	EV/Revenue		EV/EBITDA	
	Value	Value	Price	Week High	Week High	Week Low	Week Low	LTM	2016E	LTM	2016E
RELX Group	\$35,295	\$35,297	\$16.56	\$18.31	90.4%	\$13.82	119.8%	4.0x	3.9x	13.3x	11.1x
Discovery Communications, Inc.	21,818	14,381	25.08	34.94	71.8%	23.74	105.6%	3.4	3.3	8.9	8.9
Pearson plc	10,474	9,409	11.59	21.04	55.1%	8.94	129.7%	1.6	1.7	9.6	10.1
Informa plc	7,439	6,194	9.56	9.64	99.1%	7.40	129.1%	4.2	4.2	13.5	13.1
John Wiley & Sons Inc.	3,116	2,535	43.68	65.25	66.9%	39.88	109.5%	1.8	1.8	9.6	7.5
Houghton Mifflin Harcourt Company	2,685	2,320	18.78	27.14	69.2%	16.00	117.4%	1.9	1.8	11.8	10.5
Graham Holdings Company	1,947	2,831	484.79	1,119.54	43.3%	425.14	114.0%	0.9	0.8	4.9	6.2
Scholastic Corporation	870	1,210	35.25	46.28	76.2%	30.34	116.2%	0.5	0.5	10.4	7.0
2U, Inc.	816	999	21.83	39.69	55.0%	14.94	146.1%	5.4	4.1	NM	NM
Cambium Learning Group, Inc.	307	200	4.38	5.97	73.4%	2.63	166.5%	2.2	--	13.5	--
Chegg, Inc.	289	374	4.24	8.85	47.9%	3.15	134.6%	1.0	1.2	NM	19.4
Instructure, Inc.	287	377	13.79	23.63	58.4%	13.21	104.4%	3.9	2.7	NM	NM
K12, Inc.	246	383	9.85	17.66	55.8%	7.11	138.5%	0.3	0.3	5.1	2.6
Higher One Holdings, Inc.	208	198	4.12	4.45	92.6%	1.85	222.7%	1.3	1.4	NM	6.9
3P Learning Limited	138	136	0.99	2.03	48.9%	0.90	110.3%	3.1	3.3	8.1	10.1
Rosetta Stone, Inc.	137	168	7.73	10.37	74.5%	6.17	125.3%	0.6	0.6	NM	NM

High:	5.4x	4.2x	13.5x	19.4x
Mean:	2.1	2.0	9.5	9.3
Median:	1.8	1.7	9.6	8.9
Low:	0.3	0.3	4.9	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 leaders</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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We are excited to roll out the inaugural edition of our quarterly education industry update *DealNotes*. *DealNotes* contains proprietary, insightful news and deal announcements – the education industry's most compelling M&A news, all rolled into a quick and (hopefully) interesting read. We welcome comments, feedback, and suggestions. If you would like to give feedback or subscribe to *DealNotes*, please e-mail: education@mhtmidspan.com.