



Capstone Partners

POST-SECONDARY EDUCATION

Q2 2016

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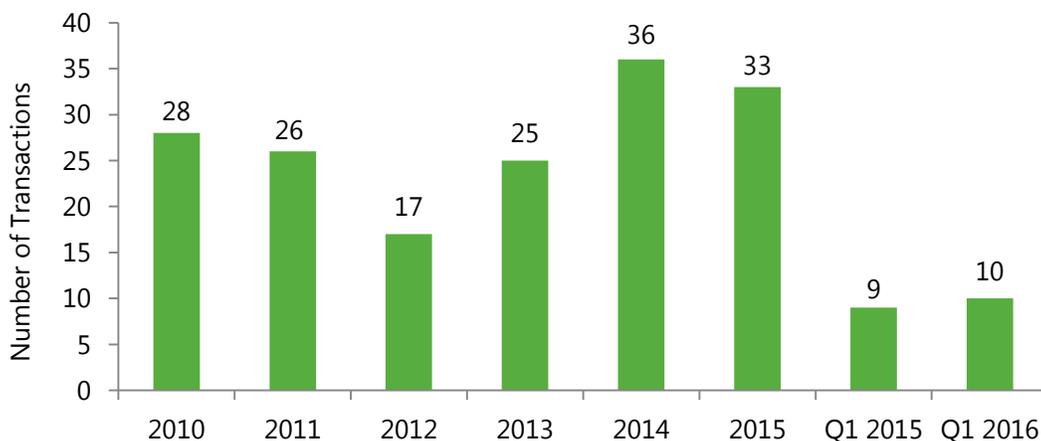
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MERGERS & ACQUISITIONS

Healthy merger and acquisition activity in the PSE industry has been a bit of a dichotomy with non-Title IV institutions including short course programs and boot camps driving growth. Title IV institutions have largely been reduced to non-profit conversions and campus giveaways, aside from allied trades, nursing and STEM colleges. Acquisitions have been driven by strategic acquirers looking to expand their course offerings and geographic presence. Some private equity firms are attracted to the underlying value proposition that these programs provide (and the fact that it is one of the few buyer's markets out there), despite regulatory headwinds with a focus on growth opportunities and future returns. The industry will continue to experience a challenging regulatory and political landscape until gainful employment results are published and uncertainty is moderately reduced. The Department of Education has developed policies that favor non-profit and public education with an unstated goal of significantly reducing for-profit institutions. The demands for this type of education cannot be met by the community college and/or unaccredited training markets. Advanced education programs have become increasingly crucial as the US economy evolves into a more services and information-based market. Demand for middle-skilled vocational jobs is increasing, and labor market experts estimate that as much as 47.0% of all new job openings from 2010 to 2020 will fall into the middle-skills range. One expanding vertical within this industry is healthcare related education, as the Affordable Care Act and aging population will add many new jobs over the next decade. A highly regulated certification and training process made 2015 a strong M&A market for strategic buyers, as companies sought to acquire health related education targets to expand their offerings to students. Another important segment for the current and future job market is Science, Technology, Engineering and Math (STEM) related jobs. Both established and startup companies are starved for technology talent and to meet demand, there has been an explosion of new education institutions and new instruction modalities such as boot camps and short course certifications.

Post-Secondary Education M&A Activity



Source: Capital IQ and Capstone Partners LLC

INDUSTRY DRIVERS AND TRENDS

There are a number of trends and drivers that have had a significant impact on industry growth and M&A activity within the PSE industry. Capstone has identified a few of these factors and outlined them below.

- ▶ **Growing demand for skilled professionals, especially in Healthcare and STEM fields** – Globalization and continued technical advances have driven the US towards a services and information-based economy. Higher levels of education have become a prerequisite, as lower-skilled jobs are being eliminated. The Bureau of Labor Statistics (BLS) estimates that jobs requiring some college or higher are expected to increase by 8.8% from 2014 to 2024, compared to a 5.2% increase in jobs requiring a high school diploma or less. The growing demand for skilled professionals has both pushed and incentivized individuals to enroll in PSE institutions.

BLS estimates that employment among Healthcare practitioners, Healthcare technical occupations and Healthcare support positions will increase from a combined 12.5 million in 2014 to 14.8 million in 2024, a growth of 18.4%. Computer and mathematical occupations are also expected grow about 13.1% over the same period, reaching 4.6 million jobs by 2024. Strong demand for Healthcare and STEM-related jobs and training has driven PSE institutions to further develop their programs. Those without existing programs have frequently turned to acquisitions to expand their degree offerings.

- ▶ **Increased percentage of population attending college** – Most students continue their education beyond high school. According to the National Center for Education Statistics (NCES), total enrollment in PSE institutions is expected to increase by 14.6% from 2010, the last year of measured data, to 24.1 million students in 2021. Over the same period, the number of students aged 18 to 24 will grow 9.7% to 13.6 million, and will continue to be the largest age demographic enrolled in education institutions. Enrollment among students 25 years and older is expected to grow by 22.6%, more than any other demographic. Rising enrollment will boost industry fundamentals and shift demographics towards older students who general seek higher education to make themselves more viable candidates for employment opportunities.
- ▶ **Education provides job security and higher income** – Recent employment trends have shown that incremental levels of education result in lower unemployment levels. Unemployment rates for those without high school degree, with a high school degree but no college, and some college but no degree were 9.0%, 6.0% and 6.0%, respectively in 2014. On the other hand, the unemployment rate for those with an associate's degree was 4.5%. In addition to providing enhanced job security, the career college model allows students to more easily calculate the near-term return on investment associated with PSE programs. According to economists at the Federal Reserve Bank of Chicago, an individual's earnings increased by approximately 11.0%, on average, for each additional year of schooling. The strong value proposition for continuing education has directly resulted in increased enrollment at PSE institutions.

CURRENT REGULATORY ENVIRONMENT

The current regulatory environment poses a number of hurdles for the PSE industry and has had an impact on M&A activity. Capstone has identified two of these major factors and outlined them below.

- ▶ **90/10 Solutions** – In the current market, many for-profit schools are experiencing 90/10 issues. This federal rule restricts for-profit colleges from receiving more than 90.0% of their revenue from federal student aid, including loans and grants. The current administration has made overtones to strengthen the rule by including funds from the GI Bill and the Department of Defense Tuition Assistance to be included as Title-IV revenue. The majority of for-profit colleges easily meet the 90/10 Rule, as schools receive an average of only 70.2% of their revenue from federal funds, according to the US Department of Education. The Department of Education has largely been responsible for the increasing tuition by forbidding for-profit institutions from limiting the amount of debt a student can take down, forcing colleges to raise tuition to cover the “10 gap.” This effect is more extreme in the cheaper, certificate and Associates programs than the Department of Education is supporting. As a result, PSE institutions that have diverse sources of revenue are attractive acquisition targets. In addition, schools that provide comprehensive solutions (such as 90/10 rates below 80%, non-Title IV schools, corporate reimbursement arrangements, corporate training, continuing education/licensure, foreign schools) are often trading off a multiple of revenue.
- ▶ **Gainful Employment** – As of July 1, 2015, the Obama Administration’s gainful employment regulations went into effect, despite challenges from the Association of Private Sector Colleges and Universities (APSCU) and the New-York based Association of Proprietary Colleges (APC). These new regulations were an attempt to support greater accountability for colleges by requiring them to provide information on program costs, graduation rates, and data on earnings and debt post-graduation. Programs will be subject to repercussions, if after graduation estimated annual loan payments exceed 30.0% of their discretionary income or 12.0% of their total income. Programs that have graduates whose loan payments are between 20.0% - 30.0% of their discretionary income or 8.0% - 12.0% of their total income will come under increased scrutiny by the federal government. Currently, 400 programs that serve about 840,000 students would not pass the standards, thereby restricting students’ ability to use their federal financial aid towards these programs. Most colleges are completely in the dark as to where this data will come from, but the Department has stated that their internal results will be published in July.

Schools that offer programs with compelling employment narratives are not only more attractive to students, but also to potential buyers. Programs in demand are related to niche healthcare curricula with a focus on nursing, and STEM related programs. Those schools that are able to offer advanced bachelors, masters and doctorate degrees within the auspices of gainful employment are also receiving premiums.

NOTABLE POST-SECONDARY EDUCATION TRANSACTIONS

Several notable transactions have already been completed or announced in the PSE industry through Q2 2016. Selected transactions are outlined below, followed by a more comprehensive list on the following table.



Capstone Partners advised Neumont University on its acquisition by private equity firm Caltius Equity Partners (August 2015) –

Founded in 2002, Neumont University is the premier provider of professional, project-based, employer-driven computer science education in the US. Neumont offers four Bachelor's programs in computer science, software & game development, technology management, and web design & development. Programs are designed for students to earn degrees on an accelerated timeframe of 2.5 to 3.0 years through continuous, year-round

enrollment. Caltius Equity Partners is a private equity firm that provides junior capital in the form of debt and equity to small and medium sized companies throughout North America. Caltius was attracted to Neumont University by the growing demand in and opportunity for the computer-based education market. When the deal initially went to market in 2011, the process was put on hold for financial performance after going under LOI. For four years, Capstone advised Neumont University and maintained relationships with all interested parties until the process re-started for the last time in 2015. As demand for computer based education continues, both Neumont University and Caltius are primed to take advantage of this growing market.

Apollo Education taken private, acquired by a consortium of investors (February 2016) –

Apollo Education, a leading provider of private education and the owner of the University of Phoenix, was recently acquired by The Vistria Group, Najafi Companies and Apollo Global Management for an enterprise value of \$534.9 million. Prior to the acquisition, Apollo Education and Apollo Global Management had no previous affiliation. Apollo Education's recruiting, marketing and financial aid practices have recently come under investigation amidst weakening industry fundamentals. "For too long and too often, the private education industry has been characterized by inadequate student outcomes, overly aggressive marketing practices and poor compliance. This doesn't need to be the case. We are committed to accelerating and enhancing efforts to establish University of Phoenix as the leading provider of quality higher education for working adults," commented Tony Miller, COO and Partner of The Vistria Group, and former Deputy Secretary of the US Department of Education.

Capella acquires two coding bootcamps, DevMountain and Hackbright (May and April 2016) –

Capella Education (Capella), a leading online post-secondary education services company, recently acquired DevMountain and Hackbright for \$20.0 million and \$18.0 million, respectively. The acquisitions represent Capella's strategy to expand their job-ready skills training in the growing STEM fields. While DevMountain provides entry-level developer training, Hackbright is focused on closing the gender gap in the software engineering community through education.

POST-SECONDARY EDUCATION: SELECT M&A TRANSACTIONS

Ann. Date	Target	Acquirer	Target Business Description	Enterprise	EV / LTM	
				Value (mm)	Revenue	EBITDA
05/04/16	DevMountain	Capella	Offers iOS and web development courses.	\$20.0	-	-
04/22/16	Hackbright Academy	Capella	Provides software development and programming training for women.	\$18.0	-	-
04/05/16	Uconnections	University Directories	Offers online resources for e-commerce and information for campus communities.	-	-	-
03/16/16	The Starter League	Fullstack Academy	Operates as an institution to teach beginners how to code, design and ship web applications.	-	-	-
03/09/16	College of Nursing Orlando	ECPI University	Offers graduate and post graduate business programs.	-	-	-
02/08/16	Apollo Education	Najafi, Vistria and Apollo Global	Offers online and on-campus undergraduate, graduate, certificate and non-degree educational programs.	\$534.9	0.2x	2.0x
01/15/16	New York Code and Design	Strayer Education	Provides web and mobile design and development classes.	-	-	-
01/11/16	Roberts and Company	Macmillan Learning	Publishes college textbooks, interactive media and original monographs.	-	-	-
12/17/15	Philadelphia University	Thomas Jefferson University	Offers more than 40 undergraduate and graduate degree programs.	-	-	-
12/15/15	Ibmec Educacional	DeVry	Provides graduation programs including certification programs in business administration.	\$198.2	-	-
12/07/15	Next University	Open English	Offers online Web developer courses.	-	-	-
12/01/15	BlueCanary Data & Analytics	Blackboard	Offers higher education data and analytics solutions.	-	-	-
11/06/15	HotChalk	Bertelsmann	Provides solutions to educational institutions to put their degree programs online.	-	-	-
09/30/15	Mobile Makers Academy	Hack Reactor	Provides teaching and training services to build iPhone applications.	-	-	-
08/08/15	Neumont University	Caltius Equity	Operates as a for-profit university headquartered in Utah that focuses on computer science.	CF	CF	CF
08/06/15	Missouri College	Weston Education Group	Offers associate degree and diploma programs in the disciplines of healthcare, business and technology.	-	-	-
06/25/15	Berklee College of Music	Boston Conservatory	Offers undergraduate degree and diploma courses in music.	-	-	-
05/11/15	Union Graduate College	Clarkson University	Offers master degree programs in business management and healthcare management.	-	-	-
05/01/15	IntelliTec Medical	IBMC College	Offers certificate and associate degree programs in the area of healthcare education.	CF	CF	CF
03/18/15	West Palm Beach Campus	Keiser University	Operates as the university campus of Northwood University.	-	-	-
02/20/15	Alliant University	Arist Education System	Offers undergraduate bachelor's programs and graduate degree programs in professional courses.	-	-	-
02/12/15	Hamline Law School	William Mitchell College of Law	Offers legal education and practical training.	-	-	-
02/12/15	Kaplan College Campuses	Education Corp. of America	Comprises 38 college campuses located in the US.	-	-	-
01/26/15	AIB College of Business	University of Iowa	Offers 23 Associate of Applied Science degree programs and four Bachelor of Science degrees.	-	-	-
01/09/15	Mid-South Community	Arkansas State University	Offers degree programs, technical courses and community educational services.	-	-	-

PUBLIC COMPANY TRADING & OPERATING DATA

Company	Price	% 52 Wk	Market Enterprise		LTM			EV / LTM	
	05/13/16	High	Cap	Value	Revenue	EBITDA	Margin	Revenue	EBITDA
American Public Education, Inc.	\$25.90	95.0%	\$415.9	\$295.9	\$326.4	\$75.3	23.1%	0.9x	3.9x
Apollo Education Group, Inc.	\$9.18	52.9%	\$997.3	\$445.8	\$2,328.0	\$263.0	11.3%	0.2x	1.7x
Bridgepoint Education, Inc.	\$8.52	78.0%	\$394.4	\$114.0	\$552.2	\$43.5	7.9%	0.2x	2.6x
Capella Education Co.	\$52.05	89.7%	\$607.8	\$483.2	\$430.0	\$72.7	16.9%	1.1x	6.6x
Career Education Corp.	\$5.58	91.3%	\$381.4	\$211.0	\$819.1	\$39.2	4.8%	0.3x	5.4x
DeVry Education Group Inc.	\$19.47	57.0%	\$1,221.8	\$895.1	\$1,845.0	\$284.7	15.4%	0.5x	3.1x
Grand Canyon Education, Inc.	\$41.64	92.2%	\$1,941.2	\$1,887.1	\$811.0	\$261.1	32.2%	2.3x	7.2x
ITT Educational Services Inc.	\$2.22	33.5%	\$52.6	\$145.9	\$811.4	\$115.8	14.3%	0.2x	1.3x
Lincoln Educational Services	\$1.67	52.2%	\$40.0	\$66.1	\$189.0	\$15.9	8.4%	0.3x	4.2x
National American University	\$2.00	60.6%	\$48.3	\$33.4	\$101.9	\$1.3	1.2%	0.3x	26.7x
Strayer Education Inc.	\$44.87	70.3%	\$475.6	\$358.1	\$433.7	\$88.3	20.4%	0.8x	4.1x
Universal Technical Institute, Inc.	\$3.28	34.9%	\$79.9	\$73.8	\$353.7	\$3.3	0.9%	0.2x	22.6x

EV = enterprise value; LTM = last twelve months

\$ in millions, except per share data

NM = Not Meaningful; NA = Not Available

Mean	13.1%	0.6x	7.5x
Median	12.8%	0.3x	4.1x
Harmonic Mean	4.3%	0.3x	2.8x

CAPSTONE PARTNERS: POST-SECONDARY EDUCATION EXPERIENCE

Capstone Partners has a long history of successfully closing transactions within the PSE space. These have included complex transactions in several different states/ED regions involving a variety of regulatory bodies. In addition, Capstone has worked with a variety of colleges offering degree and certificate programs across disciplines that include traditional subjects such as allied health, cosmetology, IT and paralegal as well as unique curricula such as government intelligence and oriental medicine.

Our track record speaks for itself. Capstone has closed over 25 transactions in the education sector in the past ten years. Since the PSE industry first felt the effects of the uncertainty caused by gainful employment regulations, Capstone has completed twelve transactions in the space. We are currently representing another eight companies in the PSE and related educational services sectors, with these transactions expected to close in 2016. We have been retained by both private equity firms and leading corporations in the industry to assist in selling portfolio companies, divesting assets and/or sourcing and negotiating acquisitions. Our deep industry experience and relationships in the post-secondary education sector provides us insight into the valuable attributes and valuation metrics of a target company, the active buyers in the industry and the nuances of transactions in this space.

CAPSTONE PARTNERS: EDUCATION & TRAINING TRANSACTIONS

Capstone Partners' professionals have completed several transactions in the PSE market and the firm maintains the most active education & training practice in the middle market, having represented clients across various niches. Below is a snapshot of recent transactions and current clients in the market.

<p>CONFIDENTIAL</p> <p>Corporate Sale (IN PROCESS)</p> <p>Legal Allied Health</p>	<p>CONFIDENTIAL</p> <p>Corporate Sale (IN PROCESS)</p> <p>Regional Computer Science</p>	<p>CONFIDENTIAL</p> <p>Corporate Sale (IN PROCESS)</p> <p>Vocational Trades Training</p>	<p>CONFIDENTIAL</p> <p>Corporate Sale (IN PROCESS)</p> <p>Regional Nursing Business Legal</p>
<p>CONFIDENTIAL</p> <p>Corporate Sale (IN PROCESS)</p> <p>Nursing Pharmacy Training</p>	<p>CONFIDENTIAL</p> <p>Corporate Sale (IN PROCESS)</p> <p>Regional Nursing Business IT</p>	<p>CONFIDENTIAL</p> <p>Corporate Sale (ON HOLD)</p> <p>Allied Health Training</p>	<p>CONFIDENTIAL</p> <p>Corporate Sale (ON HOLD)</p> <p>Online Training Allied Health Real Estate Legal</p>
<p> NEUMONT UNIVERSITY a portfolio company of Great Hill PARTNERS</p> <p>has been acquired by</p> <p> Caltius Equity Partners</p>	<p> Medical Institute</p> <p>has been acquired by</p> <p> IBMC COLLEGE</p>	<p> PENNFOSTER</p> <p>has recapitalized with</p> <p> VISTRIA</p>	<p> OXBIDGE ACADEMIC PROGRAMS</p> <p>has been acquired by</p> <p> WORLD STRIDES® DISCOVER YOUR WORLD a portfolio company of THE CARLYLE GROUP</p>
<p> BrightStar EDUCATION GROUP</p> <p>has been acquired by</p> <p> GREYBULL STEWARDSHIP</p>	<p> e expression college</p> <p>has been acquired by</p> <p> navitas</p>	<p> TRIUMPH HIGHER EDUCATION GROUP</p> <p>has received growth capital from</p> <p> CAMDEN PARTNERS</p>	<p> AMERICAN SENTINEL UNIVERSITY</p> <p>has secured financing from</p> <p> JLL</p>
<p> DALLAS NURSING INSTITUTE</p> <p>has been acquired by</p> <p> TCS Education System</p>	<p> Heald COLLEGE</p> <p>has been acquired by</p> <p> PALM VENTURES</p>	<p> NTT Workforce Development Institute</p> <p>has been acquired by</p> <p> ecpi UNIVERSITY</p>	<p> ECC maxim PARTNERS</p> <p>has acquired</p> <p> ROBERTSON COLLEGE</p>

CAPSTONE PARTNERS: EDUCATION & TRAINING TRANSACTIONS (CONTINUED)

EDUCATION SERVICES

 <p>has been acquired by</p> 	 <p>has been acquired by</p> 	 <p>has been acquired by</p> 	 <p>has recapitalized with</p> 
<p>A Premier Provider of Early Education & Childcare Services</p> <p>has been acquired by</p> 	 <p>has been acquired by</p> 	 <p>has been acquired by</p> 	 <p>has been acquired by</p> 
 <p>has recapitalized with</p> 	 <p>has been acquired by</p> 	 <p>has been acquired by</p> 	 <p>strategic venture</p> 

SELECT INDUSTRY AWARDS

<p>2015</p> <p>BOUTIQUE INVESTMENT BANK OF THE YEAR</p> 	<p>2015</p> <p>MERGERS & ACQUISITIONS DEAL OF THE YEAR</p> 	<p>2015</p> <p>USA RECAPITALIZATION DEAL OF THE YEAR</p> 	<p>2015</p> <p>US MIDDLE MARKET INVESTMENT BANKING FIRM OF THE YEAR</p> 
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THE POST-SECONDARY EDUCATION TEAM



Jacob Voorhees, Managing Director

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Jacob is a founding member of Capstone Partners. He focuses on asset positioning, strategy articulation, due diligence and negotiations coordination. Formerly, Jacob was with Andersen Corporate Finance LLC, where he focused his efforts on the software and direct marketing industries. He started his career in New York City with Rabobank International, a multi-national Dutch investment bank headquartered in Utrecht, the Netherlands. While at Rabobank International, Jacob worked in the mergers and acquisitions group focusing on cross-border transactions in the consumer products, food and beverage industries.

The M&A Advisor named Jacob to its prestigious 40-UNDER-40 deal makers list in 2012. Jacob received an MBA from the Sloan School of Management at Massachusetts Institute of Technology (MIT) and a BS from Cornell University. Jacob is qualified as a General Securities Representative.



Sophea Chau, Director

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Sophea specializes in mergers & acquisitions, private placements and financial advisory services. Her responsibilities include providing financial and valuation analysis, performing due diligence and drafting all marketing materials.

Prior to joining Capstone, Sophea was an analyst at FTN Midwest Securities, a full-service investment banking firm based in Cleveland. While working in their New York office, she focused on M&A advisory for middle-market companies in a variety of industries, including healthcare, pharmaceutical services and marketing & advertising. Sophea is Vice President of the Columbia Alumni Association of Boston and holds a Bachelor of Arts in Economics from Columbia University.



Daniel Schultz, Director of Business Development

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Dan oversees Capstone's national business development and industry coverage activities, working closely with current and prospective clients of the firm on matters related to corporate sales, recapitalizations, mergers & acquisitions and growth financings. In his role, Dan is able to deliver specific market intelligence to clients regarding M&A, financing, strategic, industry and competitive trends.

Prior to spearheading the firm's business development and market initiatives, he was a Vice President in Capstone's M&A group, managing numerous successful transactions across a variety of industries. Dan also gained hands-on transaction experience as an investment banker at Headwaters MB. He started his career with Ernst & Young's National Professional AABS practice and later worked in Assurance and Advisory Business Services in the Denver office. Dan received a BE in Biomedical Engineering with a Business Minor from Vanderbilt University. He earned an MBA and a Master of Accountancy from the Daniels College of Business at the University of Denver.

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ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is a premier investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. The firm provides M&A, corporate restructuring, private placement and financial advisory services. Headquartered in Boston, Capstone has offices in Chicago, London, Los Angeles, New York, Orange County, Philadelphia, San Diego, Silicon Valley and Tampa with an international presence that spans 450+ professionals in 70 offices across 31 countries.

**For more information
about our expertise,
please visit
www.capstonellc.com**



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World Class Wall Street Expertise. Built for the Middle Market