



# Capstone Partners

Investment Banking Advisors

## POST-SECONDARY EDUCATION

Q2 2014

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### **INVESTMENT THESIS**

Educators, investors and government officials alike have recently pushed for career focused education that is effective, flexible, short-term and affordable in order to create a larger pool of skilled workers without crushing them with student debt. Large for-profit and non-profit colleges, community colleges and public high schools have struggled to provide a solution due to the difficulty of transforming their current business models, a lack of public funding, poor education performance metrics, etc. New organizations such as 2U, Khan Academy, Straighterline, Udacity, Udemy, Lynda, Chegg, Pluralsight, and Massive Open Online Courses (MOOCs) such as Coursera and edX, have also emerged to try to address this pressing issue. However, many of these organizations are start-ups with unproven profit and scalability models and little to no brand awareness among consumers. The responsibility lies with the for-profit post-secondary education (PSE) industry to address this glaring lack of credentialed and educated populace.

As a result, the post-secondary education market is fundamentally changing, driven by the realization that the public and non-profit education models in the US are generally believed to be broken. Parents, students and Corporate America are demanding better student outcomes at a lower cost. In fact, affordability is one of the biggest issues facing the education industry today. Americans concede the importance of education and the strong correlation between higher levels of education and lifetime income. However, many Americans continue to be priced out of the traditional post-secondary education market. For-profit institutions, which have delivered non-traditional models for decades, are in the best position to help. In fact, the four-year PSE model is being challenged by a growing number of programs geared towards awarding industry certificates or Associate degrees and tightly focused on marketable job skills. Certification training, which costs far less and often results in good job offers, can be just as valuable in the workplace as a degree. Furthermore, for-profit providers are also looking for better ways to deliver their courses, with many turning to lower cost online offerings. These models are focusing on perfecting competency-based learning and have the power to dramatically increase market share with a disruptive pricing advantage. Moreover, these programs are more likely to comply with proposed gainful employment legislation that may go into effect with the reauthorization of HEA.

Based on these disruptive trends, Capstone believes that the coming years will see for-profit PSE providers gaining market share from public and non-profit education providers. With the entire education sector now representing 9% of the US GDP, we believe for-profit PSE providers are in a unique position to benefit from these trends and we expect that investors will continue to be attracted to the industry's long-term investment opportunities.

### **POSITIVE PSE ENROLLMENT TRENDS**

Advanced education programs have become increasingly important as the US evolves into a more services and information based (versus manufacturing) economy. The new workplace is demanding skilled professionals with post-secondary degrees and/or highly specialized career training. As a result, for-profit PSE enrollment is expected to increase after experiencing modest declines due to regulatory and macro level effects.



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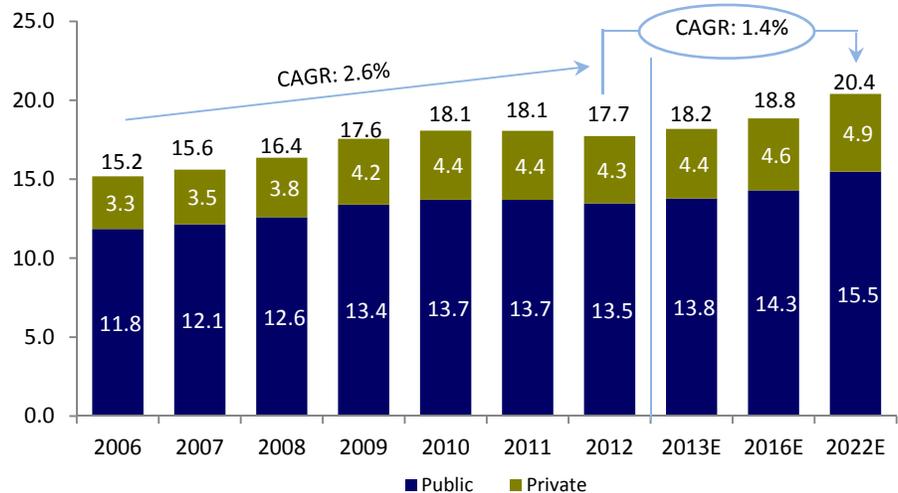
**SAN DIEGO**

**SILICON VALLEY**

Both undergraduate and post-baccalaureate enrollments exhibited an increase over the past decade to reach 20.6 million students in 2012, up from 15.3 million in 2000. Undergraduate enrollment, which represents about 86% of PSE enrollment, was up by 4.6 million from 2000 to 2012. Enrollment at private institutions outpaced the industry, registering a 4.1% CAGR compared to a 2.1% for public institutions during the same period. For-profit institutions outpaced the sector with enrollment growth of 11.7% compounded annually, to reach 1.5 million in 2012, increasing its market share to 8.5% from 3.1% in 2000.

Overall, PSE undergraduate enrollments accelerated in 2008 and 2009, during the peak of the recession, reflecting the typically countercyclical nature of the industry, as well as aggressive recruitment tactics by PSE providers. As the economy improved, and students opted for jobs at the expense of education, enrollment stagnated or declined slightly in 2011 and 2012. This period was also negatively impacted by a general avoidance of debt as consumers tried to recover from the economic recession and a continuation of depressed income levels. In 2012, overall undergraduate enrollment declined by about 2%. For-profit private institutions registered an 8.6% decline in undergraduate enrollment, succumbing to regulatory intervention, the elimination of Ability to Benefits (ATB) students, negative press concerning the industry and macro level economic effects. Looking forward, the National Center for Education Statistics (NCES) projects a slow recovery until 2022, suggesting a 1.4% CAGR (2012-2022) in PSE undergraduate enrollment.

**Undergraduate Enrollment in PSE Institutions (in millions of students)**



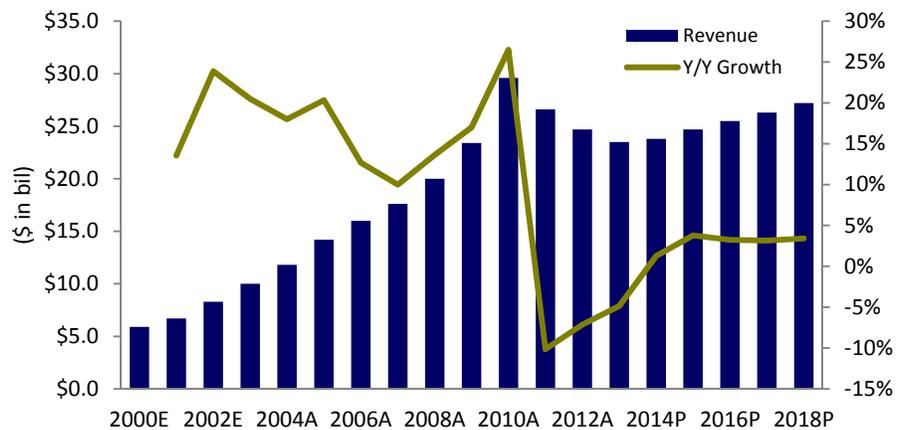
Source: National Center for Education Statistics

Following enrollment trends, revenue of listed for-profit PSE companies dropped year over year by an average of 3.5% and 5.9% in 2012 and 2013, respectively. Macroeconomic factors such as lower income levels, rising student loan default rates and weak employment are expected to impact institutions' pricing power. Moreover, increased spending on capital investment, faculty, information systems and program development will further pressure margins. These trends are expected to continue but will likely be more gradual, according to several industry analysts and the companies' own projections.

### FOR-PROFIT PSE OUTLOOK

Expenditures for PSE as a whole have seen consistent growth since the early 1980's, far outpacing US inflation over the same time period, increasing at a 6.6% CAGR since 1981 and outpacing the 1.9% growth in enrollment, with the disparity attributed to tuition inflation. As a result, PSE expenditures now account for 3.1% of total US GDP with private, for-profit institutions representing approximately 45% of this market. Revenues of for-profit institutions increased at a CAGR of approximately 18% since 2000, peaking at \$29.6 billion in 2010. The industry experienced a significant increase from 2007 through 2010, as a spike in US unemployment created strong demand for career oriented education. Since the peak in 2010, revenue has declined slightly due to a variety of issues in the regulatory and economic environment but is expected to rebound, growing by 3.0% annually to reach \$27.2 billion by 2018.

**For-Profit Revenue and Y/Y Growth Rates**



Source: National Center for Education Statistics (NCES), IBIS World

While the for-profit PSE industry continues to be challenged by a stringent regulatory environment and the ED's imposition of gainful employment regulations, 90/10 rules and Ability to Benefit restrictions, the outlook for the industry remains positive. Future growth is expected to be supported by the growing demand for skilled professionals, widening income gaps, the increased adoption of online educational technology as well as shifts to corporate training and shorter term career and technical education as a result of regulatory intervention.

### ADDRESSING THE MIDDLE SKILLS GAP

In the US, about 69 million people work in middle-skills jobs, representing roughly 48% of the labor force. This number is expected to grow substantially as more baby boomers retire. Labor market experts estimate that as many as 25 million, or 47%, of all new job openings from 2010 to 2020 will fall into the middle-skills range. Determining how to train people to fill those higher paying jobs could help remedy the wage stagnation gripping the country and close the growing gap between high- and low-income households. For instance, from a healthcare standpoint alone, due to the implementation of the Affordable Care Act, there will be a significant increase in the demand for medical professionals. Based on conservative 2014 BLS estimates, there will be a shortage of 3.8 million lower-end allied health professionals.

### WIDENING INCOME GAPS BY LEVEL OF EDUCATION

The demand for career-oriented post-secondary education has been growing rapidly, most recently driven by the need to either retool or augment job skills during the economic downturn. The Bureau of Labor Statistics estimates that jobs requiring some college or higher are expected to increase by 17.5% from 2010 to 2020. Additionally, these jobs typically have a 17% wage premium per year, resulting in over \$500,000 in average lifetime earning value. As a result, certificates are the fastest growing higher education credential with over one million awarded last year and 19 million in total – more than triple the number 20 years ago, surpassing Associates degrees as the second most common award in higher education after the Bachelors degree. With the expected unbundling of degrees into stackable credentials, shorter, less-expensive certificate programs will play a huge role in achieving affordability in higher education.

### THE INCREASING ADOPTION OF ONLINE EDUCATION

The online education industry has experienced significant growth over the past two decades and is projected to continue on that path in the future as the affordability, accessibility and number of programs increase. The industry is made up of several different sectors, including K through 12, post-secondary education and corporate training, all of which are growing in popularity. Online education offers several advantages to the consumer, reflecting the growth drivers for the industry, as detailed below.

**Dissatisfaction with Traditional Education** – Online education presents solutions to many of the problems that face traditional education. Scale, content, resources and expertise are difficult and expensive to achieve on a local scale for face-to-face schools, leading to increased dissatisfaction of education quality from students and parents. Online education is not impacted by many of these challenges and offers an affordable and accessible alternative.

**Increasing Role of Technology** – Technology advancements are enabling and propelling online education. The industry has witnessed an influx of new players in multiple sectors of the market. These include companies that specialize in helping institutions transform proprietary curriculum into online formats, as well as those that offer IT support, recruiting and marketing. In addition to solutions for education providers, many technology companies are creating solutions for students, including platforms to rent and sell textbooks, receive tutoring and college admissions assistance, and other services.

**Student-Centric Learning** – Online education delivery is constantly changing as consumers become more and more comfortable with the use of technology in their daily lives. With easy-to-use platforms and extensive course offerings, companies such as Straighterline and Coursera and MOOC platforms such as edX have created effective student-centric and self-paced education delivery models. These platforms offer everything from one-on-one video tutoring to the implementation of mobile applications, making online education both highly accessible and efficient. As an alternative to MOOCs, institutions have begun using technology to grant students more power and accessibility through specific course choice within programs, mobile applications, any-time enrollment and self-paced execution.

**Lower Cost** – Virtual education has become increasingly attractive due to lower per-student costs than traditional brick and mortar schools. Online schools can accommodate student population growth without the capital costs and time requirements of school construction and expansion. For-profit providers are increasing their online offerings and public education systems would like to implement more online offerings in the future. However, maintaining sufficient levels of investment to support demand at a time of public education budget challenges has proven increasingly difficult for these institutions. With state resources burdened, public schools and districts are increasingly partnering with for-profit schools. These companies allow for a far wider range of available curriculum than a physical school and provide a channel to serve students at a lower cost.

**Pending Teacher Shortage** – In the past few decades, the US has experienced a shortfall of qualified teachers to fill open teaching positions in both urban and rural areas. The culmination of many factors has created this shortage, including the passing of the No Child Left Behind act in 2001, which put new restrictions on school districts around the nation. Emergency certification and hiring without a certification were common practice before the law was passed and the discontinuation of this exercise directly effected the shortage. In addition, teachers have also been leaving the profession due to salary disputes caused by education budget cuts, as well as an aging teacher workforce. Online education does not experience the challenges of the teacher shortage as a single teacher can oversee hundreds, and sometimes thousands, of students using the available technology and education platforms.

#### **THE LOOMING 90/10 PROBLEM AND SHIFT TO CORPORATE TRAINING**

Of the 2,060 for-profit colleges receiving Title IV funding in 2012, 30 of them failed the 90/10 test, making them ineligible or at risk for being ineligible for federal funding. Moreover, 470 (22%) were between 85% and 90%, putting them at significant risk for violation of the 90/10 rule including well known public and former public companies such as University of Phoenix (86%), Bridgepoint Education (86%), Career Education (Sanford Brown 91% to 94%), Education Management (Art Institutes, 86%) and DeVry (Ross University 89%), which combined account for over \$10 billion in industry revenues. The 90/10 rates could be exacerbated if military funding is added to the calculation of the “90” or if the rate is reduced to 85/15. As a result, many of these institutions are developing or acquiring corporate training and career focused training to obtain higher levels of “10” revenue.

#### **CORPORATE TRAINING/CAREER & TECHNICAL EDUCATION OPPORTUNITY**

For-profit PSE providers are also in a good position to benefit from growth in both the traditional corporate training sector, as well as the Career & Technical Education (CTE) training market. In fact, there is a blurring of the lines between PSE and corporate training, with the common theme being competency-based education. Courses cover such topics as Industrial Safety, Electrical/Electronics, Mechanical Maintenance, Industrial Machinery, Construction, Utilities, Engineering Tech, Vehicle Maintenance and Business Management. Each program is affected by unique industry drivers but, as a whole, the market is subject to the expected continuation of the economic recovery and increased demand for qualified workers to operate in more complex and automated work environments.

**Increase in Employment** – Total employment in the US is projected to rise by 15.6 million workers (10.8%) from 2012 to 2022 as the economy improves and the unemployment rate continues to decline. The larger the workforce, the higher the demand for continuing education and training services.



*Source: Bureau of Labor Statistics*

**Increase in Education & Training Requirements** – According to the BLS, training requirements and credentials are expected to increase for many of the most popular occupations. Regulation is a key driver of this trend and due to complex regulations, the skill requirements for labor have increased. For instance, in the finance and healthcare sectors, compliance programs continue to drive the need for training new entrants and continuing education programs are mandated for incumbents.

**Lack of Skilled Labor** – In a survey of 800 manufacturers conducted by the National Association of Manufacturers (NAM), more than 80% said they were experiencing a shortage of skilled workers. The Hudson Institute predicts the supply of skilled labor in the US will not catch up to demand until 2050, highlighting the need for training. Contributing to the talent shortage is the baby boomer effect. As baby boomers leave the workforce they are creating a void in highly skilled talent.

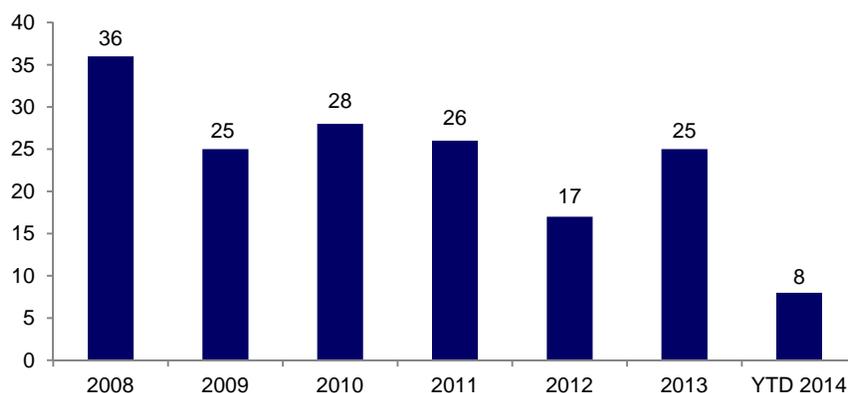
**High-Growth Vertical Markets** – Certain vertical markets are experiencing above-average growth, making them especially suitable for corporate training. For instance, occupations related to healthcare are projected to add the most new jobs over the next decade due to The Affordable Care Act and the aging of the population. The healthcare industry requires highly regulated certification and training, providing vast opportunities to educate and train these employees. IT training is another key market. This market is benefitting from continued investment in new technologies for improved efficiency, bolstering demand for well-trained IT professionals. Additionally, several trends such as a growing adoption of cloud services, expansion in e-Healthcare, a proliferation of big data and increased mobile computing and social media interactions further deepens the need for well-trained IT professionals.

## PSE MERGERS & ACQUISITIONS

Recent merger & acquisition activity in the PSE industry appears to support our investment thesis that the industry is at a point of inflection. Activity and transaction multiples in the industry were relatively robust in the years leading up to the GAO report (in 2009) and the announcement of the gainful employment legislation (in 2010). Following the regulatory changes and the turmoil that ensued, activity and multiples declined precipitously. Falling enrollments coupled with increased government scrutiny dampened buyer sentiment, resulting in a low of 17 deals in 2012. The situation improved in 2013, with 25 transactions reported. Capstone believes that the post-secondary education M&A market stabilized in 2013 and has seen deal momentum increase in late-2013 and 2014. Additional gains are expected in 2014 and 2015, supported by optimistic long-term growth prospects and strong market opportunities for PSE institutions.

A review of recent transactions reveals PSE institutions that are making acquisitions in an effort to build their geographic footprint or expand their curriculum to include high-growth sectors. Other transactions were aimed at acquiring online programs and competencies, or combining providers that service both corporate and individual students. There have also been several transactions involving underperforming PSE businesses. Such companies are trading at low valuation multiples and are therefore interesting acquisition targets. These transactions are motivated by a need to improve outcome metrics and enhance the institution's reputation. With public funding and private endowments both down, merger and acquisition activity has been concentrated on the for-profit PSE sector, or on non-profit colleges that are seeking investors to help them transform into for-profit institutions.

### U.S. Post-Secondary Education M&A Activity



YTD 2014 through May 29, 2014  
Source: Capital IQ and Capstone Partners LLC

Both corporate and private equity buyers have been active in the PSE industry, with a recent emphasis from private equity buyers. This is another indication that the industry may have bottomed out, with private equity investors actively acquiring platform companies or expanding their holdings in the industry in time for the industry's improvement and the "ride up." All types of buyers are making focused, strategic acquisitions, looking for targets that will help them lower their operating costs, enhance student outcomes, meet regulatory requirements and gain access to technological advancements.

## SELECTED PSE M&A DEAL BRIEFS

**Spartan College of Aeronautics and Technology acquires Crimson Technical College (May 2014):** Spartan College purchased Los Angeles-based aviation school, Crimson Technical College, for an undisclosed amount. Spartan is a for-profit, privately owned college that has been teaching students in Tulsa since 1928. Spartan has about 700 students at its Tulsa campuses, where it offers pilot training and aviation maintenance programs. The transaction will make for a two-branch chain of schools, creating a parent company called Spartan SP Investor LLC to oversee the venture. Crimson Technical College is the largest aviation school in the Los Angeles area and focuses on aircraft maintenance. It has about 400 students and offers an 18-month aviation maintenance program. This transaction comes 16-months after Sterling Partners a growth-oriented private equity firm with approximately \$5 billion of assets under management, purchased Spartan College and announced plans to grow the company. The acquisitions reflect Sterling Partners' focus on "investing in education institutions that provide excellent outcomes for their students," said Jason Rosenberg, a Sterling Partners principal.

**Porter and Chester Institute acquires YTI Career Institute (December 2013):** Connecticut-based for-profit PSE institution Porter and Chester Institute (PCI) acquired YTI Career Institute (YTI), which offers higher education programs in Pennsylvania and Maryland. PCI operates through nine facilities to offer a variety of technical and professional skills training. YTI programs are focused in the areas of business, skilled trades, culinary, medical and technology.

**CM Equity Partners acquires Grantham University (November 2013):** CM Equity Partners, a private equity firm specializing in acquisitions of middle market and mature companies, acquired Grantham University. Terms of the transaction were not disclosed. Grantham is a 63-year-old, 100% online, nationally accredited, four-year-degree-granting institution. The university serves approximately 18,000 active students and offers 38 degree programs. The company's student population is comprised primarily of in-service and veteran US military personal. Grantham's focus is on "democratizing quality college education" by making it affordable.

**American Public Education Acquires Hondros College's Nursing Programs (August 2013):** In a transaction valued at approximately \$45 million in cash, Hondros College's nursing programs were acquired by American Public Education (APEI). The programs include a diploma in practical nursing (PN), an associate degree in nursing (ADN) and an online registered nurse to bachelor of science in nursing (RN - BSN). The school operates four campus locations in suburban areas in Ohio and the Nursing Programs reported revenues of approximately \$23.8 million in the 2012. The acquisition will further strengthen APEI's position in nursing, healthcare and public health education, which it considers a critical education need. "We believe the school is a model of excellence in nursing education that will also allow us to evaluate a blended, online/on-campus educational platform in a more focused setting," said Dr. Wallace E. Boston, president and CEO of American Public Education, Inc. "This transaction will advance our long-term strategic plan focused on high academic quality, pathways for improved student retention and enhanced health science and technology programs."

SELECT POST-SECONDARY EDUCATION M&A TRANSACTIONS

Date	Target	Acquirer	Target Business Description	Enterprise	EV / LTM	
				Value (\$mn)	Revenue	EBITDA
05/21/14	Crimson Technical College	Spartan College of Aeronautics and Tech.	Operates as an educational institution that provides skill-based programs in aircraft maintenance.	--	--	--
04/07/14	Southwest Florida College	Southern Technical Institute, Inc.	Operates as an educational institution that offers bachelor degree programs.	--	--	--
03/11/14	Matrix Learning Systems CPA Review Division	Abitus Inc.	Provides online CPA certification preparation materials, related software and support services.	--	--	--
03/04/14	TrainCo Holdings Corporation	CIP Capital	Provides online training including home inspection and appraisal training for individuals seeking new careers.	--	--	--
01/31/14	Great Equalizer Inc., d/b/a Ascolta	ITT Educational Services, Inc.	IT training company, offers authorized Cisco and other vendor training on-site and virtually.	--	--	--
01/20/14	Effective Training, Inc.	SAE International	Provides geometric dimensioning and tolerancing (GD&T) training for corporations and colleges and universities worldwide.	--	--	--
01/09/14	SEC Institute, Inc.	Practicing Law Institute, Inc.	Offers SEC compliance and professional education for accountants, compliance and regulatory professionals.	--	--	--
12/16/13	Airborne Systems Flight Training	VEE One Group, Inc.	Provides pilot and professional flight instructor training programs.	--	--	--
12/11/13	Dallas Nursing Institute	TCS Education System	Provides career training and education, specializing in nursing programs and degrees.	CF	CF	CF
12/06/13	Triumph Higher Education Group*	Camden Partners	Provides online and ground-based culinary instruction.	CF	CF	CF
12/04/13	YTI Career Institute	The Porter & Chester Institute, Inc.	Offers professional certification, diploma and Associate's degree programs.	--	--	--
12/02/13	Arizona School of Real Estate & Business	Hondros College of Business	Provides real estate education for prospective agents preparing for the licensing exam.	--	--	--
11/30/13	Grantham University	CM Equity Partners	Provides online degrees primarily to the military.	--	--	--
11/15/13	American Institute of Trucking (AIT)	Werner Enterprises	Operates an accredited private career institute dedicated to training drivers for careers in the trucking industry.	--	--	--
10/24/13	CECO's European Assets	Apax Partners France	Operates management and communication schools and colleges in France and an educational institution in Monaco.	\$305.0	2.4x	--
09/18/13	KGIC College	Loyalist Group Limited	Provides English language learning programs in Canada and China.	\$12.8	0.5x	--
08/28/13	The Charleston School of Law, LLC	The InfiLaw System	Operates as a law school.	--	--	--
08/28/13	Hondros College (Nursing Programs)	American Public Education, Inc.	Offers nursing programs including a diploma in practical nursing, an AA in nursing and an online BS registered nurse BSN.	\$45.0	1.9x	--
08/22/13	AZ Automotive Institute; South Texas Vocational	STVT-AAI Education Inc	Provides trade programs in automotive service technology and IT and professional studies.	--	--	--
08/05/13	American Professional Institute (4 campuses)	Goodwill Industries	Consists of four of API's career college campuses and assets, enrolling 300 students.	\$0.5	--	--
08/01/13	New Horizons Computer Learning	ITT Educational Services, Inc.	Provides IT education services for technicians, managers and professionals	\$7.0	--	--
07/30/13	Pan Am International Flight Academy, Inc.	ANA Holdings Inc.	Provides pilot training programs.	\$139.5	--	--
07/09/13	MTI Community College Inc.	Loyalist Group Limited	Offers post-secondary education in British Columbia with a focus on healthcare, childcare, hospitality and business programs.	\$8.0	0.9x	5.0x
07/02/13	St. Francis Career College	American Career College, Inc.	Provides health care training for Vocational Nursing.	--	--	--
06/23/13	New England College of Business & Finance	Education Corp. of America	Offers master's and bachelor's degrees in business and finance.	\$25.0	--	--
05/06/13	Online HealthNow, Inc. (Care2Learn)	Relias Learning, LLC	Provides online continuing education and healthcare compliance training for senior care industries and individuals.	--	--	--
04/10/13	The Institute of Finance & Management	Diversified Business Communications Inc.	Provides training & certification programs for Accounts Payable and Receivable professionals and Controllers.	--	--	--
03/14/13	Phoenix East Aviation	Renovus Capital Partners	Provides pilot training to domestic and international students.	--	--	--
01/08/13	Spartan College of Aeronautics & Tech	Sterling Partners	An aviation-maintenance school for training pilots, aviation technicians and nondestructive testing professionals.	--	--	--
01/08/13	Airline Career Academy, Inc.	Pan Am International Flight Academy, Inc.	A pilot training academy specializing in JAA/EASA and FAA Ab Initio training.	--	--	--

\* Growth equity capital raise

LTM = last twelve months; EV = enterprise value; CF = Confidential; Sources: Capstone Partners LLC research; Capital IQ; public filings and press releases

## PUBLIC COMPANY TRADING & OPERATING DATA

Company	Price 5/30/14	% 52 Wk High	Market Cap	Enterprise Value	LTM			1-Yr Rev Growth	EV / LTM	
					Revenue	EBITDA	Margin		Revenue	EBITDA
American Public Education, Inc.	\$35.34	75.7%	\$ 617.6	\$ 517.9	\$334.2	\$80.1	24.0%	3.9%	1.5x	6.5x
Apollo Group Inc.	\$26.80	74.6%	3,020.0	2,340.4	3,327.1	692.2	20.8%	(17.0)%	0.7x	3.4x
Bridgepoint Education, Inc.	\$12.99	63.9%	586.7	321.2	707.2	37.8	5.3%	(24.7)%	0.5x	8.5x
Capella Education Co.	\$57.24	78.4%	703.6	582.8	416.0	69.7	16.7%	(0.4)%	1.4x	8.4x
Career Education Corp.	\$4.67	58.9%	313.9	11.4	1,016.0	NM	NA	(15.3)%	NM	NM
Corinthian Colleges Inc.	\$0.84	29.1%	73.4	186.9	1,480.8	71.4	4.8%	(7.1)%	0.1x	2.6x
DeVry, Inc.	\$42.23	88.5%	2,681.4	2,287.5	1,918.3	285.7	14.9%	(2.7)%	1.2x	8.0x
Education Management Corporation	\$1.87	11.0%	235.6	1,355.6	2,364.5	261.6	11.1%	(7.0)%	0.6x	5.2x
Grand Canyon Education, Inc.	\$44.05	86.2%	2,054.3	1,949.8	623.7	179.5	28.8%	16.3%	3.1x	10.9x
ITT Educational Services Inc.	\$17.22	37.6%	402.4	234.2	1,070.0	196.6	18.4%	(16.9)%	0.2x	1.2x
Lincoln Educational Services Corp.	\$3.83	54.3%	91.9	125.4	338.7	14.5	4.3%	(7.9)%	0.4x	8.6x
National American University Holdings, Inc.	\$3.36	82.3%	84.4	64.7	128.9	12.3	9.5%	(0.1)%	0.5x	5.3x
Strayer Education Inc.	\$54.64	91.1%	592.5	587.4	482.6	118.6	24.6%	(12.3)%	1.2x	5.0x
Universal Technical Institute, Inc.	\$11.35	74.9%	279.9	223.3	378.5	21.4	5.7%	(4.0)%	0.6x	10.4x

LTM = last twelve months; EV = enterprise value;

NA = not applicable; NM = not meaningful

Sources: Capstone Partners LLC research; Capital IQ

Mean	14.5%	-6.8%	0.9x	6.4x
Median	14.9%	-7.1%	0.6x	6.5x
Harmonic Mean	9.7%	NA	0.5x	4.4x

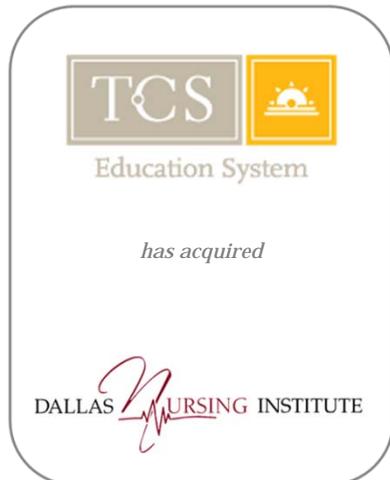
## CAPSTONE PARTNERS: POST-SECONDARY EDUCATION EXPERIENCE

Capstone Partners has a long history of successfully closing transactions within the post-secondary education 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 20 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 seven transactions in the space. We are currently representing another five companies in the PSE and related educational services sectors, with these transactions expected to close in 2014. 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.

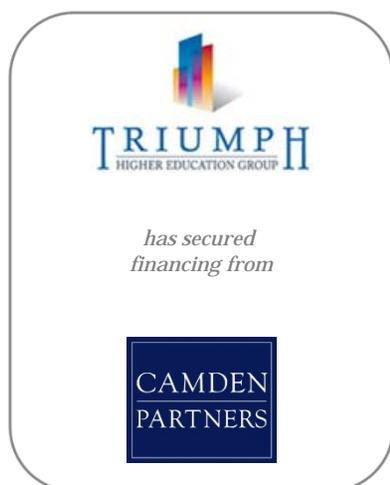
CAPSTONE PARTNERS: RECENT POST-SECONDARY EDUCATION TRANSACTIONS

Capstone Partners' professionals have completed many transactions in the education sector and the firm maintains the most active education & training practice in the middle market, having represented clients across various corporate training and education niches. Following are two recent post-secondary education transactions completed by Capstone.



Capstone represented TCS Education System (TCS) on its purchase of Dallas Nursing Institute (DNI). DNI is an accredited post-secondary education institution that provides career training and education, specializing in nursing programs and degrees. DNI was acquired by Chicago-based TCS Education System, an entrepreneurial, nonprofit higher education enterprise dedicated to training professionals in high-level, applied fields. The addition of Dallas Nursing Institute will expand the TCS consortium to a total of five higher education institutions that span the nation. TCS was attracted, in part, to DNI's exclusive focus on health care. Dr. Michael Horowitz, founding president of TCS, said, "When you look at the areas of need in our society, health care is critical."

The partnership will allow DNI to focus on student success while benefitting from TCS' expertise in areas that include admissions, marketing, online education services, finance, accreditation, compliance and human resources. Dr. Pat Perryman, president of DNI, said that the new partnership with TCS will enhance the creation of a supportive academic environment for students and faculty alike. "We are excited to be associated with such a strong, innovative educational system," said Dr. Perryman. "The missions and philosophies of both entities align very well and identify the heart of education—student success."



Capstone advised Triumph Higher Education Group on a growth equity capital raise from Camden Partners THEG, Inc. The growth capital will enable Triumph to support and accelerate the rapid growth of the company. Triumph provides a disruptive force in vocational culinary education through campus-based and online instruction under the name Auguste Escoffier, perhaps the most famous chef in history and the father of modern cooking. The online programs are an affordable, disruptive methodology for culinary instruction, blending interactive, synchronous and asynchronous content through an integrated, assessment-based learning and technology platform, uniquely catering to the enthusiast, careerist, corporate training, military and international markets.

Camden Partners is a private equity firm specializing in providing growth equity to lower middle-market companies. Camden typically takes an active board role in its investments, harnessing the resources of the entire firm to serve as value-added partners and advisors to the management team. This transaction provides Triumph with an excellent growth partner who can provide not just capital but also the financial and sector expertise and relationships necessary to execute their growth strategies.

**CAPSTONE PARTNERS: ADDITIONAL EDUCATION & TRAINING TRANSACTIONS**

Capstone Partners maintains the most active education & training practice in the middle market, having represented clients across various regions and core curricula. This market presence allows Capstone to provide education companies with real-time transaction feedback and immediate access to key decision makers among the industry's most active acquirers and investors.

**POST-SECONDARY EDUCATION**

 <p><i>has been acquired by</i></p> 	 <p><i>has been acquired by</i></p> 	 <p><i>has been acquired by</i></p> 	 <p><i>has been acquired by</i></p> <p><b>ANAPHORA, LLC</b></p>
 <p><i>has been acquired by</i></p> 	 <p><i>has secured financing from</i></p> 	 <p><i>has been acquired by</i></p> 	 <p><i>has been acquired by</i></p> 
 <p><i>has secured financing from</i></p> <p><b>CMS SMALL-CAP PRIVATE EQUITY FUND</b></p>	 <p><i>has recapitalized with</i></p> 	 <p><i>has been acquired by</i></p> <p><b>REGIS</b></p>	 <p><i>has been acquired by</i></p> 
 <p><i>has been acquired by</i></p> <p><b>REGIS</b></p>	 <p><i>has been acquired by</i></p> <p><b>REGIS</b></p>	 <p><i>valuation advisory</i></p> <p><b>WEST TENNESSEE BUSINESS COLLEGE</b></p>	<p><b>ROCKPORT COLLEGE MAINE</b> The Maine Photographic <b>WORKSHOPS</b></p> <p><i>has been acquired by</i></p> <p><b>A NON-PROFIT EDUCATION CORPORATION</b></p>

**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><b>A Premier Provider of Early Education &amp; Childcare Services</b></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> 

**RECENT SELECTED INDUSTRY AWARDS**

<p>2014</p> <p>US MIDDLE MARKET INVESTMENT BANKING FIRM OF THE YEAR</p> 	<p>2014</p> <p>BOUTIQUE INVESTMENT BANKING FIRM OF THE YEAR</p> 	<p>2013</p> <p>MIDDLE MARKET M&amp;A DEAL OF THE YEAR</p> 	<p>2013</p> <p>MIDDLE MARKET USA BANK OF THE YEAR</p> 
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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.



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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.



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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 corporate sale & divestiture, merger & acquisition, private placement, corporate restructuring, valuation and financial advisory services. Capstone maintains various industry specialties including one in Education & Training. The firm also has a merchant banking capability to actively co-invest in transactions. Headquartered in Boston, Capstone has offices in Chicago, London, Los Angeles, Philadelphia, San Diego and Silicon Valley.

For more information about our  
expertise, please visit  
[www.capstonellc.com](http://www.capstonellc.com)



**Capstone Partners**  
Investment Banking Advisors

World Class Wall Street Expertise. Built for the Middle Market