
Surviving in a White Hot Market

(or really any competitive market)

*Distance Training and Education Council
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Ed Meehan
703-359-4773
epm@rittenhousecapital.com

Overview

The Education Market is Growing and Maturing

- Public Valuations are up dramatically, over 20x EBITDA in cases
- Private investors have been paying 10 – 14x EBITDA for “Platform Acquisitions”
- Expect to see growing activity in not-for-profit conversions
- It seems that small for-profit schools are being gobbled up by aggregators
- Management is being professionalized
- Competition for new students is getting tougher and tougher
- Online continues to gain momentum

What can Small Schools with or without TITLE IV do?

- Study your markets, programs and competitors
- Cater to niche markets
- Identify niche programs and courses
- Work with local employers and employer groups

Overview

- ❑ The slides in this presentation (other than this one) were prepared in the end of August and as you can see the valuation of public companies have continued their dramatic upswing.
- ❑ When prepared on August 10th, Strayer was trading at \$157.62 (20 times EBITDA) and Capella was at \$44.15 (17.7 times EBITDA). As of October 12th, Strayer was at \$174.56 (25 times EBITDA) and Capella was at 61.67 (29 times EBITDA).
- ❑ Since August 10th Capella is up 40% and the other schools generally have seen their stock prices appreciate 10 – 20% with only Lincoln Education and UTI experiencing little or no price movement.

Public Company Market Snapshot

☐ Valuations continue to improve

Symbol	Company	Stock Price		52 Week		TTM Sales	Market Cap	Enterprise Value		Enterprise Value to		EBITDA Margin
		8/10/2007		Hi	Low			Value	EBITDA	Rev.	EBITDA	
APOL	Apollo Group	\$ 57.43	\$	65.50	\$ 33.33	\$ 2,630	\$ 9,950	\$ 9,300	\$ 734	3.5 x	12.7 x	27.92%
CECO	Career Edu Corp	26.43		36.68	20.87	1,720	2,510	2,080	299	1.2 x	7.0 x	17.37%
COCO	Corinthian College	14.20		16.60	11.27	963	1,230	1,210	85	1.3 x	14.2 x	8.83%
CPLA	Capella Education	44.15		47.52	23.29	201	738	629	35	3.1 x	17.7 x	17.61%
DV	Devry Inc.	34.87		37.28	21.11	915	2,470	2,300	131	2.5 x	17.5 x	14.34%
ESI	ITT Education	108.29		121.34	66.26	817	4,370	4,220	244	5.2 x	17.3 x	29.86%
LINC	Lincoln Educational	13.88		16.98	11.35	325	353	379	37	1.2 x	10.2 x	11.42%
STRA	Strayer Education	157.62		168.38	100.84	290	2,280	2,120	106	7.3 x	20.0 x	36.51%
UTI	Universal Tech. Inst.	\$ 19.22	\$	27.12	\$ 18.53	\$ 355	\$ 542	\$ 502	\$ 55	1.4 x	9.1 x	15.52%
Subtotal						\$ 8,217	\$ 24,444	\$ 22,740	\$ 1,727	2.8 x	13.2 x	21.02%
Average						\$ 913	\$ 2,716	\$ 2,527	\$ 192	3.0 x	14.0 x	21.02%
LAUR	Laureate Education*	\$61.97		\$62.33	\$48.25	\$ 1,270	\$ 3,200	\$ 3,520	\$ 247	2.8 x	14.3 x	19.44%
Total						\$ 9,487	\$ 27,644	\$ 26,260	\$ 1,974	2.8 x	13.3 x	20.80%

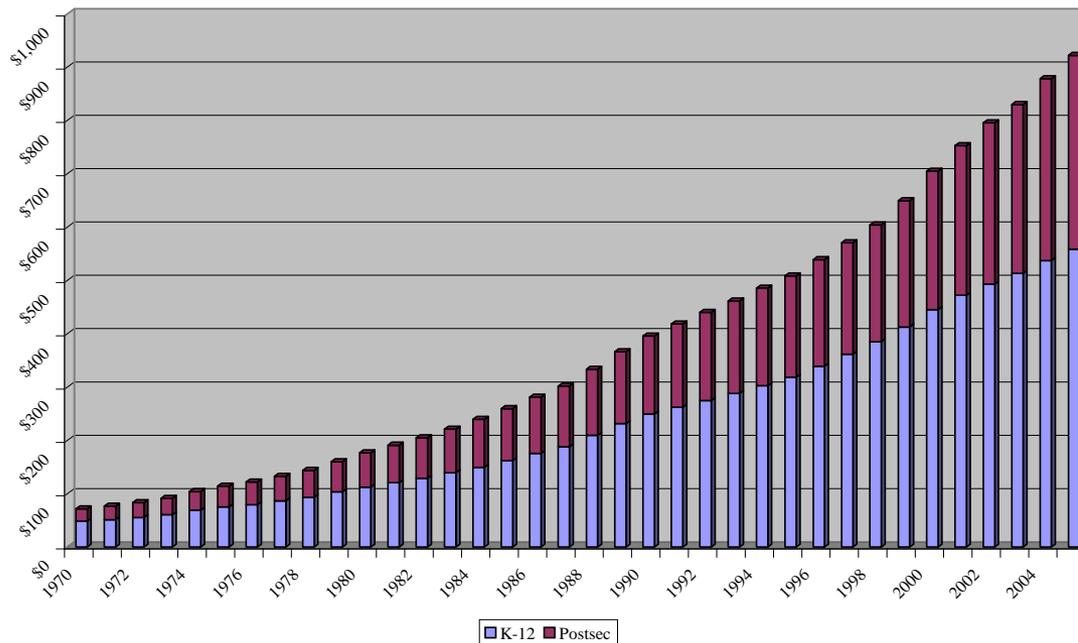
* Buyout offer @ \$60.50 made on 1/28/07. On June 8th the group launched a \$62.00 per share tender offer and July 9th the Board approved the sale.

Market Size and Growth

❑ Postsecondary education is a large, growing industry:

- \$364 billion in annual expenditures
- 2.9% of Gross Domestic Product
- 17 million students

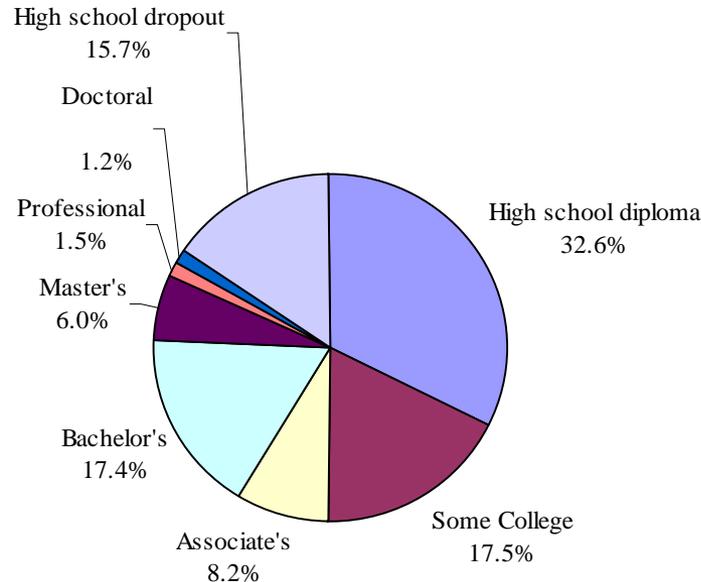
**U.S. Education Spending
1970 - 2005**
(\$billions)



Current Education Attainment Levels

- ❑ Despite the powerful economic value of a postsecondary education, only 34% of Americans have an associate's degree or higher.
- ❑ There is an increasing gap between the number of educated Americans and the number of jobs that require postsecondary education.
- ❑ American colleges have been falling behind in international rankings over the last few years.

Highest Education Attainment Level of U.S. Adults- 2001



There is a Growing Need to Train Future Workers

- ❑ In June 2007 Robert Reich, the former Secretary of Labor spoke at the CCA annual convention
- ❑ He said that the location of skills, education and training will determine winners from losers in the global economy
- ❑ Stressed that career training will be a key component of our future economic success
- ❑ He called sending young people to four-year colleges and universities only to have them flunk out “cruel and unusual.”

“Getting skills and keeping them sharp will be what a competitive workforce is all about”

Online Education Trends

- ❑ Growing in importance and focus
- ❑ Capella IPO has traded to one of the highest valuations in the market
- ❑ American Public Education filed to go public in August 2007
- ❑ High schools, as well as colleges, are focusing more and more on online offerings
- ❑ General education courses will be the first area where we see uniform online delivery and substantial pricing discounts
- ❑ Set-up and delivery costs are still high and should decline over time

Know Your Business and Your Markets

- ❑ With growing competition in the marketplace, schools need to pay special attention to all facets of their business

- ❑ **Students**
 - How well do you know your customers
 - How do you market to them
 - Very often we see schools market to high risk or unqualified students, which may lead to disappointing outcomes
 - Are you marketing to the correct population for your programs

- ❑ **Programs**
 - What differentiates your offerings
 - Are they staying current with student and industry requirements
 - What is the future outlook for the career areas of your programs
 - Can you cost effectively continue to develop and market your programs

Know Your Business and Your Markets

Management

- Always a key part of success
- Are you attracting and training the type of management you require
- How can you lever management

Markets

- Can you identify the markets you focus on to recruit students
- How does it compare versus the competition
- Need to continue to review marketing alternatives

Competitors

- Identify and study them, because the successful one will be studying you
- Know when to take corrective action

Niche Student Markets

- ❑ With the growing changes in the makeup of postsecondary students and the changing education system in the U.S. there are specific student populations that may be targeted
 - **The Military** – An area where several of the DETC schools have excelled. We suspect that education will continue to be a key recruiting and retention tool. The risk here is the market is attracting a lot of outside investment and M&A interest.
 - **Minority Populations** – Much has been discussed about the potential for an Hispanic focused school. It is likely that we will see such models evolve.

Demographic Characteristic	Percentage of Students		
	1970	2001	% Increase
Part-Time Students	28%	39%	39%
Enrolled in 2-Year Colleges	31%	46%	48%
Minority Representation (1976)	18%	32%	78%
Age 25 and Older	20%	29%	45%

Niche Student Markets

- **Nursing** – A very interesting market, as the shortage is greater than expected due to the fact that nurses will in all probability, be the “General Practice” healthcare provider of the futures, as doctors specialize more and more.
- **Working Adults** – We expect to see growing demand for education and training of the existing workforce.
- **Retirees** – It is expected that the growing baby boomer population will be seeking out ongoing education opportunities for both leisure and second career interests.
- **Graduating High School Seniors** - Remember these students will expect to learn online and be more open to learning trades and specialized skills online. We have seen some online providers work with High Schools to deliver specialized courses say in IT and ensure they are accepted by colleges. This is a very interesting market for niche program offerings.

Niche Programs/Courses

- ❑ There are specialty programs that may attract students who may have the ability to fully finance their education, such as:
 - **Media and broadcasting** – We have seen several very successful schools where no outside funding was required, as they attracted either an affluent student base, or their offerings were tied into career advancement.
 - **Healthcare** – Will be one of the largest areas and within it there are areas where we expect to see online be very valuable, such as general education courses, training and certification and completion of academic requirements to advance. In the area of nursing we expect to see specialized programs, test prep and foreign student focused offerings grow.
 - **Web-centric programs** – Surprisingly, with the explosion of the internet areas such as web design, web marketing and gaming are not well integrated into traditional education programs. Very often such skills are acquired on the job, and not taught at traditional colleges. We believe this is an area where focused online school can find opportunities.

Niche Programs/Courses

- **Language Skills** – With the diversification of the U.S. populations and expansion of the global economy, English as a Second Language (ESL) and English speaking populations needing foreign language skills should experience strong growth.
- **Certification** – Increasing self-employed individuals and small businesses will require continuing education and certification.
- **High Schools** – There is strong growth and increasing interest in bringing online courses to high schools, as evidenced by the growth of virtual charter schools.
- **Joint Ventures** – We are seeing ground-based schools partnering with online providers to expand their offerings and/or gain online expertise.

Programs/Courses Paid by Employers

- ❑ There seems to be growing interest in tailoring tuition reimbursement programs to better serve employers
- ❑ We know of several schools who are attempting to find specific opportunities to assist employers in meeting recruiting and advancement needs
- ❑ Obviously, the military market is a good example where tuition payments are a very valuable recruiting and retention tool

The Use of Private Loans

- ❑ Carries less risk than Title IV
- ❑ Can be an appealing option for high demand programs
- ❑ Know of a nursing school that was able to grow this way before selling the business
- ❑ Areas such as nursing, media and web-centric programs may attract motivated students and families who may be inclined to utilize such funding

Business Issues

- Price points
- Value proposition
- Market demand
- Student needs
- What can your school realistically manage
- Cost of potential new initiatives

Exit Strategies

- ❑ We get approached on a regular basis by small schools wishing to sell their business

- ❑ If this is your ultimate strategy, the following factors are critical to potential buyers
 - Profitability
 - Accreditation
 - Title IV eligibility
 - Programs
 - Systems in place and scalability
 - Depth of management

- ❑ Receiving DETC Title IV approval without actually using it will be a valuable asset