



Education Industry

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Industry Update - Valuations, IPO's and Online

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EdisonLearning acquires online software provider, Provost Systems. Ed Meehan advised Provost Systems. [Click here](#) for the press release.

Industry Information

Please visit our website at www.arcadybay.com for copies of this review and other industry information.

[Click here](#) for to view recent industry presentation to the Darden Business School.

Venture Capital Activity

Arcady Bay invests in Starfish Retention Solutions.
www.starfishretention.com

Highlights

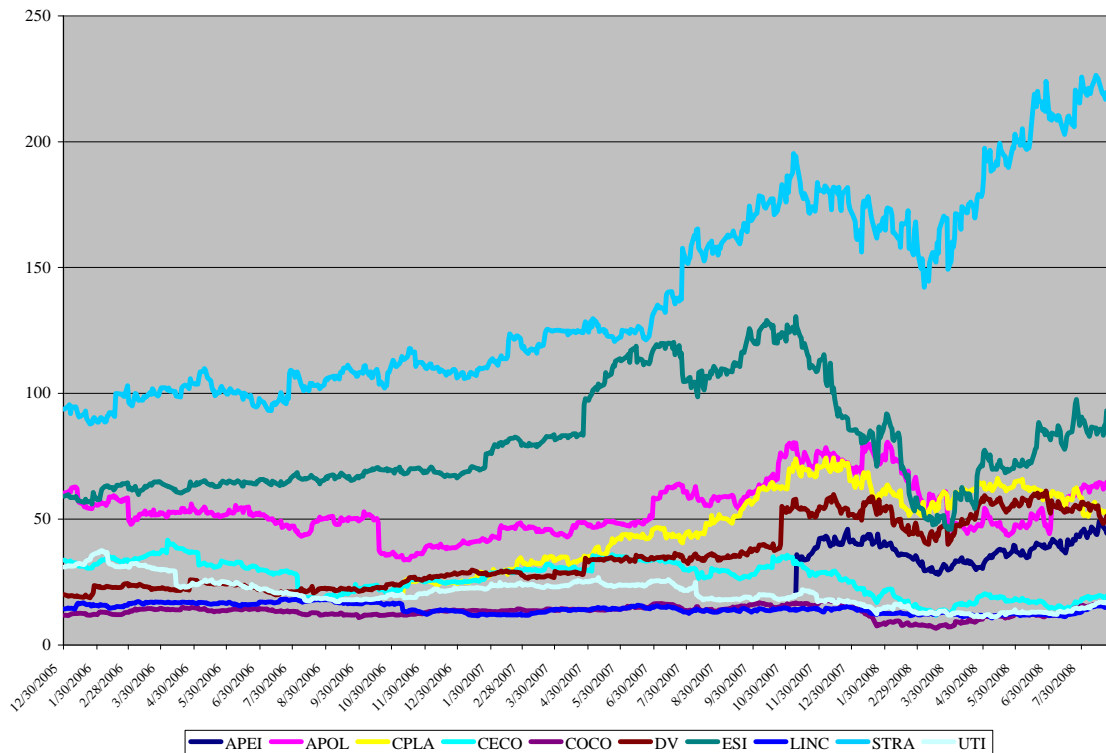
- Overall postsecondary Industry valuations have rebounded a bit from earlier this year, but are still below year-end 2007 levels.
- With the market down over 21% (before yesterday's 290 point advance) from last year's highs, the postsecondary sector has been a good defensive bet for investors.
- In August both Education Management Corp (EDMC) and Grand Canyon Education filed updates to their initial S-1 filings. Both Companies disclosed strong growth metrics from their initial filings with online being a key contributor to such growth.
- In the K-12 sector, the success of the K-12 Inc. IPO and recent M&A activity point to growing interest in the online sector.
- Kent State University recently approved a new faculty contract that included incentive compensation tied to retention, fundraising and research. Are public universities starting to realize they need to be fiscally responsible and focus on student outcomes?
- Online growth continues, Rio Salado College sees growing acceptance of online learning.

Current Public Market Valuations

Postsecondary

In general, the stock market for postsecondary stocks has been mixed this year with Strayer being the only consistent success story over the last few years. American Public Education continues to post solid growth characteristics, enabling it to trade at the highest market multiples in the group. Capella, whose strong performance in 2007, made it a market favorite has seen its valuation slip with concerns around its growth potential and management succession planning.

Exhibit 1
Postsecondary Stock Performance
2006 – August 29, 2008



Relative to the overall market with the Dow Jones Industrial Average off over 21% from its 14,280 high of last October, postsecondary stocks as a group have done very well.

The following trading multiples show a current weighted average EBITDA trading multiple of 13.1x versus 16.1x at yearend 2007. Yearend 2007 valuations were impacted by the success of APEI and CPLA who were trading at respective EBITDA multiples of 46.8x and 29.0x at the time.

Exhibit 2
Postsecondary Trading Comparables
August 29, 2008

ARCADY BAY PARTNERS

8/29/2008

Symbol	Company	Stock Price 8/29/2008	52 Week		TTM Sales	Market Cap	Enterprise Value	EBITDA	Enterprise Value to		EBITDA Margin
			Hi	Low					Rev.	EBITDA	
APEI	American Public Education	\$ 44.70	\$ 50.05	\$ 27.56	\$ 87	\$ 797	\$ 762	\$ 23	8.7 x	32.6 x	26.82%
APOL	Apollo Group	63.68	81.68	37.92	3,020	10,090	9,830	777	3.3 x	12.7 x	25.72%
CPLA	Capella Education	49.71	75.38	46.95	251	828	720	46	2.9 x	15.8 x	18.21%
CECO	Career Edu Corp	18.75	36.09	11.57	1,670	1,680	1,270	202	0.8 x	6.3 x	12.07%
COCO	Corinthian College	13.27	18.25	6.45	1,040	1,130	1,180	95	1.1 x	12.4 x	9.18%
DV	Devry Inc.	51.58	61.57	33.80	1,090	3,680	3,460	206	3.2 x	16.8 x	18.89%
ESI	ITT Education	88.91	131.82	42.24	930	3,450	3,350	307	3.6 x	10.9 x	33.03%
LINC	Lincoln Educational	15.03	15.95	9.85	346	382	405	47	1.2 x	8.7 x	13.46%
STRA	Strayer Education	208.84	228.23	142.14	354	2,990	2,880	121	8.1 x	23.8 x	34.14%
UTI	Universal Tech. Inst.	\$ 17.16	\$ 22.37	\$ 6.71	\$ 346	\$ 431	\$ 359	\$ 31	1.0 x	11.7 x	8.85%
Total					\$ 9,133	\$ 25,457	\$ 24,215	\$ 1,854	2.7 x	13.1 x	20.30%
Average					\$ 913	\$ 2,546	\$ 2,422	\$ 185	3.4 x	15.2 x	20.04%

Symbol	Company	Stock Price 8/29/2008	52 Week		TTM Sales	Market Cap	Enterprise Value	EBITDA	Enterprise Value to		EBITDA Margin
			Hi	Low					Rev.	EBITDA	
BBBB	Blackboard, Inc	\$ 39.96	\$ 49.90	\$ 26.83	\$ 269	\$ 1,240	\$ 1,350	\$ 46	5.0 x	29.2 x	17.23%
BLKB	Blackbaud, Inc.	\$ 20.19	\$ 30.23	\$ 17.05	\$ 280	\$ 880	\$ 895	\$ 65	3.2 x	13.8 x	23.25%
Total					\$ 549	\$ 2,120	\$ 2,245	\$ 111	4.1 x	20.2 x	20.30%
Average					\$ 274	\$ 1,060	\$ 1,123	\$ 56	4.1 x	21.5 x	20.24%

Exhibit 3
Postsecondary Trading Comparables
December 31, 2007

ARCADY BAY PARTNERS

12/31/2007

Symbol	Company	Stock Price 12/31/2007	52 Week		TTM Sales	Market Cap	Enterprise Value	EBITDA	Enterprise Value to		EBITDA Margin
			Hi	Low					Rev.	EBITDA	
APEI	American Public Education *	\$ 41.78	\$ 46.98	\$ 29.23	\$ 61	\$ 723	\$ 703	\$ 15	11.6 x	46.8 x	24.72%
APOL	Apollo Group	70.15	80.75	38.36	2,720	12,180	11,360	697	4.2 x	16.3 x	25.62%
CPLA	Capella Education	65.46	75.38	24.05	213	1,090	999	34	4.7 x	29.0 x	16.19%
CECO	Career Edu Corp	25.14	36.68	24.36	1,650	2,460	1,860	215	1.1 x	8.7 x	13.02%
COCO	Corinthian College	15.40	18.25	12.36	959	1,410	1,340	72	1.4 x	18.7 x	7.48%
DV	Devry Inc.	51.96	59.97	26.10	965	3,660	3,470	154	3.6 x	22.5 x	15.96%
ESI	ITT Education	85.27	131.82	66.26	845	3,950	3,273	253	3.9 x	13.0 x	29.88%
LINC	Lincoln Educational	14.72	16.18	11.35	332	370	401	39	1.2 x	10.2 x	11.89%
STRA	Strayer Education	170.58	195.91	104.62	303	2,450	2,350	101	7.8 x	23.4 x	33.17%
UTI	Universal Tech. Inst.	\$ 17.00	\$ 18.74	\$ 16.43	\$ 353	\$ 476	\$ 407	\$ 47	1.2 x	8.7 x	13.30%
Total					\$ 8,401	\$ 28,769	\$ 26,162	\$ 1,626	3.1 x	16.1 x	19.36%
Average					\$ 840	\$ 2,877	\$ 2,616	\$ 163	4.1 x	19.7 x	19.12%

* APEI went public on November 8, 2007 at \$20.00 per share

Symbol	Company	Stock Price 12/31/2007	52 Week		TTM Sales	Market Cap	Enterprise Value	EBITDA	Enterprise Value to		EBITDA Margin
			Hi	Low					Rev.	EBITDA	
BBBB	Blackboard, Inc	\$ 40.25	\$ 49.90	\$ 28.10	\$ 228	\$ 1,090	\$ 1,150	\$ 48	5.1 x	23.8 x	21.26%
BLKB	Blackbaud, Inc.	\$ 28.04	\$ 30.23	\$ 20.30	\$ 236	\$ 1,190	\$ 1,260	\$ 57	5.3 x	22.0 x	24.22%
Total					\$ 464	\$ 2,280	\$ 2,410	\$ 106	5.2 x	22.8 x	22.77%
Average					\$ 232	\$ 1,140	\$ 1,205	\$ 53	5.2 x	22.9 x	22.74%

K-12 Market

While the overall K-12 market is substantially larger than the postsecondary sector in terms of spending, the publicly-traded companies in the sector represent a much smaller and diversified universe than the postsecondary sector. Overall the stocks have had mixed results. The recent success of the K-12 Inc. IPO has raised market interest in education management organizations and we would expect to see increased activity in this area.

Exhibit 4
K-12 Trading Comparables
August 29, 2008

ARCADY BAY PARTNERS

8/29/2008

Symbol	Company	Stock Price		52 Week		TTM Sales	Market Cap	Enterprise Value	EBITDA	Enterprise Value to		EBITDA Margin
		8/29/2008		Hi	Low					Rev.	EBITDA	
LRN	K-12 Inc.	\$ 23.57	\$	\$ 31.00	\$ 16.50	\$ 205	\$ 654	\$ 602	\$ 21	2.9 x	28.4 x	10.31%
NLCI	Nobel Learning Company	15.95		16.21	12.20	198	166	182	19	0.9 x	9.5 x	9.63%
TUTR	Plato Learning	1.86		4.70	1.67	70	44	31	3	0.5 x	9.4 x	4.79%
REVU	Princeton Review Inc.	7.76		10.80	5.80	151	261	234	2	1.6 x	n/a	1.25%
RLRN	Renaissance Learning	12.69		15.94	10.54	112	370	351	19	3.1 x	18.7 x	16.84%
SCHS	School Speciality	30.50		36.79	28.61	1,080	573	1,070	125	1.0 x	8.6 x	11.58%
SCIL	Scientific Learning	4.12	\$	6.49	\$ 3.03	\$ 45.23	72	70	\$ (4)	1.5 x	n/a	n/a
Total						\$ 1,861	\$ 2,140	\$ 2,540	\$ 185	1.4 x	13.7 x	9.95%
Average						\$ 266	\$ 306	\$ 363	\$ 26	1.6 x	14.9 x	9.07%

IPO Updates - EDMC and Grand Canyon

In August, EDMC and Grand Canyon updated their initial IPO filings with the SEC. In both cases the companies reported strong growth metrics from their initial filings, with online being a key driver (see Exhibits 6 & 7). Grand Canyon also reported the hiring of Brian Mueller, Stan Meyer, and Dan Bachus to serve as Chief Executive Officer, Executive Vice President, and Chief Financial Officer, respectively. All three joined the company from The Apollo Group.

The table below shows potential enterprise values for the companies based upon the best performing company, Strayer, and the weighted average industry EBITDA multiples. Obviously both companies have their sights set on Strayer's premium market multiple.

Exhibit 5
EDMC and Grand Canyon
Implied Valuations
August 29, 2008
(\$ in millions)

	EDMC		Grand Canyon	
	Industry Average	Strayer	Industry Average	Strayer
EBITDA Multiple	13.1	23.8	13.1	23.8
EBITDA	\$358	\$358	\$16	\$16
Implied Enterprise Value	\$4,688	\$8,518	\$215	\$390

EDMC Updates its S-1 Filing August 6, 2008

Since the initial December 2007 S-1 Filing EDMC has shown strong growth, with online being the fastest growing sector. For the trailing twelve months (“TTM”) ended 3/31/2008 revenues grew 12.62% from the TTM ended 9/30/2007.

Enrollments which are reported annually in October showed strong growth with online adding 8,500 of 15,700 total enrollment increases over the period.

Exhibit 6
EDMC
Comparative Operating Results
(\$ in millions)

Filing Date	8/6/2008	12/21/2007	
Reporting Period	3/31/2008	9/30/2007	Growth
	<u>TTM</u>	<u>TTM</u>	
Revenues	\$1,616	\$1,435	12.62%
EBITDA	\$358	\$328	9.12%
	<u>October 2007</u>	<u>October 2006</u>	<u>Growth</u>
Students:			
Online	13,100	4,600 *	184.78%
Ground	82,900	75,700	9.51%
Total	<u>96,000</u>	<u>80,300</u>	19.55%
Online %	13.65%	5.73%	

* As of July 2006

Grand Canyon Updates its S-1 Filing August 13, 2008

Since the initial May 2008 S-1 Filing Grand Canyon has shown strong growth, with online, as in the case of EDMC, being the fastest growing sector. For the TTM ended 6/30/2008 revenues grew 26.38% from the TTM ended 12/31/2007.

Enrollments showed strong growth with online adding all the new student growth as the ground-based student population declines by 26%.

Exhibit 7 Grand Canyon Comparative Operating Results (*\$ in millions*)

Filing Date	8/13/2008	5/13/2008	
Reporting Period	6/30/2008	12/31/2007	
	<u>TTM</u>	<u>TTM</u>	<u>Growth</u>
Revenues	\$126	\$99	26.38%
EBITDA	\$16	\$12 *	40.17%
Students:			
Online	14,847	12,497	18.80%
Ground	<u>1,663</u>	<u>2,257</u>	-26.32%
Total	16,510	14,754	11.90%
Online %	89.93%	84.70%	

* Revised from \$14.2mm in initial filing.

Outcomes and Faculty Incentives

Kent State University recently approved a new faculty contract that in addition to typical provisions will include a bonus program or “success pool” that could increase faculty compensation. The success pool will be determined by progress made in three areas; *retention, fundraising and research*.

The College also stated that the new contract would result in a funding deficit if state support is not increased or tuition increases are not approved.

It will be interesting to see how this new compensation plan works. We have seen success at UMass Online, where it has been represented that faculty compensation is aligned with stated business goals. Conversely, when the University of Illinois initially attempted to set up its "Global Campus" last year it ultimately had to substantially change the management structure and initial plans to gain faculty support.

In the future many colleges will be faced with various funding and performance issues. We believe over the long-term such actions will help improve our education system and better align the interests of students and the institutions serving them.

For the full news story see:

<http://media.www.kentnewsnet.com/media/storage/paper867/news/2008/09/04/News/Rewarding.Professors.For.Ksus.Successs-3414370.shtml>

Growing Acceptance of Online Education

Online has been a key driver in the education sector over the last two years. The IPO's of Capella, American Public Education and K-12 Inc were all well received by the market and continue to show varying degrees of long-term growth opportunities. The pending IPO's for EDMC and Grand Canyon both have fast-growing online components.

In the K-12 sector we have seen the following acquisitions highlight the growing interest in online:

- EdisonLearning acquires Provost Systems – June 2008
- DeVry acquires Advanced Academics – October 2007
- Kaplan acquires Sagemont/Virtual Sage – April 2007
- Apollo acquires Insight Schools – January 2007

Rio Salado College, one of the more progressive public universities in the country recently reported its online student population grew 14% from 2007 to 2008 and currently serves over 30,000 online students.

"There's been a fundamental shift in the perception and availability in online education," said Vernon Smith, Rio Salado College's dean of Teaching and Learning.

"People are increasingly comfortable with online technology. They do their banking, shopping and even their dating online," Smith said.

For the full news story see:

<http://www.azcentral.com/community/ahwatukee/citizen/articles/2008/08/28/20080828tr-rioonline0830.html>