



## **2008 Darden BBSF Conference**

### ***EMERGING DOMESTIC MARKETS:***

## **For-Profit Education**

*April 4, 2008*

# Agenda

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- Introduction
- The U.S education market
- Investment characteristics
- Entrepreneurial opportunities
- Recent Success Stories
- The future of the education market

# What do You Think ?

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- Is education a public service or a business?
  - *A business in search of management*
- How does our system stack up in the world markets?
  - *Falling behind*
- What % of our adult population has at least an associates degree or higher?
  - *28%*
- At four-year colleges, after a six year period how many students graduate?
  - *Approximately 50%*
- What % of college students in the U.S. are in community colleges?
  - *46%*
- How much more per year will a college grad make versus a high school dropout?
  - *Approximately 250%*
- What % of grammar school and high school students (K-12) attend charter schools?
  - *2.6%*

# Some Terms and Background

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- ❑ **For-profit** means businesses and schools that are owned by owners or investors with a goal of making a profit and pay income taxes.
- ❑ **Private colleges** are non-profit schools that depend upon tuition and endowment funds to fund their costs.
- ❑ **Public Colleges** are ones that are state sponsored and generally depend upon state funding to pay a good majority of their costs – tuition at public colleges pays for less than 20% of the cost of the education.
- ❑ **Career colleges or vocational schools** are for-profit colleges that grant anywhere from short term “training type” certificates through PHD’s. They must report their job placement rates, while the public and private ones do not.
- ❑ **K-12** refers to grammar and high schools
- ❑ **Charter schools** are state-sponsored alternative K-12 schools that are non-profit and eligible to collect a majority of the cost of education from local school districts – so they take funds away from the public K-12 system.

# Education in the United States

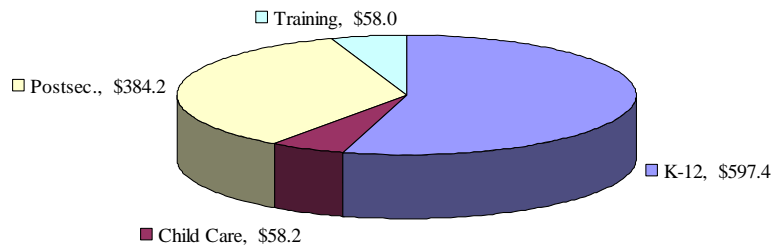
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- ❑ Over a trillion dollar industry, second only to healthcare in the U.S., approximately 7.4% of GDP.
- ❑ More than 1 out of every 4 people in the U.S. are either enrolled or employed in our education system.
- ❑ According to the National Center for Education Statistics (“NCES”) in 2006 83.5 million (of a total population of approximately 299 million) people in the U.S. are participants in education system.
  - 73.7 million students
  - 4.6 million teachers
  - 5.2 million administration and support
- ❑ The system is losing ground to foreign nations.
- ❑ The for-profit sector is large and growing.

# Market Size and Growth

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**2007 Estimated Education Spending**  
**\$1.098 Trillion**  
*(Amounts below in billions)*



- ❑ BMO Capital Markets estimates that over a trillion dollars was spent on all education categories in 2007.
  
- ❑ The for-profit sector was estimated to be \$99 billion (up from \$88 billion in 2006) as follows:
  - **\$34.5 billion - postsecondary**
  - **\$26.5 billion - K-12**
  - \$22.9 billion - corporate training
  - \$15.4 billion – childcare
  
- ❑ BMO estimates the for-profit sector will grow to over \$137 billion in 2012 with postsecondary being the fastest growing sector.
  
- ❑ We will focus on the K-12 and postsecondary sectors.

# The Companies

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## ❑ Public Companies - **dozens**

- Schools and services companies specifically focused on the sector. Nineteen are identified in this presentation with revenues of \$11 billion.
- Enterprise software companies such as Apple, Microsoft and Oracle.
- Conglomerates such as the Washington Post, McGraw Hill, Pearson PLC.

## ❑ Private Companies - **hundreds**

- Schools
- Software
- Marketing
- Testing
- Outsourcing
- Communities

# Representative Investors

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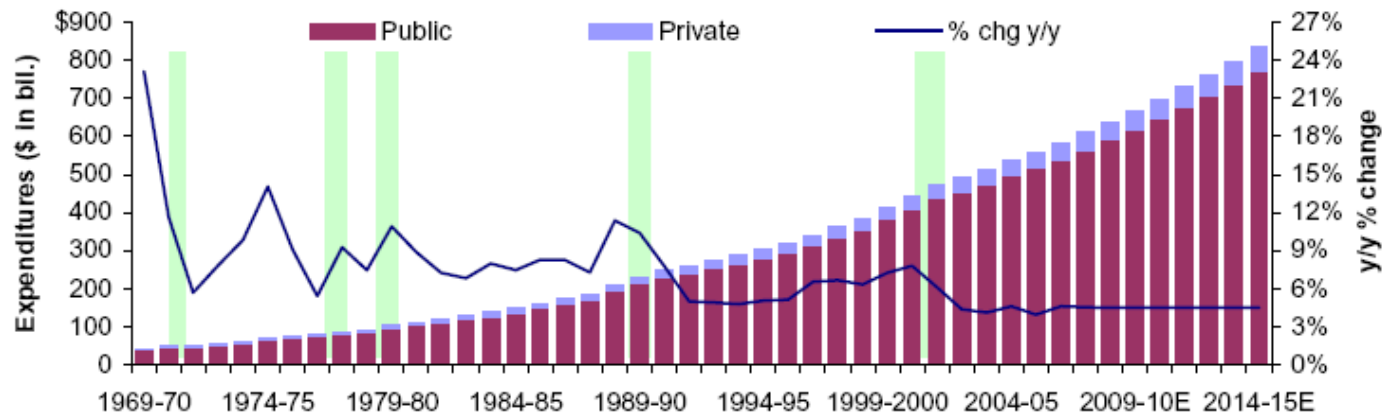
- ❑ ***Liberty Partners*** – Edison Schools, Henley-Putnam, Concord Career College, YTI Institute, Shelton Ogle Enterprises, Chartwell Education Group.
- ❑ ***The Carlyle Group*** – Schoolnet, Blackboard, Universidad Latinoamericana, Apollo (\$1 billion international business development JV), Wall Street Institute.
- ❑ ***Sterling Partners*** – 16 investments which include, Laureate, Connections Academy, Meritas, Smarterville, Educate.
- ❑ ***Leeds Equity*** – Campus Management, EduK Group, eInstruction, Ross Medical.
- ❑ ***Quad Partners*** – 11 investments which include, Blue Cliff College, Cranium, Teachscape, Stratford School.
- ❑ ***ABS Capital*** – American Public University, Course Advisor .
- ❑ ***Novak Biddle*** – Blackboard, Intelliworks, Spectrum 4GL.
- ❑ ***Generation Partners*** – Post University, MedVance.



# Market Size and Growth

- ❑ Consistent growth in spending, driven by state and local budgets.
- ❑ The issue here is the erratic nature of the government budget process.

**Exhibit 32. K-12 Total Expenditures (1969-1970 to 2014-2015E)**



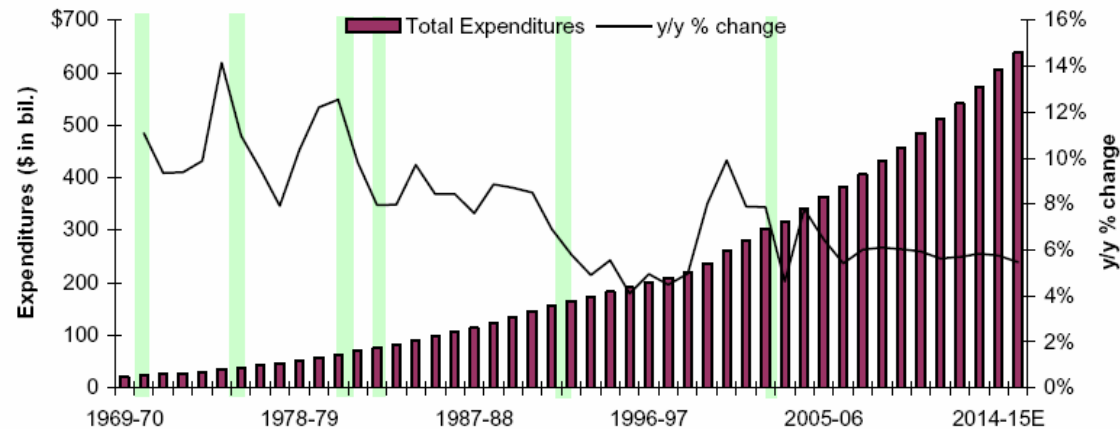
Note: Shaded areas represent US recessionary periods.

Source: BMO Capital Markets estimates and US Department of Education National Center for Education Statistics.

# Market Size and Growth

- ❑ Consistent growth in spending, driven by student and family demand.
- ❑ Public universities heavily subsidized by government dollars.
- ❑ Students and families use Pell and student loans to fund tuition payments.

**Exhibit 73. US Postsecondary Expenditures (1969-1970 to 2015-2016E School Years)**



Note: Shaded areas represent US recessionary periods.

Source: BMO Capital Markets estimates and US Department of Education National Center for Education Statistics.

# Changing Demographics

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- ❑ Over the past 30 years, postsecondary education demographics have shifted considerably away from the traditional student base to “**non-traditional**” students as reflected in the following table.

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%

- ❑ Typical four-year residential college does not serve “**non-traditional**” students well.

# Changing Demographics

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- ❑ Minority participation has increased by 92% from 1980 to 2005 in our colleges.
- ❑ Suspect that non-degree granting colleges have a higher minority population.

## Degree Granting Colleges

Race/ethnicity	1980	1990	2000	2005
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
White	81.4	77.6	68.3	65.7
Minority	16.1	19.6	28.2	30.9
Black	9.2	9.0	11.3	12.7
Hispanic	3.9	5.7	9.5	10.8
Asian/Pacific Islander	2.4	4.1	6.4	6.5
American Indian/Alaska Native	0.7	0.7	1.0	1.0
Nonresident alien	2.5	2.8	3.5	3.3

NOTE: Race categories exclude persons of Hispanic ethnicity. The race/ethnicity of nonresident aliens was not identified. Detail may not sum to totals because of rounding.

*Source: NCES Mini-Digest of Education Statistics 2007*

# Changing Demographics

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- ❑ Minority participation has increased by 44% from 1986 to 2005 in our K-12 schools.
- ❑ The minority participation level in K-12 indicates postsecondary levels should be continue to increase.

## Public K-12 Enrollments

Race/ethnicity of student	1986 <sup>1</sup>	1995	2005
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
White	70.4	64.8	57.1
Minority	29.6	35.2	42.9
Black	16.1	16.8	17.2
Hispanic	9.9	13.5	19.8
Asian/Pacific Islander	2.8	3.7	4.6
American Indian/Alaska Native	0.9	1.1	1.2

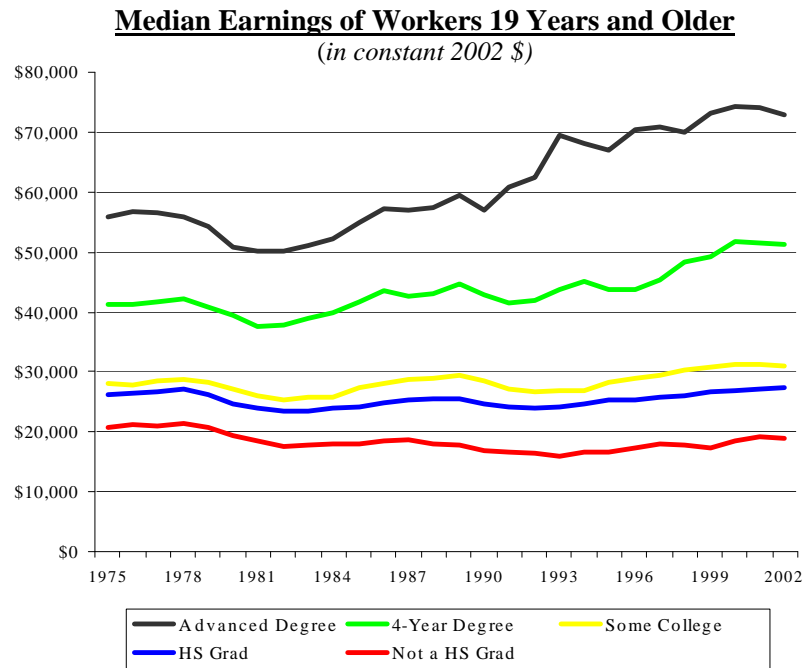
<sup>1</sup> *Digest of Education Statistics, 2002.*

NOTE: Race categories exclude persons of Hispanic origin. Detail may not sum to totals because of rounding.

*Source: NCES Mini-Digest of Education Statistics 2007*

# The Increasing Value of a Degree

- ❑ There is a powerful correlation between education and earnings:
  - A college graduate on average will earn \$900,000 more over a lifetime than will someone who only has a high school diploma.
  - The earning power of high school graduates is eroding over time, and now equals approximately 50% of that of college graduates, versus over 60% in 1975.



# Who Best Serves Minorities and Non-Traditional Students Today?

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## For-Profit Colleges

- ❑ A common term for for-profit schools is “career colleges,” which typically refers to the fact that for-profit schools offer education programs in occupational fields. The Career College Association (“CCA”), in its 2005 Fact Book, reported that its 1,270 member organizations educate more than one million students each year for employment in more than 200 occupational fields, graduating **approximately half** of the technically trained workers who enter the U.S. workforce each year. It estimates that career colleges confer approximately **39%** of all health degrees/certificates and **35%** of all technology degrees/certificates awarded at two-year and less institutions in the U.S.
  
- ❑ CCA estimates that approximately 7% of all college students attend a career college and that career colleges comprise approximately 38% of all institutions participating in the Title IV financing programs. Some key demographics of the student population of CCA’s members are:
  - Employed while in school – 79%
  - First generation college students – 69%
  - Minorities – 51%
  - Single parents – 30%
  - African American – 21%
  - Hispanic – 19%

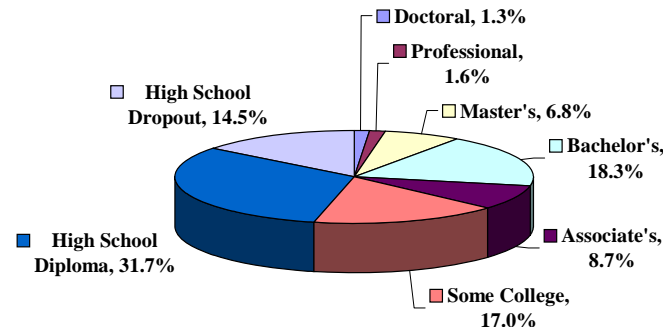
# Current Education Attainment Levels

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- ❑ Despite the powerful economic value of a postsecondary education, only 28% of American adults have a bachelor's degree 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- 2005

(192 million people 25-years and older)





# Losing Our Competitive Edge

- ❑ The U.S. has been a work leader in education.
- ❑ A U.S. education continues to be a valuable asset around the world.
- ❑ The challenge we face is that we are not improving our level of education attainment, while other nations, who have learned from us, are better educating their populations.
- ❑ Our current college generation may very well be less educated than the prior generation.

College Attainment Levels as a % of Identified Population						
Rank	Country	Age Group		Country	Age Group	
			25-64			25-34
1	Canada		46	Canada		54
2	Japan		40	Japan		53
3	<b>United States</b>		<b>39</b>	Korea		51
4	Finland		35	Norway		41
5	Denmark		34	Ireland		41
6	Norway		33	Belgium		41
7	Australia		32	Denmark		40
8	Korea		32	Spain		40
9	Belgium		31	France		39
10	Iceland		31	<b>United States</b>		<b>39</b>
11	Netherlands		30	Australia		38
12	Sweden		30	Finland		38
13	United Kingdom		30	Sweden		37
14	Ireland		29	Luxembourg		37
15	Switzerland		29	Iceland		36
16	Spain		28	Netherlands		35
17	New Zealand		27	United Kingdom		35
18	Luxembourg		27	Switzerland		31
19	France		25	New Zealand		31
20	Germany		25	Poland		26
21	Greece		21	Greece		25
22	Austria		18	Germany		22
23	Hungary		17	Austria		20
24	Poland		17	Hungary		20
25	Mexico		15	Portugal		19
26	Slovak Republic		14	Mexico		18
27	Czech Republic		13	Slovak Republic		16
28	Portugal		13	Italy		16
29	Italy		12	Czech Republic		14
30	Turkey		10	Turkey		12

Source: OECD, Education at a Glance 2007.

# Losing Our Competitive Edge

- The National Center for Public Policy and Higher Education reported the following mean scores for 8<sup>th</sup> grade students.

	Mathematics			Science		
	1995	2003	Change	1995	2003	Change
Singapore	609	605	(3)	580	578	(3)
Korea	581	589	<b>8</b>	546	558	<b>13</b>
Japan	581	570	<b>(11)</b>	554	552	(2)
Belgium (Flemish Community)	550	537	<b>(13)</b>	533	516	<b>(17)</b>
Netherlands	529	536	7	541	536	(6)
Hungary	527	529	2	537	543	6
Malaysia	—	508		—	510	12
Russian Federation	524	508	<b>(16)</b>	523	514	(9)
Slovak Republic	534	508	<b>(26)</b>	532	517	<b>(15)</b>
Australia	509	505	(4)	514	527	<b>13</b>
<i>United States</i>	492	504	<b>12</b>	513	527	<b>15</b>
Sweden	540	499	<b>(41)</b>	553	524	<b>(28)</b>
United Kingdom (Scotland)	—	498		501	512	10
New Zealand	501	494	(7)	511	520	9
Italy	—	484		—	491	
Norway	498	461	<b>(37)</b>	514	494	<b>(21)</b>
Cyprus	468	459	<b>(8)</b>	452	441	<b>(11)</b>
Chile	—	387		—	413	
<b>Country average</b>		<b>466</b>			<b>515</b>	

# Future Funding Issues

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- ❑ Healthcare, retirement and pension obligations will impact funding levels of all budget items.
- ❑ Funding pressures will force public schools to find ways to cut costs and be more efficient.
- ❑ Expect to see more funding pressures at the college level vs. K-12.
- ❑ For-profit schools and service providers will:
  - Challenge incumbent public systems
  - Offer innovation and challenge the norm
- ❑ Warren Buffett hit on a key issue in his recent annual investors meeting:

*“Public pension promises are huge and, in many cases, funding is woefully inadequate. Because the fuse on this time bomb is long, politicians flinch from inflicting tax pain, given that problems will only become apparent long after these officials have departed. Promises involving very early retirement — sometimes to those in their low 40s — and generous cost-of-living adjustments are easy for these officials to make. In a world where people are living longer and inflation is certain, those promises will be anything but easy to keep.”*

# K-12 Market Drivers

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## ❑ Declining Performance

- U.S. public school systems are over-burden bureaucracies and seemed to be paralyzed.
- In some ways the system has been handed over to amateurs, i.e., - parents, unions and school boards.

## ❑ No Child Left Behind

- Is attempting to develop accountability and standards and it is not perfect, but a start.

## ❑ Charter Schools

- Are allowed to collect the money that a school district would otherwise spend to educate a student.
- Are very threatening to unions and administrators.

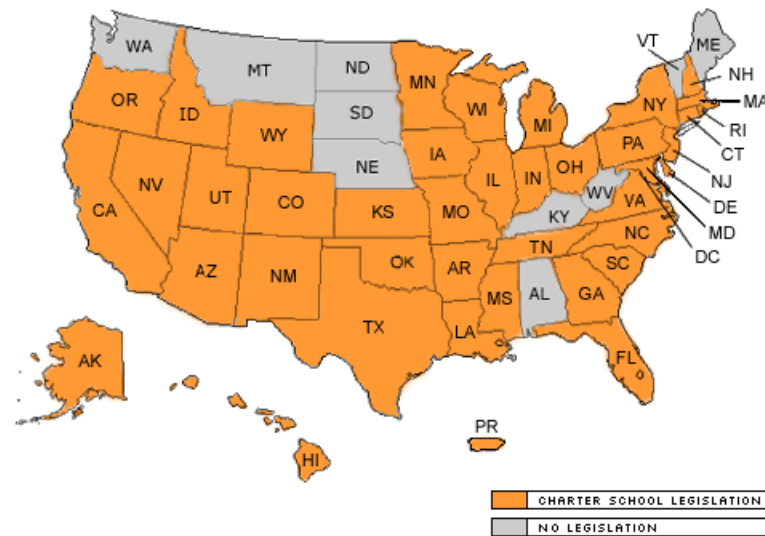
## ❑ Education Management Companies

- Are attempting to bring new models and methods to bear in the public school systems.
- Act as a financing vehicle to start up new charter schools by providing capital, curriculum, teachers and systems.

# Charter Schools

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- ❑ The Charter School movement in the U.S., in part, is a result of the failure of our public education system.
- ❑ According the Center for Education Reform, 40 states and the District of Columbia have Charter School legislation.



Source: [www.uscharterschools.org](http://www.uscharterschools.org)

# Charter Schools

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- ❑ It is estimated that there are 4,249 charter schools serving 1.2 million students in 40 states as of September 2007.
- ❑ Represents about 2.6% of the 48 million K-12 public school students in the country.
- ❑ States with largest charter school student penetration and overall national rankings in K-12 achievement according to EPE Research:

➤ Washington DC	72k	28.7%	50th
➤ Arizona	112k	11.0%	44th
➤ Delaware	8k	7.0%	16th
➤ Colorado	48k	6.3%	19th
➤ Michigan	92k	5.5%	43rd
➤ Ohio	92k	5.0%	14th
➤ Wisconsin	40k	4.6%	21st

# Charter Schools

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❑ Largest absolute number of students:

➤ California	239k	3.9%
➤ Arizona	112k	11.0%
➤ Florida	106k	4.1%
➤ Texas	98k	2.2%
➤ Michigan	92k	5.5%
➤ Ohio	92k	5.0%

❑ Estimate that there are over 100,000 students in “Online” or “Virtual” Charter schools.

# Charter Schools

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- ❑ Charter school per-pupil funding varies from state to state with a range of approximately \$5,000 in Georgia to \$13,000 in Washington D.C.
- ❑ 2 million home-schooled, spending \$2,000 to \$3,000 per-pupil annually for curriculum only.
- ❑ 1.2 million charter school students spending, on average, approximately \$6,700 per-pupil annually.
- ❑ An estimated 300,000 students on charter school waiting lists.
- ❑ 100,000 virtual school students spending, on average, approximately, \$6,700 per-pupil annually.
- ❑ It is estimated that, on average, charter schools receive approximately 78% of actual school district per-pupil spending for traditional schools.



# No Child Left Behind

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- Enacted in 2002 to promote standards based education reform.
- Initially focuses on math and reading proficiency in grades 3 - 8.
- Schools must meet adequate yearly progress (AYP) or be subjected to corrective actions.
- The objective is to have all students proficient in math and reading by 2013-14.
- Also sets goals for teacher quality.
- Hotly debated as another “standardized testing requirement” that would focus education on test taking and results.
- Seems to have been embraced and up for reauthorization.

# Online Education

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- ❑ Growing Acceptance.
- ❑ Over 3.5 million or about 20% of all college students have taken an online class.
- ❑ In the K-12 market we estimate that over one million students have taken an online course (primarily in high school).
- ❑ It is a very different delivery model.
- ❑ It can have very interesting outcomes, as it can personalize learning and better engage students.
- ❑ Will be critical in the foreign markets.
- ❑ Will be a driver as we increase efficiency and accountability.

# Growing Interest in International Markets

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- ❑ There is growing interest among for-profit schools and industry investors in the international postsecondary education market.

## Select Postsecondary Penetration Rates

	2004 Population (millions)	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>CAGR</u>
China	1,299	7%	10%	13%	16%	31.7%
India	1,065	11%	11%	11%	12%	2.9%
Indonesia	239	15%	15%	15%	16%	2.2%
Brazil	184	15%	16%	18%	21%	11.9%
Mexico	105	20%	20%	21%	22%	3.2%
United States	293	70%	71%	81%	83%	3.8%

# Investment Characteristics

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- ❑ Big Market.
- ❑ In chaos (some say), increasing financial pressures, an entrenched management, slow to change.
- ❑ Change will be driven from outside – for-profit colleges, charter schools foreign countries, the business community, the internet, etc.
- ❑ At the early stages of technology adoption, new business practices.
- ❑ Growing government recognition of system shortcomings and impact on our economic future.
- ❑ Severe lack of management talent.
- ❑ Widespread private investor interest.
- ❑ For-profit colleges are stable business models.
- ❑ No Child Left Behind and declining competitive position internationally are challenging the K-12 sector.
- ❑ Regulatory environment, both a hurdle and a protection.
- ❑ Increasing outsourcing.
- ❑ Potential open source software adoption.
- ❑ Technology bridging high school/college markets.

# Public Market Snapshot – Career Colleges

- ❑ Represents the largest sector of publicly-traded companies in the sector, with sales of over \$8 billion and a market value of over \$17 billion.
- ❑ Valuation metrics have decreased dramatically in 2008 from 2007 highs.

Symbol	Company	Stock Price		52 Week		TTM Sales	Market Cap	Enterprise		Enterprise Value to		EBITDA Margin
		3/28/2008		Hi	Low			Value	EBITDA	Rev.	EBITDA	
APEI	American Public Education	\$ 29.74	\$	46.98	\$ 27.56	\$ 69	\$ 447	\$ 427	\$ 17	6.2 x	24.6 x	25.14%
APOL	Apollo Group	41.21		81.68	39.41	2,840	6,910	6,340	737	2.2 x	8.6 x	25.95%
CPLA	Capella Education	54.26		75.38	31.42	226	943	799	40	3.5 x	20.1 x	17.57%
CECO	Career Edu Corp	12.05		36.68	11.57	1,670	1,090	722	204	0.4 x	3.5 x	12.24%
COCO	Corinthian College	7.15		18.25	6.45	996	608	583	80	0.6 x	7.3 x	8.02%
DV	Devry Inc.	39.97		61.25	27.44	1,000	2,850	2,610	178	2.6 x	14.7 x	17.80%
ESI	ITT Education	45.99		131.82	42.24	870	1,830	1,660	265	1.9 x	6.3 x	30.51%
LINC	Lincoln Educational	12.20		16.18	11.04	328	317	329	42	1.0 x	7.8 x	12.88%
STRA	Strayer Education	149.33		195.91	119.19	318	2,150	1,980	106	6.2 x	18.7 x	33.36%
UTI	Universal Tech. Inst.	\$ 11.95	\$	27.12	\$ 6.71	\$ 354	\$ 302	\$ 202	\$ 46	0.6 x	4.4 x	13.01%
Total						\$ 8,671	\$17,447	\$ 15,652	\$ 1,716	1.8 x	9.1 x	19.79%
Average						\$ 867	\$ 1,745	\$ 1,565	\$ 172	2.5 x	11.6 x	19.65%

# Public Market Snapshot – Software Companies

- ❑ There are a limited number of public “pure-play” software providers.
- ❑ It is believed that outsourcing will continue to grow in the education sector.
- ❑ Private investors are looking for potential platform companies to build industry focused outsourcing companies.

Symbol	Company	Stock Price		52 Week		TTM Sales	Market Cap	Enterprise Value	EBITDA	Enterprise Value to		EBITDA Margin
		3/28/2008		Hi	Low					Rev.	EBITDA	
BBBB	Blackboard, Inc	\$ 32.76	\$	49.90	\$ 26.83	\$ 239	\$ 958	\$ 913	\$ 53	3.8 x	17.3 x	22.04%
BLKB	Blackbaud, Inc.	\$ 23.95	\$	30.23	\$ 20.78	\$ 257	\$ 1,080	\$ 1,070	\$ 61	4.2 x	17.7 x	23.56%
Total						\$ 496	\$ 2,038	\$ 1,983	\$ 113	4.0 x	17.5 x	22.83%
Average						\$ 248	\$ 1,019	\$ 992	\$ 57	4.0 x	17.5 x	22.80%

# Public Market Snapshot K-12 Service Providers

- ❑ K-12 sector of publicly-traded companies primarily provides education and assessment services.
- ❑ Much smaller than the postsecondary school sector with a market cap of \$2.1 billion versus \$17.5 billion for postsecondary.

Symbol	Company	Stock Price 3/28/2008	52 Week		TTM Sales	Market Cap	Enterprise Value	EBITDA	Enterprise Value to		EBITDA Margin
			Hi	Low					Rev.	EBITDA	
LRN	K-12 Inc.	\$ 20.74	\$ 31.00	\$18.61	\$ 184	\$ 568	\$ 514	\$ 17	2.8 x	29.5 x	9.45%
NLCI	Nobel Learning Company	13.08	16.10	12.32	194	136	137	18	0.7 x	7.4 x	9.53%
TUTR	Plato Learning	\$ 2.60	4.80	2.59	68.74	61.99	42.89	2	0.6 x	19.7 x	3.17%
REVU	Princeton Review Inc.	7.67	10.80	4.61	147	250	227	(1)	1.5 x	n/a	n/a
RLRN	Renaissance Learning	13.46	15.94	10.55	108	391	376	15	3.5 x	24.6 x	14.15%
SCHS	School Speciality	31.07	37.75	29.48	1,080	616	1,030	138	1.0 x	7.4 x	12.82%
SCIL	Scientific Learning	4.80	\$ 7.95	\$ 3.94	\$46.05	83	62	\$ (1)	1.3 x	n/a	n/a
Total					\$1,828	\$2,106	\$ 2,388	\$ 190	1.3 x	12.6 x	10.37%
Average					\$ 261	\$ 301	\$ 341	\$ 27	1.6 x	17.7 x	9.82%

# Entrepreneurial Opportunities

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- ❑ Managing and running schools.
  - Publicly traded schools are looking for MBA's.
  - Privately owned schools are a very stable business.
  - Growing interest in private K-12 schools to meet specific market needs.
  
- ❑ Delivering outsourced services to for-profit and non-profit schools.
  - State and federal funding shortfalls are likely to increase, forcing schools to cut costs.
  - Expect more activity here as schools follow the corporate trend.
  - Non-profits are looking more at what for-profits do.
  - Blackboard, Blackbaud, eCollege. K-12 Inc.
  
- ❑ Web-enabling the schools.
  - Music downloads, podcasts, new software offerings, etc.
  
- ❑ Online education models.
  - Capella Education
  - American Military University
  - K-12 Inc.



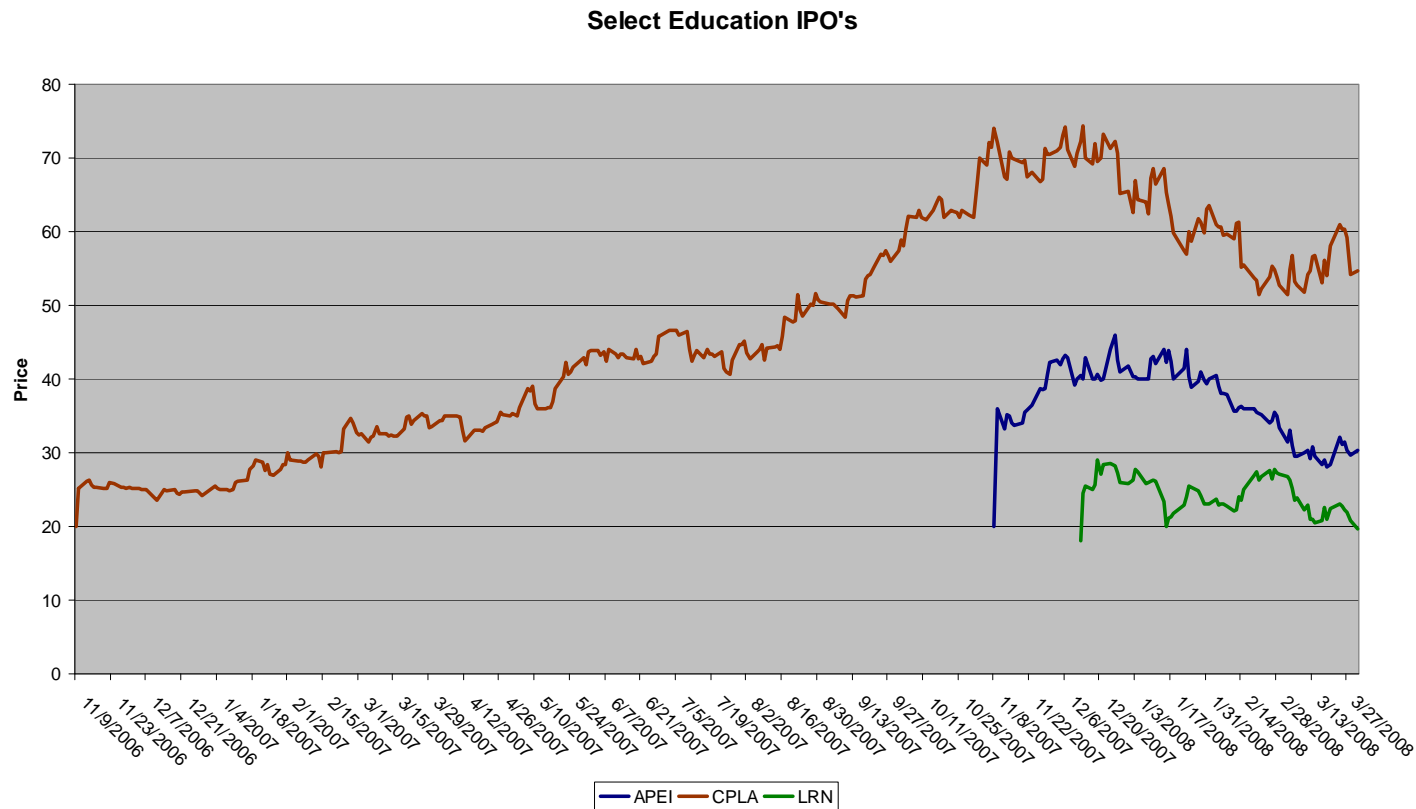
# Entrepreneurial Opportunities

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- ❑ Retention management.
  - Inside Track, Embanet
  
- ❑ Outsourced School Management (K-12)
  - K-12 Inc.
  - Edison Schools
  - Connections Academy
  - White Hat
  
- ❑ Online Tutoring.
  - Smarthinking
  - Tutor.com
  
- ❑ Online marketing.
  - eCollege, Platform Advertising, eLearners.com
  
- ❑ Foreign market needs.
  - Laureate

# Success Stories – Recent IPO's

- Capella, American Public Education and K-12 Inc.



# Success Stories

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## ❑ Capella Education

- Online university built from the ground up by its founder, Steve Shank.
- Focused on PHD's and MBA's initially.
- Premium high cost model.
- Went public in November 2006 at \$20 per share.

## ❑ American Public Education

- Online university built from the ground up by its founder, Jim Etter.
- Focused on the military and government reimbursement.
- Low cost model.
- Went public in November of last year at \$20 per share.

# Success Stories

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## ❑ K-12 Inc.

- Education management outsourcing (“EMO”) company.
- Sets up initial charters and schools in states and enters into management contracts to build, finance and operate.
- Capital intensive model as they finance upfront costs and recover (for the most part) through state mandated payments from students home school district.
- Went public in December of last year at \$18 per share.

# The Future of The Education Market

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- ❑ The U.S. Education system has been very successful and will continue to be.
- ❑ Foreign nations have studied and improved upon our system and will challenge us.
- ❑ Our system must adapt and improve.
- ❑ Large schools systems and institutions, like any large corporation will fight change.
- ❑ Innovation and risk taking will help find the answers.
- ❑ Many new business opportunities to serve the sector on the consumer (student) as well as commercial (school) side.
- ❑ Both for-profit and non-profit sectors will face growing financial pressures and competition here and abroad.

# For-Profit Initiatives at Public Universities

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- UMass Online
- Value pricing of tuition – Florida
- Executive MBA programs
- Overseas exchange programs
- Adjunct or part-time teachers
- Outsourcing
- Discounting tuition – eArmyU
- Real Estate Development – Savannah College of Art & Design – Franklin and Marshall (PA)

*One big issue here – as industries deregulate a lot of money is generally lost by new  
“unregulated business initiatives”*

*I saw this first hand with electric utilities in the 1980’s.....*

# Background

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## Edward P. Meehan

- ❑ Partner, Arcady Bay Partners and Rittenhouse Capital Partners, advisory firms that focus on education and technology sectors.
- ❑ Angel investor in the education and technology sectors.
- ❑ Extensive experience in investment banking, consulting and investing with private and public companies.
- ❑ 29 years of financial experience, advising on hundreds of transactions with Merrill Lynch (1978-95), Smith Barney (1995-98), Legg Mason (1998-02) and own firms (2002-present).
- ❑ Board of Directors experience with Vision Chain, Infotility, eko systems and MindShare
- ❑ Investor in eko systems, Vision Chain, Object Video, Provost Systems, MarketSwitch (sold to Hyperion), LightningCast (sold to AOL) and YouCentric (sold to J.D. Edwards).
- ❑ Work/Career Path:
  - 1975 – 1978 - Managed a liquor store during college.
  - 1978 – Graduated from St. John’s in NY with a BS in accounting and economics, joined Merrill Lynch as a staff accountant.
  - 1982 – Completed MBA in international finance (nights) and became an associate at Merrill Lynch Investment Banking.

# Investments and Boards

<u>Company</u>	<u>Description</u>	<u>Exit</u>	<u>Invest.</u> <u>Recovery</u>	<u>Initial</u> <u>Involve.</u>	<u>Investor</u>	<u>Board</u>	<u>Involvement</u>
MarketSwitch	Marketing Optimization Software	Sold to Hyperion in 2004	60.00%	1999	X		Raised their private round at Legg Mason, coordinated a \$900,000+ investment from Legg execs
YouCentric	Java Based CRM software	Sold to J D Edwards in 2001	90.00%	2000	X		Met while at Legg, made friends with management and arranged a \$700,000+ investment from Legg execs.
eko Systems	Health care software for hospital and doctors to capture critical care information and feed into reporting and billing systems			2004	X	X	Gave advice to initial investors and management, joined board in 2005, helped recapitalize in 2006.
Infotility	Intelligent energy grid			2002		X	Friends with founder
Vision Chain	Data management software in the consumer goods area			2003	X	X	Assisted founder with financing rounds.
Provost Systems	K-12 education software for online schools			2005	X		Client since 2004, invested in 2007, under financing LOI
Object Video	Video monitoring software			2002	X		Washington Dinner Club investment
LightningCast	Video Add insertion	Sold to AOL in 2007	200.00%	2005	X		Washington Dinner Club investment



# Provost Systems

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- A client since 2005.
- Provides administrative and student information software to manage online charter schools.
- Invested in the business in 2007.
- Major client is the PA Cyber Charter School, serving approximately 8,000 online students in Pennsylvania.
- Built and assessment engine to do real time assessment and student intervention.
- Seeing growing interest from school districts.
- The U.S Army is looking at the product to manage its personnel.

# Contact Information

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