



“Entrepreneur as Change Agent”

For-Profit Education

Investment and Entrepreneurial Opportunities

January 10, 2008

Agenda

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

Background

Edward P. Meehan

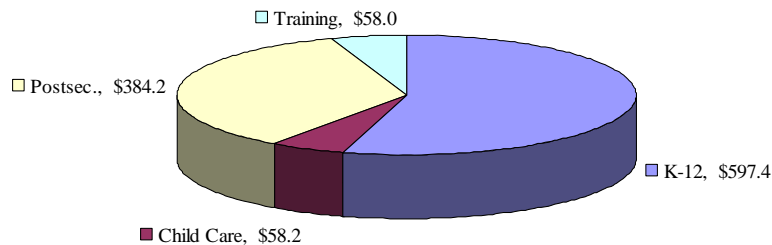
- ❑ Partner, Rittenhouse Capital Partners, an advisory firm that focuses on education and technology sectors.
- ❑ In the process of raising a postsecondary focused venture capital fund, Rittenhouse Capital Investors.
- ❑ Extensive experience in investment banking, consulting and investing with private 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, eko systems and MindShare
- ❑ Investor in eko systems, Vision Chain, Object Video
- ❑ 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.

The U.S. Education Market

- Over a trillion dollar industry, second only to healthcare in the U.S. (correct)
- The U.S. has the best system in the world. (not really)
- Serves a student population of approximately 17 million students in college and 54 million in K-12. (correct)
- Serves all sectors of the population. (not equally)
- Has been a growth engine of our economy. (probably not)
- Our institutions are creative and innovators. (only in some areas and probably not in the business of education)
- Is a role model for the rest of the world. (yes but foreign nations are improving upon it)

Market Size and Growth

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



- ❑ Harris Nesbitt 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

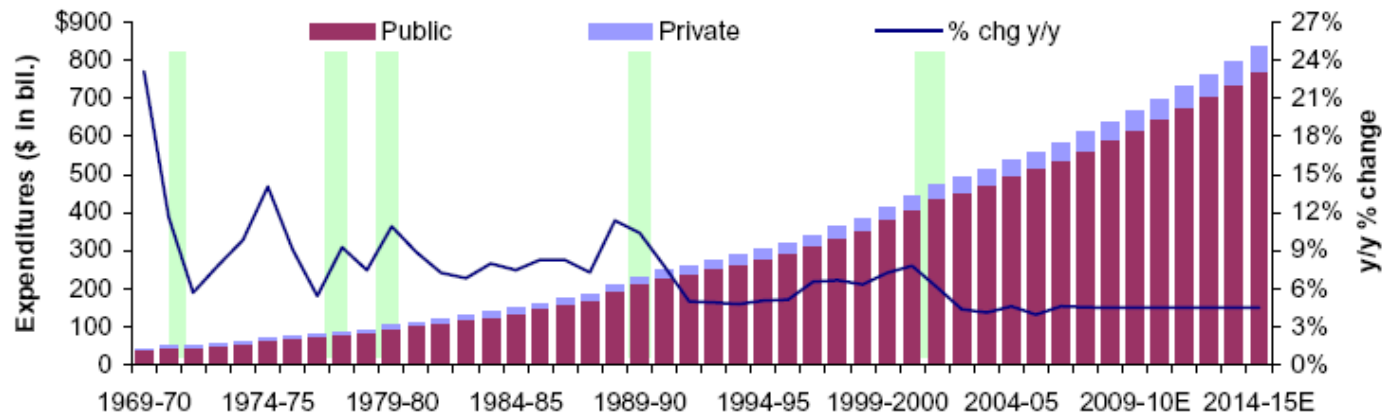
- ❑ Harris Nesbitt estimates the for-profit sector will grow to over \$137 billion in 2012 with postsecondary being the fastest growing sector.

- ❑ We will address the K-12 and postsecondary sectors today.

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)



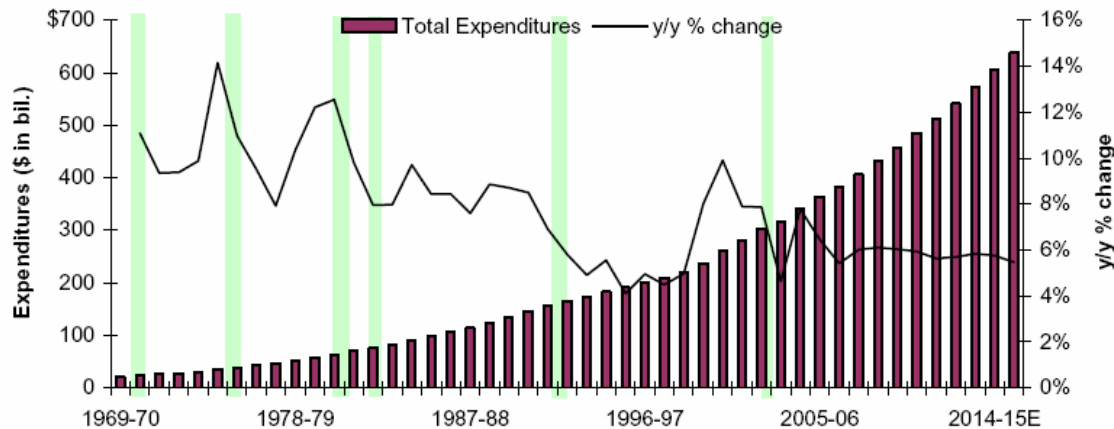
Note: Shaded areas represent US recessionary periods.

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

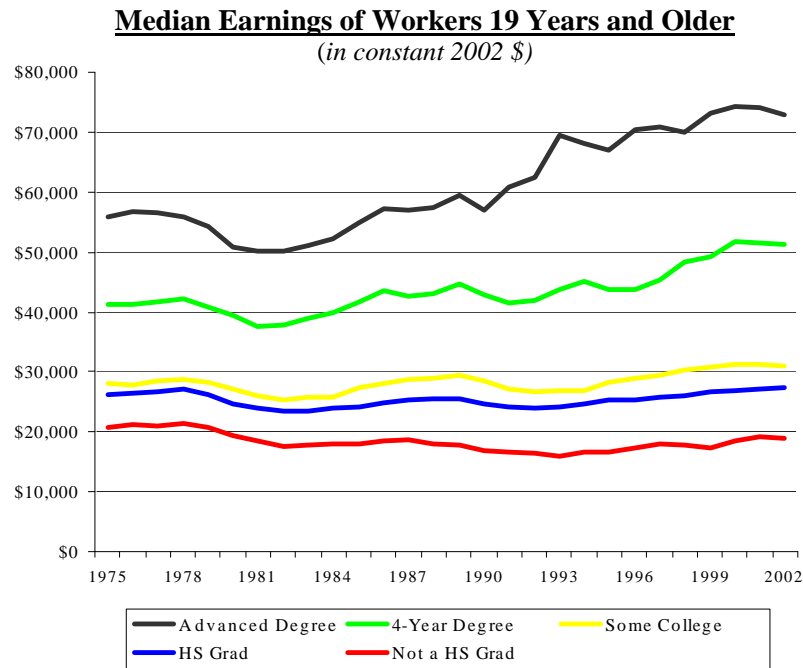
- ❑ Over the past 30 years, postsecondary education demographics have shifted considerably away from the traditional student base to “**non-traditional**” students as reflected in the following table.

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

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 has a high school diploma only.
 - 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?

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. 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.

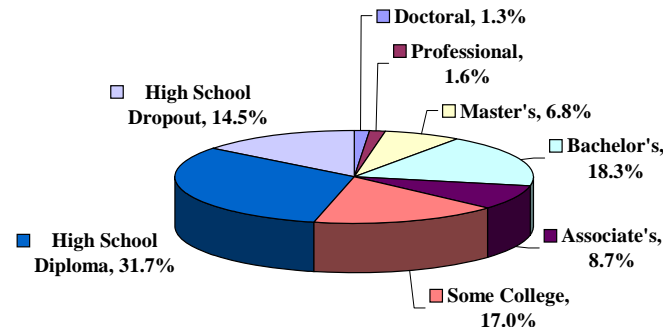
- ❑ CCA estimates that approximately 7% of all college students attend a career college and that career colleges comprise approximately 38% of all institutions participating in the Title IV financing programs. Some key demographics of the student population of CCA’s members are:
 - Employed while in school – 79%
 - First generation college students – 69%
 - Minorities – 51%
 - Single parents – 30%
 - African American – 21%
 - Hispanic – 19%

Current Education Attainment Levels

- ❑ 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.

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	United States		39	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	United States		39
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.

K-12 Market Drivers

❑ 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 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.

Online Education

- ❑ 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

- ❑ 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%

Public Company Market Snapshot - Colleges

- Represents the largest sector of publicly-traded companies in the sector, with sales of over \$8 billion and a market value of over \$28 billion.
- Valuation metrics have increased dramatically in 2007.

Symbol	Company	Stock Price		52 Week		TTM Sales	Market Cap	Enterprise Value		Enterprise Value to		EBITDA Margin
		12/31/2007		Hi	Low			Value	EBITDA	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%

Public Company Market Snapshot - Colleges

- ❑ 2007 was a very strong year with postsecondary investment returns at record levels.
- ❑ The online schools, Capella Education and American Public Education were the best performing.

Symbol	Company	Stock Price 31-Dec-07	Stock Price 29-Dec-06	Stock Price 30-Dec-05	2007 YTD Return	2006 Return
APEI	American Public Education*	\$ 41.78	\$ 20.00	n/a	108.90%	n/a
APOL	Apollo Group	70.15	38.97	60.46	80.01%	-35.54%
CPLA	Capella Education **	65.46	24.25	20.00	169.94%	21.25%
CECO	Career Edu Corp	25.14	24.78	33.72	1.45%	-26.51%
COCO	Corinthian College	15.40	13.63	11.77	12.99%	15.80%
DV	DeVry Inc.	51.96	28.00	20.00	85.57%	40.00%
ESI	ITT Education	85.27	66.37	59.11	28.48%	12.28%
LINC	Lincoln Education	14.72	13.49	14.26	9.12%	-5.40%
STRA	Strayer Education	170.58	106.05	93.70	60.85%	13.18%
UTI	Univeral Tech. Inst.	\$ 17.00	\$ 22.21	\$ 30.94	-23.46%	-28.22%
DOW	Dow Industrials	13,264.82	12,463.15	10,717.50	6.43%	16.29%
NASDAQ	Nasdaq	2,652.28	2,415.29	2,205.32	9.81%	9.52%

* APEI went public on November 8, 2007 at \$20.00 per share
 ** CPLA went public on November 9, 2006 at \$20.00 per share.

Public Company 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
		12/31/2007		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 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 \$1.6 billion versus \$28.7 billion for postsecondary.

Symbol	Company	Stock Price		52 Week		TTM Sales	Market Cap	Enterprise Value	EBITDA	Enterprise Value to		EBITDA Margin
		1/4/2008		Hi	Low					Rev.	EBITDA	
LRN	K-12 Inc.	\$ 27.46	\$	31.00	\$ 19.75	\$ 162		\$ 770	\$ 14	4.7 x	54.3 x	8.75%
NLCI	Nobel Learning Company	14.27		16.34	11.10	188	148	150	18	0.8 x	8.3 x	9.53%
REVV	Princeton Review Inc.	8.12		10.80	4.61	150	229	187	2	1.2 x	83.0 x	1.50%
RLRN	Renaissance Learning	13.52		18.04	10.55	106	393	383	17	3.6 x	21.9 x	16.56%
SCHS	School Speciality	33.05		40.31	31.01	1,070	669	1,110	143	1.0 x	7.8 x	13.33%
SCIL	Scientific Learning	5.10		7.95	4.98	45	88	68	(0)	1.5 x	n/a	-0.87%
TUTR	Plato Learning	\$ 3.48	\$	5.59	\$ 3.00	\$ 70	\$ 83	\$ 58	\$ 1	0.8 x	75.3 x	1.11%
Total						\$ 1,791	\$ 1,609	\$ 2,726	\$ 195	1.5 x	14.0 x	10.88%
Average						\$ 256	\$ 268	\$ 389	\$ 28	2.0 x	41.8 x	7.13%

The Future of the Education System

- ❑ Traditional non-profit public universities will always play an important role.
- ❑ In the K-12 sector, we expect to see increasing pressure to better monitor student performance and improve intervention strategies.
- ❑ Public funding and support of the public system will continue to be under pressure.
- ❑ The growing non-traditional student population in the U.S. must be better served by the system.
- ❑ Outsourcing will continue to grow as a way to reduce costs.
- ❑ Online education will play a growing role in the U.S. and especially overseas.
- ❑ The system will continue to evolve creating more for-profit opportunities.
- ❑ Government regulation is starting to eliminate certain rules that were instituted to limit for-profit college growth and expansion.
- ❑ We expect that the conversion of non-profit colleges to for profit will increase, as it did in the past in the hospital arena.
- ❑ We need to address our declining position versus the international community.

Investment Characteristics

- ❑ 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.

Entrepreneurial Opportunities

- ❑ 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

- ❑ Retention management.
 - Inside Track, Embanet

- ❑ Outsourced School Management (K-12)
 - K-12 Inc.
 - Edison Schools
 - Connections Academy
 - White Hat

- ❑ Online Tutoring.
 - Smarthinking
 - Tutor.com

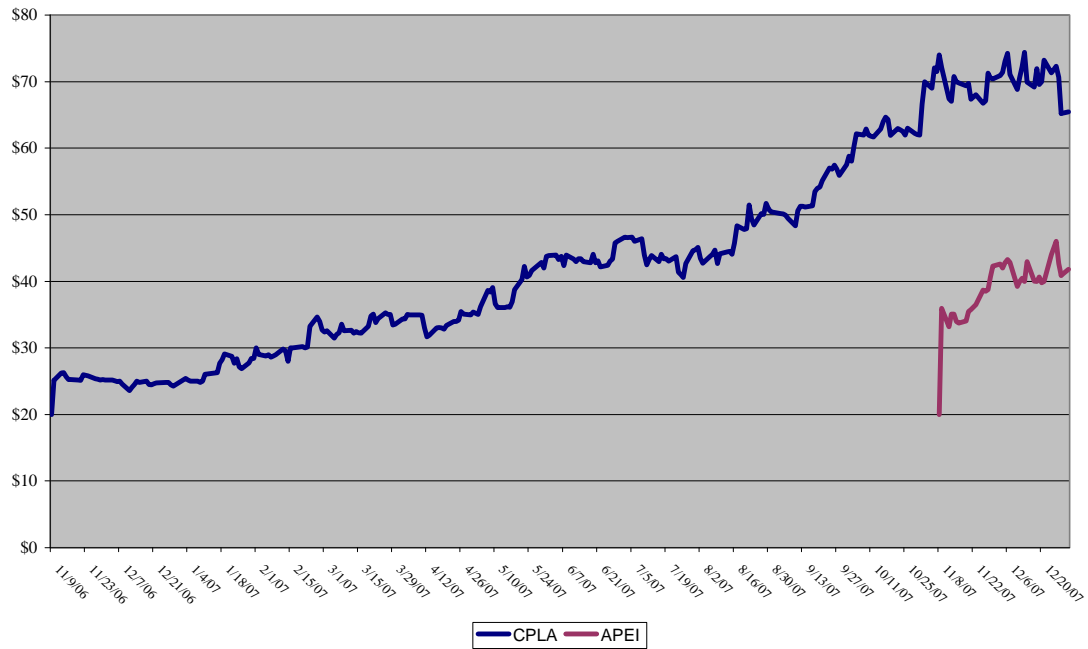
- ❑ Online marketing.
 - eCollege, Platform Advertising, eLearners.com

- ❑ Foreign market needs.
 - Laureate

Success Stories – Recent IPO's

☐ American Public Education and Capella

CPLA and APEI Price Performance
(From Public Offering Dates)



Success Stories

❑ 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.

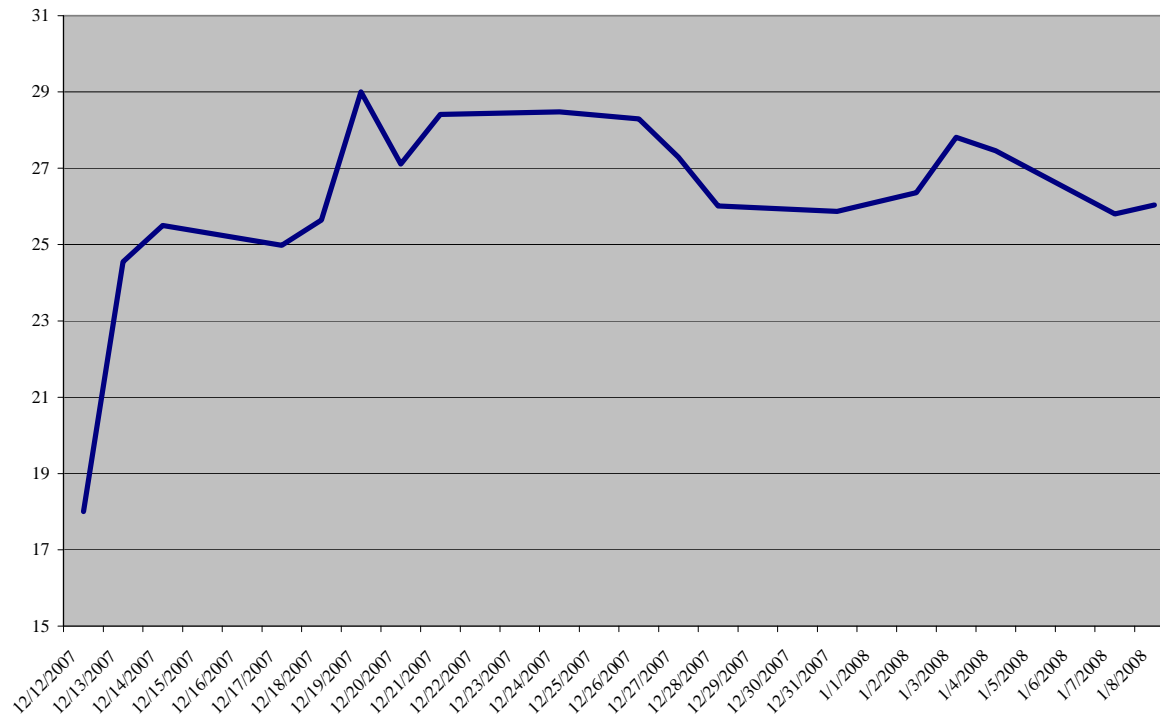
❑ American Public Education

- 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

☐ K-12 Inc.

K-12 Inc. Stock Price Performance



Success Stories

❑ 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.

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