Opportunities in the China Education Market
Prepared for the HKVCA-Parthenon MasterClass

Hong Kong
December 2014
Interest in Education sector in Emerging Markets is increasing

Completed M&A Activity in Emerging Private Education Markets, 2000-2013

<table>
<thead>
<tr>
<th>Year Interval</th>
<th>Asia Deals</th>
<th>Others Deals</th>
<th>Total Deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-2004</td>
<td>16%</td>
<td>84%</td>
<td>101</td>
</tr>
<tr>
<td>2005-2007</td>
<td>51%</td>
<td>49%</td>
<td>349</td>
</tr>
<tr>
<td>2008-2010</td>
<td>57%</td>
<td>43%</td>
<td>637</td>
</tr>
<tr>
<td>2011-2013</td>
<td>52%</td>
<td>48%</td>
<td>788</td>
</tr>
</tbody>
</table>
China is the largest private Education market in Asia

Private K-12 and Higher Ed Market Sizes in Asia, 2012

- China: $14B
- India: $8B
- Malaysia: $3B
- Singapore: $2B
- UAE: $1.5B
Growth in China is being driven by increasing affordability…

China Annual Disposable Income and Population in Major Education Target Age Group, 2008 – 2018F

Households with annual disposable income above $35k are expected to continue growing at 21% per year
...And low penetration of private services

Penetration (Enrollment/No. of Students Who Can Afford), 2013

~20% for Branded Organized Tutoring

~7% for Study Abroad
The total Chinese private education market is $21B

Market Size of the China Private Education Market, 2013

Total = $21.1B

- Private Universities: $12.3B
- Private Colleges: $4.6B
- Independent Colleges: $1.5B
- PreK-12: $0.9B
- Adult ELT: $0.8B
- ELT: $0.5B
- Private K-12: $0.4B
- Total = $21.1B

Parthenon
Major Investment Themes

- Early Years
  - Pre-K
  - English Language
    - ELT
    - Dual Curriculum Schools
- Study Abroad
- Education Tech
Dual language offerings are growing faster

Enrollment of Premium Pre-K Chains in the Seven Largest Cities, 2012

Total = 72K

Super-Premium ($8+K)

Mandarin Focused

13K

Premium ($4K-8K)

Mandarin Focused

59K

English Focused

CAGR Growth

- 15-20%
- 10-15%
- 5-10%
- 0-5%

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China has among the lowest in-school provision of English language

![Bar chart showing the number of hours of English language provision per week in schools for various countries.](chart)

- India: ~6 hours
- Malaysia: ~5 hours
- Thailand: ~5 hours
- Hong Kong: ~5 hours
- China: ~3-4 hours
- Japan: ~3 hours
- Vietnam: ~2-3 hours
The ELT market is forecast to continue growing at ~13% a year in the major cities.
Dual curriculum market in the 7 largest cities is ~$550M and enrolls ~54K students

Market Size of Dual Curriculum Schools by Cities, 2012

- Beijing: $244M, 21 schools, Total Enrollment: 13K
- Shanghai: $148M, 32 schools, Total Enrollment: 19K
- Guangzhou: $67M, 17 schools, Total Enrollment: 7K
- Shenzhen: $30M, 16 schools, Total Enrollment: 4K
- Chengdu: $16M, 10 schools, Total Enrollment: 3K
- Suzhou: $33M, 9 schools, Total Enrollment: 5K
- Hangzhou: $10M, 7 schools, Total Enrollment: 2K

Total = $546M

Average Price ($) and Number of Schools
- Beijing: 13K, 21 schools
- Shanghai: 11K, 20 schools
- Guangzhou: 9K, 3 schools
- Shenzhen: 7K, 5 schools
- Chengdu: 6K, 4 schools
- Suzhou: 6K, 3 schools
- Hangzhou: 4K, 4 schools

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## Regulatory Landscape – Shanghai Example

<table>
<thead>
<tr>
<th>Licensing</th>
<th>Fee Control</th>
</tr>
</thead>
<tbody>
<tr>
<td>• G10-12 international programs looking to continue operations need to be inspected and accredited by the Shanghai Education Committee</td>
<td>• Intended number of new enrolments and tuition fee changes of all international programs need to be reported to and approved by the local education committee</td>
</tr>
<tr>
<td>• All international program operators must own private school licenses and have qualified faculty</td>
<td>• Public operators are not allowed to charge premiums on international programs; tuition fees must be set at the same as the schools’ regular PRC curriculum programs</td>
</tr>
<tr>
<td>• Public schools are not allowed to partner with external operators for international program operations</td>
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</tr>
</tbody>
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The flow of Chinese students studying is expected to grow at 15% for next four years

Number of Chinese Students Commencing Overseas Education, 2010-18F

CAGR 10-13 18%
CAGR 13-'18E 15%

EA
CA
ANZ
UK
US
Business based on the study abroad theme are witnessing growth

China Total Organized Test Preparation Market Size, USD, 2010-18F

- Top 8 Cities
  - 2010: $0.2B
  - 2013: $0.7B
  - 2018F: $1.7B
  - CAGR 2010-2013: 47%
  - CAGR 2013-2018E: 21%

- Rest of China
  - 2010: $0.2B
  - 2013: $0.5B
  - 2018F: $1.0B
  - CAGR 2010-2013: 54%
  - CAGR 2013-2018E: 35%

China Total Agent Market Size, USD 2010-18F

- ROC
  - 2010: $0.3B
  - 2013: $0.6B
  - 2018F: $1.2B
  - CAGR 2010-2013: 23%
  - CAGR 2013-2018E: 17%

- Top 8 Cities
  - 2010: $0.3B
  - 2013: $0.5B
  - 2018F: $1.0B
  - CAGR 2010-2013: 24%
  - CAGR 2013-2018E: 16%
Major Investment Themes

• Early Years
  – Pre-K

• English Language
  – ELT
  – Dual Curriculum Schools

• Study Abroad

• Education Tech
Education Technology Adoption increases significantly once efficacy is proven to customers

Potential Online Curriculum Adopters as Percent of Population, Based on a Survey of 2,000+ Chinese, Brazilian, South African, and Indian Parents

- Early Adopters: 1.5%
- Followers (Will Adopt If Proven): 6.0%
- In 5-10 Years (Potential Long-Term Adoption): 15.0%

Increase to ~4x Potential Online Curriculum Adopters as Percent of Population, Based on a Survey of 2,000+ Chinese, Brazilian, South African, and Indian Parents
In China, parents in Tier 1 cities, especially those with a “professional” background, are more willing to support online education for their children.
Value Addition Opportunities Among Chinese Education Companies

- Student Acquisition
- Site Selection
- Pricing
- Operations Improvement/Cost Optimization
About Parthenon and the Education practice

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