Investing in Asian Education: Opportunities and Challenges
Prepared for the HKVCA-Parthenon MasterClass

Hong Kong
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Globally, private education is a $1.3T market. Asia accounts for 40% of this spend.
Globally education markets are fueled, primarily, by rising household wealth.

As average household income rises, the number of households above the private education affordability threshold rises more quickly.
The last decade has witnessed an exponential increase in investor participation in Asian Education
# Education segments vary widely in character

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<tr>
<td><strong>Long-Term Revenue Visibility</strong></td>
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<td><strong>High Barriers to Entry</strong></td>
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<td><strong>Demand Greater than Supply</strong></td>
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<td><strong>Prices Rising Higher Than Inflation</strong></td>
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<td><strong>Negative Working Capital</strong></td>
<td>✔</td>
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- **Higher Education**: ✔ ✔ ✔ ✔ ✔
- **K-12**: ✔ ✔ ✔ ✔ ✔
- **Transnational Education**: ❍ ✔ ✔ ✔ ✔
- **English Language Learning**: ❍ ❍ ❍ ✔ ✔
- **Vocational Education**: ❍ ❍ ❍ ❍ ✗
- **Publishing**: ❍ ❍ ❍ ❍ ❍

Evaluate assets on the strength of their attributes
Common Challenges to Investing in Education

- Fragmented Markets
- Small Assets
- Sparse Information
- Time-Consuming Process
- Regulations
Asset scale remains a key challenge for investors looking at education in Southeast Asia

Market Size of Assets by Revenue Size in Target SEA Countries, 2013

- 0-$25M
- $25M-$50M
- >$50M

Market Size of Assets with Revenue Greater than $25M

- $25M-$50M
- >$50M

~$10B
~$3B
Invest in education platforms to build scale businesses and generate returns

Annual Turnover of Select Education Companies, FY 2013

- **Laureate**
  - Revenue: $5B
- **Kroton Educational**
  - Advent International: $850M
- **Anhanguera**
  - Patria: $768M
- **Estacio**
  - GP Investments: $439M
- **Cognita**
  - Bregal Capital: $400M
- **Nord Anglia**
  - Barings: $400M

Presence in Asia

Source: Parthenon
Education platforms deliver superior returns to investors

EBITDA Multiple, Global Education Companies, 2013

G8 Education
AdTech Group
Kroton
Estacio
Anhanguera
Laureate
Nord Anglia

Typical Valuation
Size of Standalone
Education Assets

~28X
~22X
~18X
~18X
~18X
~15X
~14X
What are the drivers of value creation?

1. **Business**
   - 1. Top-Line Initiatives
     - a) Pricing
     - b) Student Acquisition
   - 2. Operational Best Practices
   - 3. Cost Rationalization May Not Yield High Returns

2. **Financial**
   - 1. 5 Characteristics of Education
   - 2. Scarcity of Scale Assets
   - 3. Premium for Entry
Investments require systematic approaches to building scale

- **70% M&A**
- **30% Education**
- i.e., Transnational Education, International Schools
- Investment Hypothesis
- Top-Line Driven
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