

Core Education PBC

**Consolidation Era in Higher Education:
*Mergers, Acquisitions, Partnerships (MAP)***

March 20, 2024



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March 20, 2024

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As a mission critical operating partner, Core Education is focused on business model transformation via a comprehensive set of supporting solutions

Revenue Solutions

- ✓ Revenue diversification solutions
- ✓ Workforce/Professional Development Platform and Programming
- ✓ Admissions support; Campus, Online
- ✓ Marketing/Lead Generation Support
- ✓ Student success support
- ✓ Business-to-Business (B2B) Corporate Partnerships
- ✓ Workflow, operating rhythms and enrollment yield

Technology and Digital Solutions

- ✓ Integrated Technology Team
- ✓ Stabilization and Modernization
- ✓ Becoming a digital campus
- ✓ Enterprise System Support (SIS, ERP)
- ✓ Campus / Network Operations
- ✓ Business Intelligence
- ✓ Institutional Research

Institutional Operations and Capital Strategy Solutions

- ✓ Capital Strategies
- ✓ **M&A Strategies, Pre and Post Transaction Implementation**
- ✓ Board Governance Support
- ✓ Venture Philanthropy and Advancement
- ✓ Finance, Treasury, Non-Banking Solutions
- ✓ Campus Operations and Cost Optimization
- ✓ Academic Programming and Content

Program Management



core
education

Horizontal Integration of Solutions

Definitions for our discussion

- Buy-Side
 - The controlling institution, post close
 - Typically a larger institution
- Sell-Side
 - An institution looking for a strategic partnership or merger
 - Typically a smaller institution
 - Diminishing financial condition
 - An institution giving up control, post close

Part One:

Situational Assessment of Higher Education

Situational Assessment of Higher Education

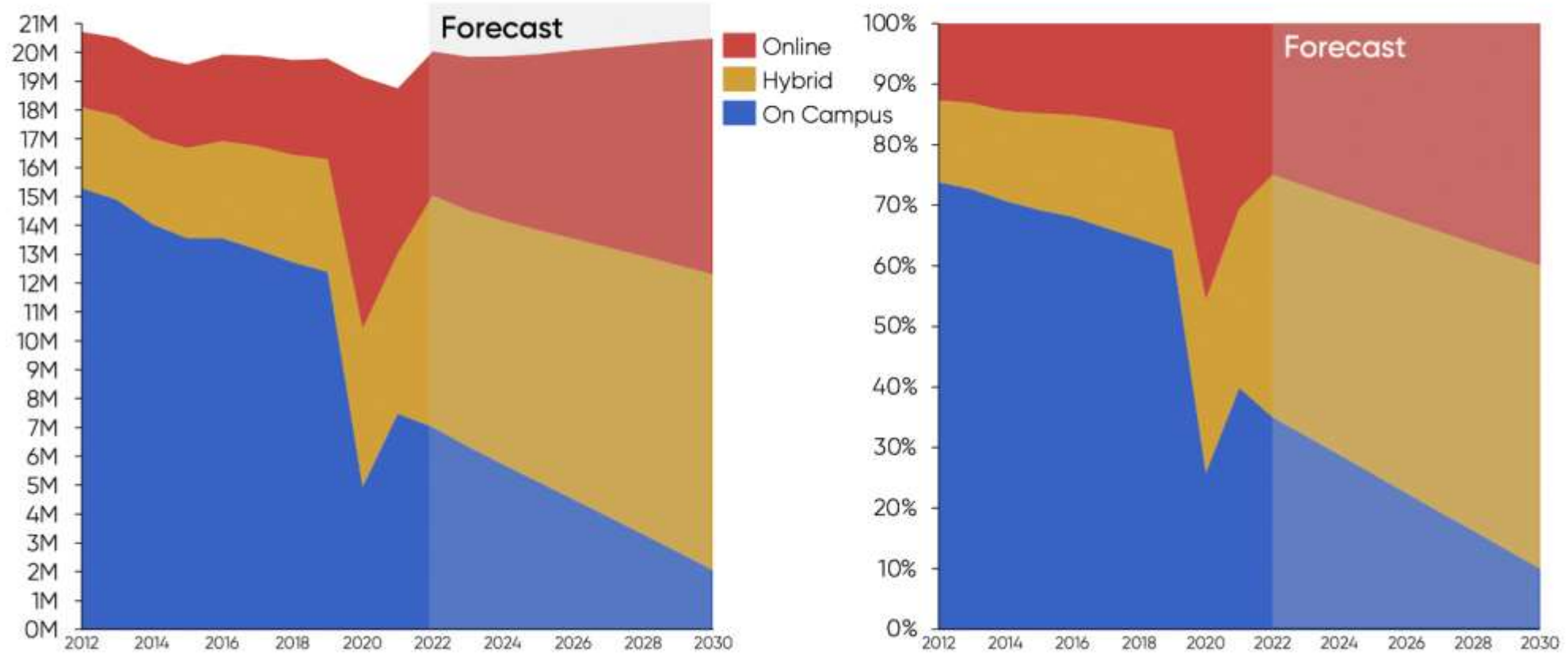
1. More than ten consecutive years of enrollment decline on a national basis
2. A decline in consumer demand for college degrees
3. Approaching \$2 Trillion of student debt
4. A rise in both consumer demand for credentials, certificates and skill set based programming
5. Technology requirements that are outpacing institution's ability to respond
6. A business model that is under extreme duress
7. Poor gross margins from delivering academic programs
8. Operations that consume large amounts of external cash
9. An industry with poor quality of earnings that have eroded competitive position
10. Hundreds of colleges who are failing the DOE composite scores for financial responsibility

Business Model Transformation is Required

Digital Migration – Consumer Demand

The great hybrid and online transformation in Higher Education

Higher Education Enrollment by Modality, 2012-2030F



Source: HolonIQ Forecast 2022-2030, U.S. Department of Education, National Center for Education Statistics (1980-2021)

Common Themes Among Small and Mid-size Institutions

“One deep” on most functional areas of the organization, limiting the ability to successfully execute

Many outdated and “out-of-market” operating policies and procedures

Lack 7x24 digital student acquisition systems, resources, and organizational depth

Outdated technology and limited tech resources

Quality of earnings – prosperity gap that requires major long-term revenue growth

Concentrated revenue positions in declining markets

Underpay employees, making it difficult to attract and retain top talent

Attempt to use “tactical funds” for strategic initiatives

Growth initiatives & ambitions are too small and even if successful will not bridge their prosperity gap

Organic Growth – for Long-term Prosperity

- For those institutions with a heavy concentration of campus based programs – becoming a **comprehensive institution** will be critical – revenue growth and diversification is required.
- For those institutions who are already comprehensive in their offerings - continued **growth, scaling and gaining economies of scale** is required.
- Organic growth is very much possible, but it should be looked through a lens of a two to five year period; it needs to be **large enough to exceed your long-term prosperity gap** and will require strategic investment.

Part Two:

Competitive Environment for Mergers, Acquisitions, Partnerships (MAP)

Regulatory Changes

Department of Education (DOE)

- Accreditors (formerly regional accreditors) report to the Department of Education (DOE)
- The DOE would like to prevent “precipitous closures” of colleges
 - This initiative could have negative consequences for sell-side institutions as pressure is placed on accreditors to become proactive in placing institutions on warning, probation or removing accreditation – which could accelerate closures
- The DOE implemented a rule change 2023 that would lengthen the approval time for mergers – extending up to 18 months
 - A “two-step” process is now required. While this does not mean mergers won’t happen, it can complicate the transaction structure

Determining if you are on the buy-side or sell-side of a transaction

Buy Side – or Remaining Independent

- Strong President and Strategic Board
- Institutional will and resolve to become a more comprehensive institution
- Institutional will and resolve to transform the business model
- When organic growth alone will not allow you to reach prosperity in a timely manner, MAP becomes an option
- Reasonable balance sheet

Business model transformation is required to address the systemic issues facing higher education

Sell Side

- When board leadership has become too fatigued in their roles
- Not comfortable in our ability to execute and unsure of our overall institutional will and resolve to change
- We are more comfortable with incremental improvement
- We have enough net asset to operate for the next few years
- Very weak balance sheet

These are also danger signs of an institution on a pathway to closure

Business Model Transformation is Required

Transaction Types

1. Coordinate Agreements

2. Supporting Organizations

3. One-to-One Affiliations

4. Strategic Mergers

5. Late-in-life Mergers / 11th hour

6. Closure

Buy-Side Strategic Rationale for MAP

- When organic growth alone will not be enough to bridge the prosperity gap
- Build vs Buy decision – taking into consideration both time and financial investment
- Window of opportunity – to make substantial strategic gains during a time of consolidation

Sell-Side Strategic Rational for MAP

- To preserve legacy and mission of the institution
- To transform the institution by using a MAP strategy
- When the financial metrics provide a clear indication that institutional survival is at risk between three and five years in advance

Buy-Side Insights

1

You are never too small to go on the buy-side – requires presidential leadership and a strategic board

2

A lack of imagination will hold back an institution– along with the insecurity of moving forward

3

Institutions who “should not be doing deals” are completing successful transactions – improving their competitive position and financial model

History is filled with these examples

New Hampshire College

The Original - Too small to succeed:



- New Hampshire College – founded in 1932
- By 1969 – through a culture of innovation, grew downtown enrollment to 960 students
- In 1971 – launched a new campus



- In 1995 – launched “internet-based learning”
- Today – 2,800 campus and 170,000 on-line students; >\$1B in net assets



A small college with presidential leadership and a strategic board changed an industry

Hilbert Acquires Valley College (May 2023)



- Hilbert is a small liberal arts college in Buffalo
- Created a non-profit holding company
- Non-profit holding company acquired a for-profit college; that will transition to a non-profit
- Strategic rationale: expanded programming and geography
- More than doubled their revenue
- Expanded online delivery platform
- Financially accretive and will allow for major growth

Strategic Merger Example



Saint Joseph's University
Buy-side
\$300M Revenue



University of the Sciences
Sell-side
\$100M revenue



**Pennsylvania College of Health
Sciences**
Sell-side
\$30M Revenue

Coordinate Agreement for Nearby Geographical Transactions



- The College of Saint Benedict (CSB) and Saint John's University (SJU) share a unique partnership that began over 60 years ago. **Students enroll at either CSB or SJU** and become part of a close-knit community that fosters friendships and contacts for a lifetime.
- Together, both institutions provide students course selection and an extensive curriculum. Students from both institutions attend the same classes.
- The CSB campus is located in St. Joseph, Minn, the SJU campus is only a few miles away and supported by shuttle service between both campuses

The financial benefits of a merger, while keeping both institutions independent

Notre Dame College Closure – February 2024

Clear and systemic issues for more than a decade



- Historically a small institution with very little endowment and a weak balance sheet
 - Pre-Covid the college had net assets of \$17M (predominantly restricted) debt of \$18M and an endowment never more than \$10M (public audits)
 - From 2015 to present the college continued to experience declining tuition revenue
 - Pre-covid, the institution was in declining financial position
- All indications were present more than seven years ago regarding the risks and financial condition – this is very common trait among institutions who ultimately close.
 - Board leadership tends to run out the clock versus and seek alternatives when it is too late - “We have done everything possible”
 - What might have been accomplished from 2013 through 2023 to protect the mission and legacy? – We remain hopeful, while ignoring the fiduciary responsibility and clear financial metrics. The fear of something new is greater, than the reality of a slow an ultimate closure of an institution.

Why do self-side institutions start too late?

- **Lack of awareness and understanding**
 - Lack of understanding of situational assessment of the institution at the board level until it was too late in the life cycle
 - Lack of awareness regarding what is possible while an institution is still relatively healthy
 - While a few board members have clear insight, the remainder of the board is not full engaged – creating the environment for in-action
 - Far too confident or hopeful about the future when all signs pointed to continued deterioration

Proactive Initiative – Successful Results

Lewis University and St Augustine College



- In 2019, St Augustine College president and board leadership chose to gain more knowledge on the consolidation era and future possibilities. Over a period of several years, they quietly explored how to maintain their mission and legacy while searching for alternatives, knowing the future would look different.
- Lewis University president and board leadership made a strategic decision several years ago to address a combination of organic and in-organic growth strategies, which lead them to St Augustine College.
- Today the St Augustine mission and legacy of serving Hispanic students is intact as they are now part of a stronger community with Lewis University.

Proactive Sell-Side Institutions

- Today there are some institutions with \$50M to \$100M of net assets beginning their process to become “affiliate ready” as a sell-side institution
- We are likely to see twenty sell-side institutions for every buy-side institution (20 to 1 ratio)
- Becoming “affiliate ready” is a strategic initiative that can allow an institution to put their best foot forward.

Why Transactions Fail?

Even after a letter of intent...

Buy Side

- Lack of process at the board level – too fast and not enough process to address: awareness, understanding and alignment
- Even after a validation of strategic rationale and financial benefits, a “Revert to the mean” by the board– as they begin to realize the work that will be involved and questions the administration’s capacity to successfully execute on a transaction (as an operating partner, Core can significantly reduce this risk)

Sell Side

- Failure of due diligence; starting too late; lack of value proposition
- Lack of process at the board level – requires the board to fully understand what is being authorized to explore and lacks an endorsement process.
- Revert to the mean as the boards do not fully grasp “change of control” and become too emotional about a future transaction; and delay decisions hoping for a different outcome for their institution in the future.

Part Three

Preparing and Completing a Transaction

How long does a successful MAP process take? depending where you are in the process

Closing the Transaction

1. Regulatory approval – six to eighteen months (depending on the type of transaction)
2. Definitive agreement – two months
3. Due diligence – two to three months

12 to 24 Months

Reaching a Letter of Intent

4. Non-Binding Letter of Intent or Term sheet – one to two months (exclusivity will likely be 90 days)
5. Maturation of the relationship between institutions – three to six months (two sides of the equation, both buy and sell sides)
6. Corporate development and exploration – three to six months
7. Becoming affiliation ready; market research, board alignment and authorization – three to nine months

12 to 24 Months

Governing Board Process and Proactive Approach - Getting to the Starting Line

Awareness

- Become more knowledgeable regarding the macro trends shaping higher education and the systemic business model challenges that face the entire industry
- Quantify and confirm understanding of your institution's Prosperity Gap – represented in millions of dollars of required annual margin contribution

Understanding

- What is the long-term capital requirement over the next five years for the institution to be financial sustainability
- Growth will be required – do we have the capacity, and operating experience to successfully execute on ambitious growth plans?

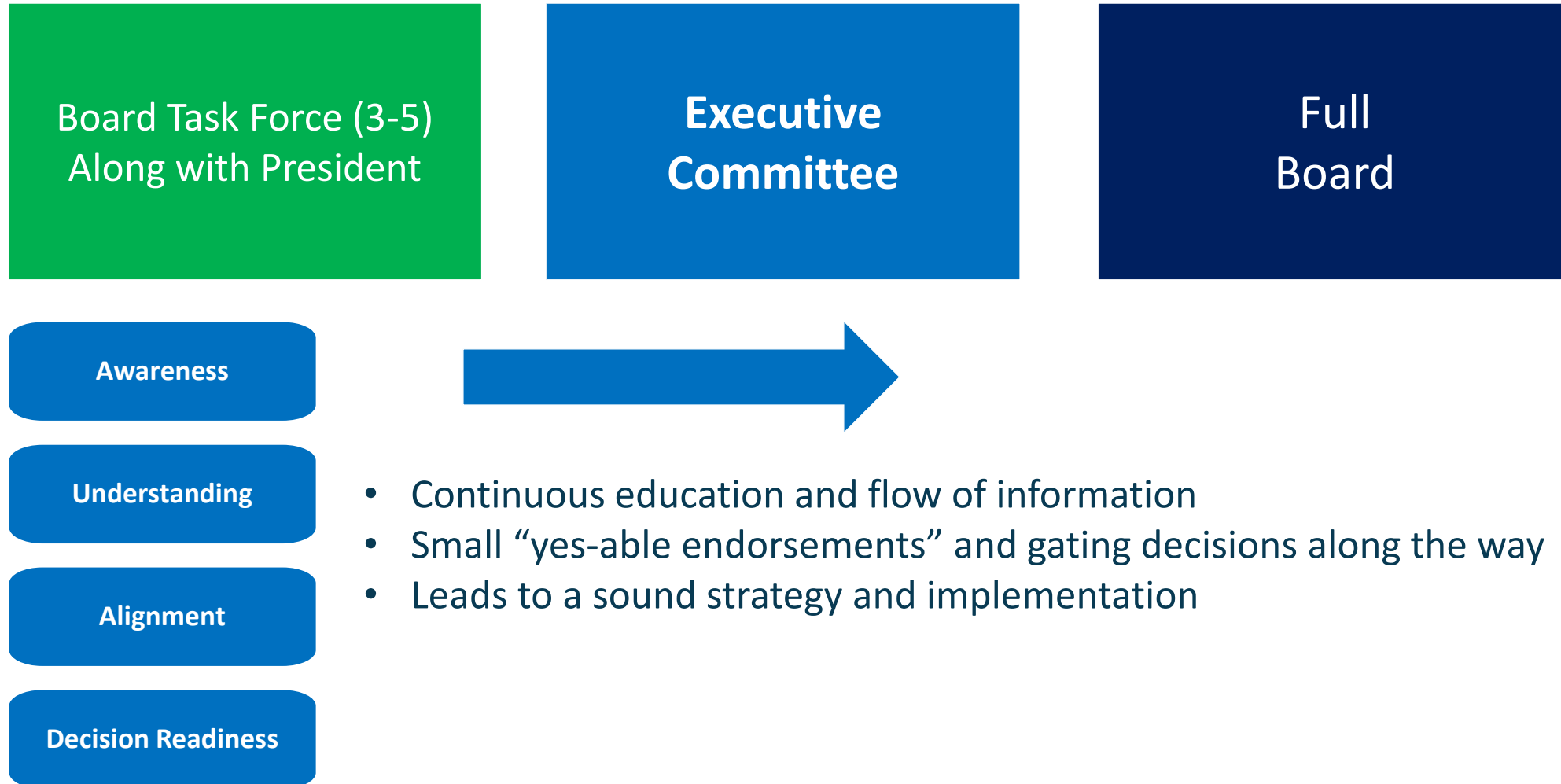
Alignment

- Do we have the capabilities to make this journey alone?
- Should we explore external partners to help achieve our long-term goals?
- Establish a special committee or taskforce of the board to work with the president

Decision Readiness

- Endorsement to establish a task force, reporting to the executive committee to explore “long-term strategic partnership” alternatives
- Continuous education of all board members at every session (exec session)

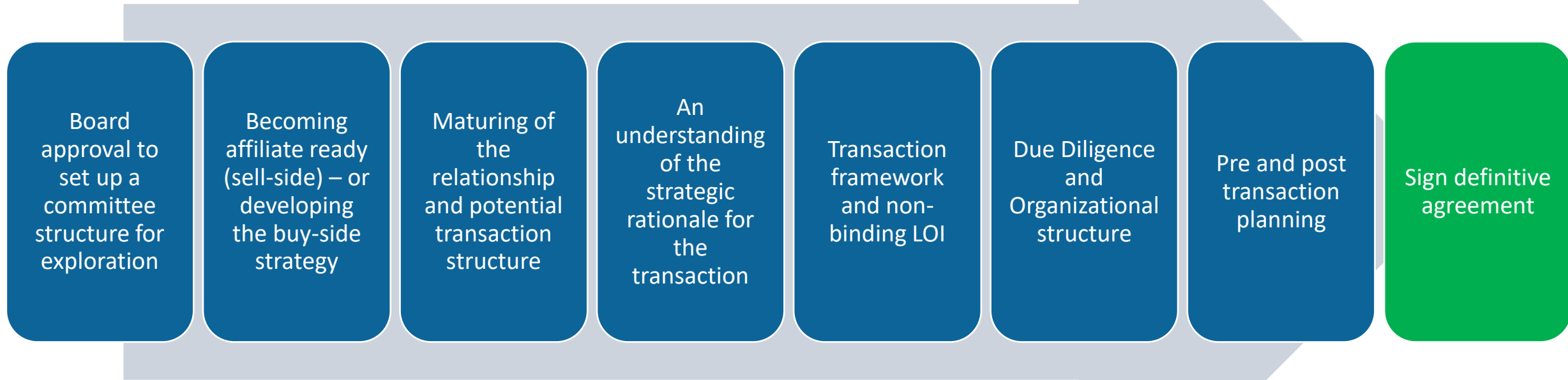
Governing as Collective Body



Gating Decisions

A series of endorsements and “yes-able” decisions

There will be a series of gating decisions for the board; using a combination of a sub-committee, executive committee and plenary sessions for the full board in executive session; All yes or no gateways



Buy-side Considerations of a Transaction

- Does this align with our decision matrix?
- Strategic Rationale – Why should we do this transaction?
- Financially Accretive – Is it immediately accretive?
- Credible Implementation Plan – Do we have confidence in the plan?
- Post Transaction Implementation Support
 - Post Definitive Agreement
 - Post Closing (after regulatory approvals)

Transaction Momentum

- Most LOI's will not close because of a loss of momentum; the transaction stalls usually due to a lack of board governance process
- It is best to get a “no decision” early in the process
 - Addressing the “elephants in the room” early in the process will save time and a loss of fatigue
- Transactions are both technical and relational

Summary

Buy-Side

- There are far less buy-side institutions in the market, which represents significant opportunity for leadership
- A combination of organic and in-organic may be the strategic rationale for MAP; expanding programs, accelerating revenue growth and diversification, building more competencies
- A unique window of opportunity to improve competitive position and gain economies of scale

Sell-Side

- Time is the enemy
- 20 to 1 Sell to Buy Side
- Good process will make the difference in a successful transaction
- Becoming “affiliation ready” can improve an institution’s competitiveness in the process
- Weak balance sheet is an indication that help is needed

Business Model Transformation is Required to Remain a Strong and Independent Institution

Core Education Supporting Services

Mergers, Affiliations and Partnerships (MAP)

- Core is very active in the MAP market
 - We provide both “buy-side” and “sell-side” supporting services
 - We can continue to support an institution as an operating partner, from planning through post transaction implementation support
- Core’s MAP supporting services includes:
 - Board and presidential guidance and strategy support
 - Getting to the starting line - affiliation ready
 - Market research (local, regional, national) Financial modeling
 - Building the value proposition for your institution (buy or sell side)
 - Corporate development outreach to institutions and strategic rationale
 - Transaction strategy and guidance leading to LOI
 - Term sheet development and due diligence support and project management
 - Pre and post transaction implementation planning (financial modeling, org structure, execution planning)
 - Ongoing implementation supporting services after the transaction closes

Time to market – can be accelerated with a collaborative partnership with Core Education

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