

Core Education PBC

Capital Strategies for Private Institutions Case Studies in Funding Prosperity

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Agenda

Part One

1. Thinking differently about capital
2. Raising capital for “opportunity vs. need”
3. Calculating the capital requirements for opportunity investing
4. Examples of opportunity-based funding
5. Who owns the capital strategy?

Part Two

1. Venture Philanthropy
2. Unlocking the Balance Sheet
3. Non-Banking Financing Alternatives

As a mission critical operating partner, Core Education PBC is focused on business model transformation. An important element in transformation is capital and how our institutional partners can attract strategic funding for long-term prosperity

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



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Program Management

Horizontal Integration of Solutions

The Business Model

- The business model of higher education is under **severe stress**
 - Declining consumer demand
 - Many say the financial model is broken
 - Data from financial statements and annual audits supports this statement
 - Poor gross margins from delivering academic programs (academic expense)
 - Operating losses before depreciation and interest
 - Inability to scale revenue and economies of scale
 - Operation consumes large amounts of external cash
- Transforming the business model will require a **different perspective on capital** along with institutions becoming **more comprehensive** in their program offerings and modality.



Part One

- Thinking differently about capital
- Raising capital for “opportunity vs. need”
- Calculating the capital requirements for opportunity investing
- Examples of opportunity-based funding
- Who owns the capital strategy?

Thinking Differently About Capital

From **Needs**-Based to Opportunity-Based

- Typical fund-raising campaign is “**needs-based**”
 - Generally used for buildings and the endowment
 - A laundry list of needs of the institution
- Many donors have or are losing inspiration for funding endowments, buildings, and needy requirements especially when they see an institution in decline.
- “**Opportunity-based**” fundraising is available to help **transform the business model**
 - Requires a mindset of **abundance versus scarcity** – eliminate the scarcity paradigm
 - **Scarcity mindset** – “we can’t do this because we have not money, not in our budget, we don’t have the donors”....
 - **Abundance mindset** – we can activate venture philanthropy to fund our business model transformation operations
 - Money follows ambitious and credible plans, vision, and leadership

Raising capital for “opportunity vs need”

- We can think of current and prospective donors as investors
 - Often investors will lose confidence in an institution and will cease or significantly decrease their funding – inspiration for funding has been lost.
 - Institutions will often have difficulty in demonstrating meaningful “needs based” return on investment relationship for its donors (investors).
- **Opportunity Investing** - Investor confidence can be generated, including the cultivation of new and existing when discussing transformational funding opportunities that will have a direct and significant impact on the financial performance of the institution.

Calculating Capital Requirements for Opportunity Investing

- **Start with your prosperity gap** – financial calculation which represents your current state and a prosperous future state. This will determine your distance of your journey; stated as the annual incremental operating margin requirement to achieve a certain result
- **Determine the strategic growth building blocks (SGBB)** – the initiatives that will significantly contribute to bridging the gap
- **Create a financial model for each SGBB** – calculate the total capital requirements for each SGBB to enable the launch, scale and bridging to the prosperity gap.

Prosperity Gap

An industry with poor quality of earnings

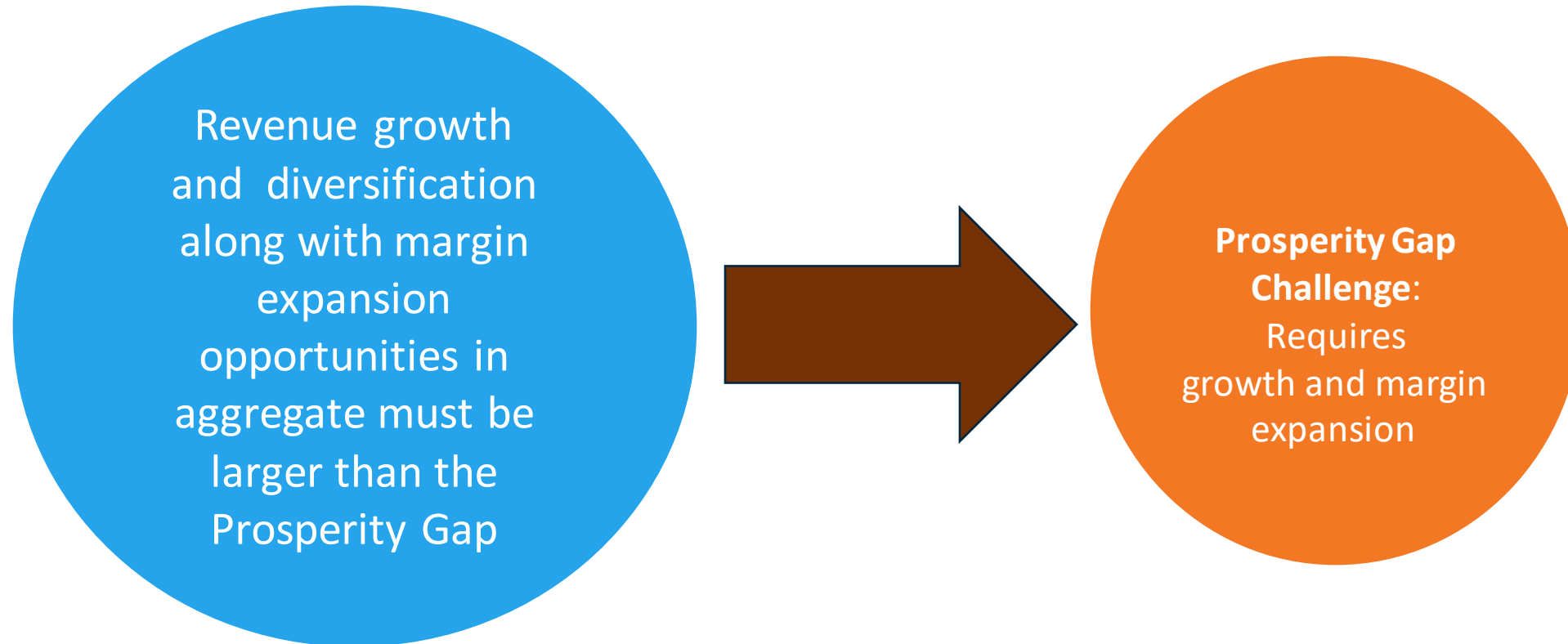
- Too many institutions have eroded competitive positions through continuous underinvestment and maintaining structural deficits. Calculation should include:
 - Structural deficit
 - Gap for employee pay; market rates to attract and retain talent
 - Fully funding depreciation and equipment replacement
 - Continuous investment into technology and employee training
 - Marketing and student acquisition
 - Student services and outcomes
 - Mission related support
 - Academic and student support
- Quantify your prosperity gap will determine the distance of your journey – do you have a **20 or 2,000-mile journey** to financial prosperity?

Strategic Growth Building Block Opportunities

Must Exceed the Long-Term Prosperity Gap

Develop three to five strategic growth building blocks that in aggregate exceed the prosperity gap.

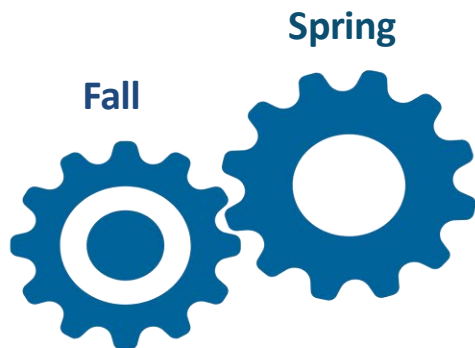
Multiple levers of growth and margin expansion are required



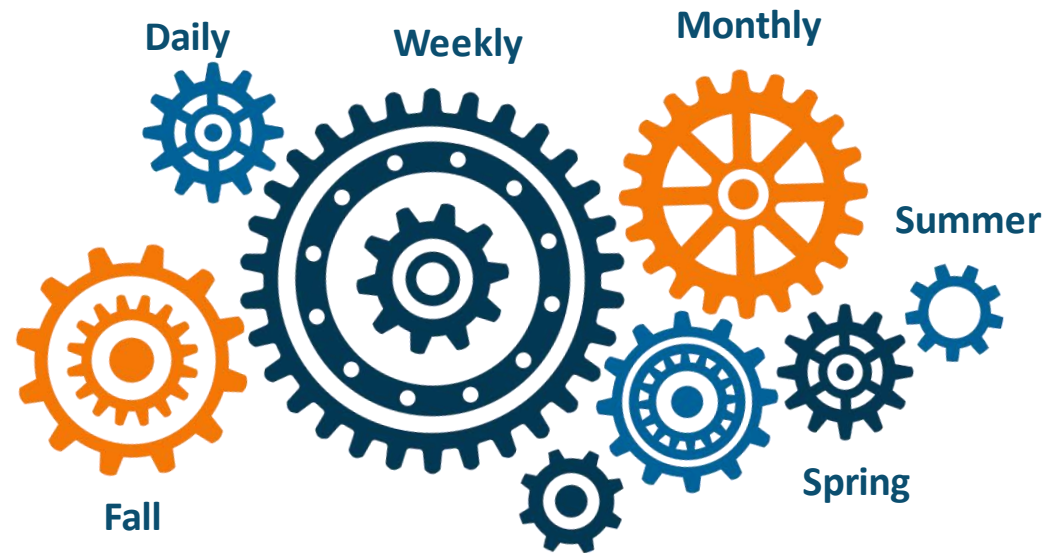
Business Model Transformation

Expanding Revenue Cycles – Becoming More Comprehensive Institution

Extremely difficult to transform the business model with a heavy revenue concentration in Undergraduate Residential programming and two revenue cycles per year in a declining market



Institutions who have a more robust business model have frequent revenue cycles



Undergraduate Residential – Online Graduate – Certificates – Credentials –
Online Degree Completion – Bootcamps – Workforce Development

Calculating Long-term Capital Requirements

- Develop a **five-to-seven-year** capital requirement which consists of the following:
 - Capital required to achieve positive operating results for each SGBB initiative
 - Any special one-time start up or launch costs
 - Supported by a financial model that will outline ROI
- Capital for opportunities can be segmented by “use of funds” that can be later presented to potential investors

EXAMPLE of Real Situation – Summary Capital Requirement Scenario

\$45M Net Tuition Budget - \$100M Endowment

#1

Current Scenario Planning (no investment, incremental improvement plans)	FY25	FY26	FY27	FY28	FY29	FY30
Operating Results (after endowment draw)	(\$3,959,184)	(\$2,854,391)	(\$1,782,334)	(\$750,567)	\$365,000	\$1,658,000
Debt Service	(\$3,922,000)	(\$3,922,000)	(\$3,922,000)	(\$3,922,000)	(\$3,922,000)	(\$3,922,000)
Total Results after Debt Service	(\$7,881,184)	(\$6,776,391)	(\$5,704,334)	(\$4,472,567)	(\$3,557,000)	(\$2,264,000)
Total Capital Requirement (while remaining in a deficit position)	\$30,655,476					

Incremental Improvement Mindset
(Heavy revenue concentration in UG-Campus)

Scarcity Mindset

Lack of Investment Mindset

Not Aware of the Capital Requirements and Corresponding Consequences

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#2	Comprehensive Business Model Transformation						
		FY25	FY26	FY27	FY28	FY29	FY30
	Baseline Operating Deficit	(\$3,959,184)	(\$3,959,184)	(\$3,959,184)	(\$3,959,184)	(\$3,959,184)	(\$3,959,184)
	<i>Cost Adjustments</i>	<i>\$1,500,000</i>	<i>\$1,500,000</i>	<i>\$2,000,000</i>	<i>\$2,000,000</i>	<i>\$2,000,000</i>	<i>\$2,000,000</i>
	Operating Deficit	(\$2,459,184)	(\$2,459,184)	(\$1,959,184)	(\$1,959,184)	(\$1,959,184)	(\$1,959,184)
	New Initiatives Operating Results SGBB (net)	(\$1,190,000)	\$315,595	\$2,000,453	\$4,631,352	\$7,237,519	\$9,281,763
	Strategic Partnership Investment (net)	(\$1,250,000)	\$1,000,000	\$1,000,000	\$2,000,000	\$2,000,000	\$2,000,000
	Operating Results	(\$4,899,184)	(\$1,143,589)	\$1,041,269	\$5,672,168	\$7,278,335	\$9,322,579
	Debt Service	(\$3,922,000)	(\$3,922,000)	(\$3,922,000)	(\$3,922,000)	(\$3,922,000)	(\$3,922,000)
	Total Results after Debt Service	(\$8,821,184)	(\$5,065,589)	(\$2,880,732)	\$1,750,168	\$3,356,335	\$5,400,579
	Total Capital Requirement for Transformation	\$16,767,505					

Examples of Opportunity-based Venture Philanthropy

How It Works

- ① Capital will follow a credible, ambitious plan for prosperity paired with presidential and board leadership
- ① Core works as a mission critical operating partner to raise funds and unlock the balance sheet for our institutional partners
- ① Core works as a mission critical operating partner providing comprehensive solutions for business model transformation. This includes our capital strategy solutions to raise funds and to unlock the balance sheet for our institutional partners

Track Record of Success

- ① **\$2.5M** raised to fund workforce development initiative
- ① **\$10M** raised to fund business model transformation (over four years)
- ① **\$20M** revolving line of credit term sheet from nontraditional financier

Who owns the capital strategy?

- Presidential leadership is #1
 - Capital follows great leadership and vision
- The board has a lead responsibility to ensure there are appropriate financial resources for the institution to meet its mission and can achieve long-term prosperity
 - For the institution to transform, the board must also participate in its own transformation
 - Becoming more strategic and less managerial or tactical
- The board owns the capital strategy



Part Two

- Venture Philanthropy
- Unlocking the Balance Sheet
- Non-Banking Financial Alternatives

Venture Philanthropy



What is Venture Philanthropy?

- Donors who see the value in making an impact by investing into start up, growth, or new social ventures
- Venture philanthropic giving can involve both an operational elements of an opportunity coupled with the impact that an investment can have on the institution and its students
- Venture philanthropy can also be viewed as the application or redirection of principles of traditional venture capital (VC) financing to achieve philanthropic endeavors. Often, it is exercised in the context of charitable startups, green companies, as the venture capitalists offering funding to these types of firms will have the greatest breadth of experience in these areas.*

*<https://www.investopedia.com/terms/v/venture-philanthropy.asp>

Venture Philanthropy Strategic Interest

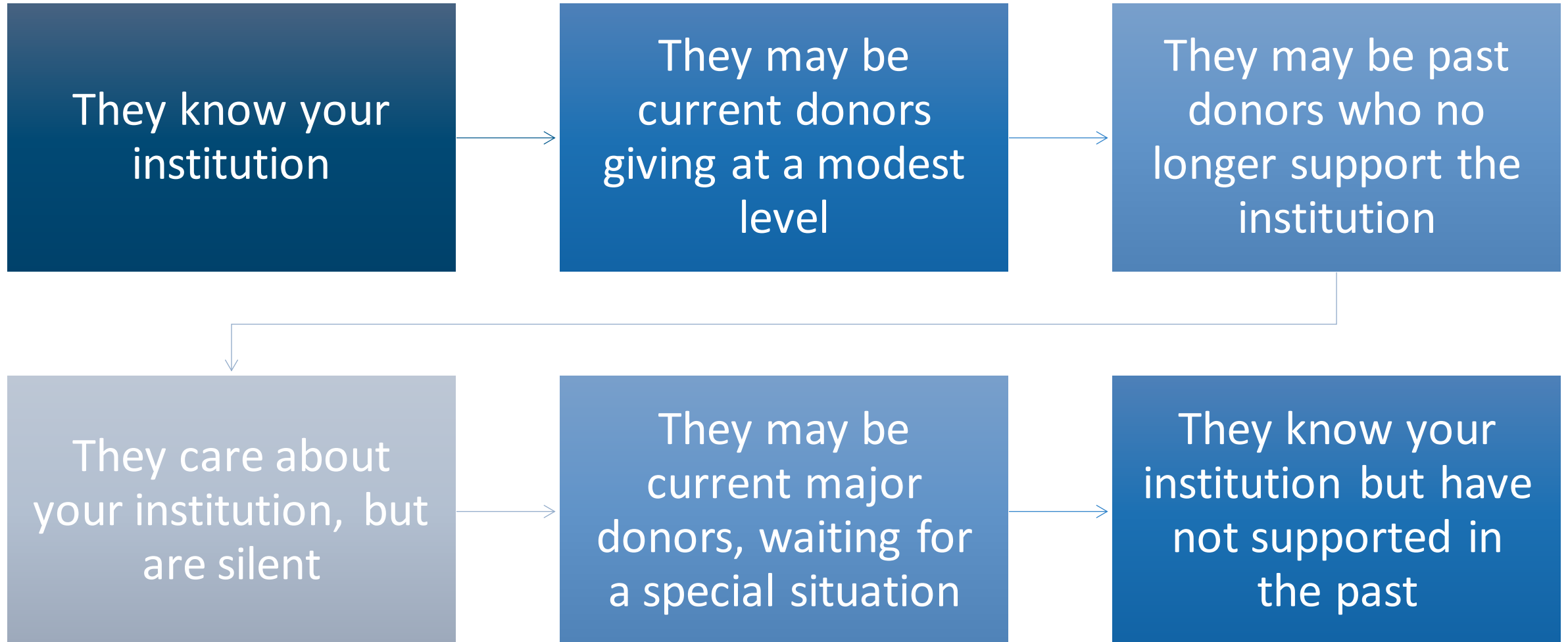
Venture Philanthropy Interest

- Launching and scaling new divisions
- Business model transformation
- Entrepreneurial ventures
- Ventures that have an ROI
- Ventures that are high impact
- Inspiring vision with credible implementation plans and ROI

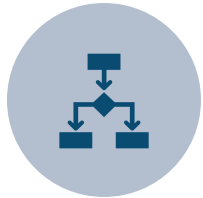
Difficult to Activate

- Scholarships
- Endowment
- Buildings
- Conference rooms
- Annual fund
- Need based funding

Who are they? - Where are they?



Creating the Business Cases for Venture Philanthropy



Multiple business cases can be developed and focused, typically around specific initiatives – aligned with strategic growth building blocks



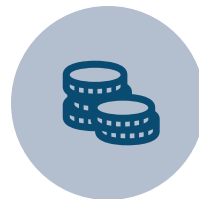
Each business case should target specific areas or opportunities that will activate interest



A detailed description of the opportunity along with the strategic impact on the institution



A description of how the investment will be used and implemented



A detailed financial model should be part of the business case



Stewardship plan should be part of the business case

Venture Philanthropic Stewardship



VENTURE PHILANTHROPIC STEWARDSHIP MAY REQUIRE AN ADMINISTRATIVE ELEMENT AND WILL BENEFIT FROM (AND APPRECIATE) QUARTERLY REPORTING ON PERFORMANCE



STEWARDSHIP EXECUTION IS REQUIRED TO BE PART OF THE BUSINESS CASE AND DONOR PRESENTATION



STEWARDSHIP INCLUDES DEMONSTRATING HOW THE INVESTMENT IS MAKING AN IMPACT AND CORRESPONDING ROI



Non-Banking Financing Alternatives



Real Estate



Endowment Restructuring

Real Estate Opportunities

- Many institutions have opportunities to fund their long-term capital strategy through various real estate transactions including:
 - Liquidating certain property with no strategic use
 - Public private partnerships
 - Sale/lease back of certain assets
 - Land lease
- Critically important is to run a comprehensive, national or global process for the best results, versus a local or regional approach.
 - Core's comprehensive supporting services includes managing this process on a national and global basis



Endowment Restructuring

- Some institutions have restructured major gifts directly with their donors; moving from permanently restricted into “board designated unrestricted”
- Some institutions have successfully borrowed limited funds from their endowment
- Some institutions have used endowment funds to invest directly into a “newco” which drive certain specific initiatives. These investments have a payback period with ROI

Summary Capital Strategies

Venture Philanthropy and Unlocking the Balance Sheet

Core Education Supporting Services

- Along with the president and board leadership, Core assists in **creating the Capital Strategy** including the business case development, ROI, and value proposition for venture philanthropy and nontraditional financing alternatives
- Run **national and global** processes for real estate
- Capital will follow a **credible, ambitious plan** for prosperity paired with presidential and board leadership
- Core works as a mission critical operating partner providing **comprehensive solutions for business model transformation**. This includes our capital strategy solutions to raise funds and to unlock the balance sheet for our institutional partners

Track Record of Success

- **\$2.5M** – Venture Philanthropy for workforce development initiative
- **\$4.0M** – Line of credit extension using the prosperity plan as the business case
- **\$3.4M** – Real estate sale, 2X initial value, which funded business model transformation
- **\$10M** – Venture Philanthropy for transformation (over four years)
- **\$14M** – National asset liquidation process with pending offers
- **\$20M** – Refinancing and revolving credit line term-sheet from non-banking financial institution (in process)

www.core.edu