



Executive Summary 2020 Global Education Market Report



Preface

Recent events around the Covid-19 Crisis have been eye opening. Much of the world has changed but no other industry has witnessed such a radical overhaul as the education sector. The recent crisis has injected the idea of e-learning into our education systems worldwide, triggering a trend that will continue to grow.

Yet, the developments in the education sector have not been covered to the level that would do it justice. Education is one of the most fundamental industries we have in the 21st century and we believe that the shape of today's education sector is the best determinant for tomorrow's economical, scientific, and social future.

As our industries and technologies progress, we require a better skilled and educated workforce, whereas our constantly changing lifestyles entail the need for quick access and mobility in all areas of our lives. The M&A landscape has been no stranger to these developments in recent years, and we expect more and more private and public entities to take part in this exciting race to restructure education and how we approach teaching and learning across cultures, languages and geographic borders.

As most of our 200 professionals within Mergers Alliance made their own experiences with the deficits in formal education system around the globe, we agreed to collect local solutions for a global challenge. Thus, we aim to provide decision makers in the education sector with creative ideas and impulses from how other countries managed the challenges in the education sector.

As Mergers Alliance, with our 38 offices in 18 countries, we are committed to foster change with value-adding inorganic measures. And doing so in the education sector is a true passion for our entire team, which fills us with honor and pride.

We truly hope, you find this report inspirational.

And we are looking forward to having a strategic dialogue with you, about how we can work together in this fascinating field.

On behalf of your entire Mergers Alliance Team

Jan Poerschmann
Mergers Alliance Germany



Executive Summary

Digitalization has been hitting all sectors around the world, but none as hard as the education industry. A sector that was formerly dominated by government funded brick and mortar institutions is moving rapidly towards online classes and learning opportunities across various platforms. In light of these recent developments, this global report aims to offer valuable and recent insights on new business opportunities in the education sector, by analyzing trends, technologies, and transactions in most of the countries Mergers Alliance members are active in today.

Private businesses gaining market share – E-learning sector to grow twofold by 2026

So far, most of the world's education is funded by governmental agencies and only a small proportion is privately paid for. Even in nations that are considered frontrunners of private education, such as the U.S., Australia or Chile, public funding amounts to around twice as much as private funding for education across all levels.

Taking a deeper look at private spending unveils that on a global level 68% of private funds flow primarily to tertiary level education (i.e. university-level). Whereas primary and secondary level education are predominantly (nearly 80%) publicly funded. Simultaneously, the percentage of people with tertiary and secondary level education is rising rapidly, as the number of people with only primary or no education at all continue to fall, as university degrees are becoming a pre-requisite for employees in most industries.

Since the COVID-19 crisis, both sides have been looking for ways to integrate and make use of the benefits that digital education offers. According to forecasts, the current valuation of the E-learning market at just over €175bn is expected to be catapulted to around €316bn by 2026 with a CAGR of 8% for the period between 2020 and 2026.

Four major developments are the key drivers in this new era:

1. Mobile Learning is not only offering an opportunity for people to access their education from different locations, but it is also allowing the integration of different devices and platforms.
2. Adaptive Learning Algorithms, such as smart learning and smart testing tools are improving the way knowledge and skills can be measured for different types of learners.
3. Personalized Learning approaches provide tailor fitted solutions to individual users, which are used predominantly in the private and informal education sectors.
4. Gamification is introducing a way of learning, that is combining game-like tasks, with the study material, capturing more attention and concentration from the user.

Content filtering, data protection and access problems are slowing down digitization

Nevertheless, the new transition towards digital education is not so easy and faces several barriers such as access problems, GDPR laws and data protection regulations, content filtering – especially in formal and lower levels of education, and unreliable IT-infrastructures in certain areas.

The combination of these issues has been making it much more difficult for public institutions to integrate the digital trends into their programs than private companies, which operate predominantly in the informal and quaternary levels of education. In general, public institutions furthermore have been allocating a much smaller proportion of their funds towards digital equipment for both instructors and pupils.

Though, this varies strongly by region: globally every fourth teacher is being IT-equipped by its employer, in Finland that number is 100% of all teachers compared to Germany, where only 3 out of 100 teachers are given personal computers by their school.

Education goes far beyond primary and secondary schooling

The education sector can be broken up into formal and informal. The former, refers to school curriculum based learning of basic subjects such as languages, social sciences, mathematics and the like, taught by qualified and certified teaching staff in specialized institutions, whereas the latter refers to the type of education that is offered to different age groups, are not set by a specific curriculum and do not mandate a certification by the instructor, e.g. tutoring programs.

Another way to segment the market is by level of sophistication and/or specialization: primary, secondary, and tertiary or quaternary education. The first three being the type of education that is continuous and is usually experienced only once in a person's lifetime, such as primary school, secondary school, and university level. The second is the type that can be continuous and at any point in a person's life, such as corporate training or other types of development in any area of interest.

Tough budgets & segmented markets in all subsectors – English publishers somewhat consolidated

Finally, the market participants can be divided into content providers, distribution, and service providers, as well as management systems and platforms. Content providers have been around for quite some time now and include a wide range of publishers, with the tertiary levels include many universities that are now filling voids in the formal quaternary sectors as well with certificate and non-certificate programs by making use of their reputation.

On the primary and secondary levels of education we mainly see local players, except for English speaking regions, where players are somewhat more consolidated. When it comes to distribution and service, companies are facing more obstacles to navigate through, such as data protection laws and content filtering for younger age groups. Thus, digital education is not being integrated as fast and especially public institutions with predetermined budgets are facing difficulties to adopt such tools.

The potential for future implementation especially with products like gamification however is very promising. On the informal side, service companies are experiencing much better results on all levels of education, as the Covid-19 Pandemic led to spikes in the e-book and language learning programs.

Although Management systems and platforms face the same issues as the distributors and service providers, in the respect that budget pressure on public institutions are limiting the adoption of digital education tools, learning platforms have become such a crucial alternative to the classroom during the pandemic across all levels, that they have been implemented nevertheless.

Strategist preferring domestic M&A deals – financial investors increasingly looking abroad

All these developments have been fueling the M&A market with acquisitions across the entire education spectrum. While most of these transactions remain domestic with 429 total national transactions in 2019 as opposed to 281 on a cross-border level, the cross-border acquisition trend in the education sector is clearly growing with great potential for synergies. Out of these, most acquisitions by strategic buyers are targeted at domestic companies amounting to 80% of total transactions and only 20% aimed at cross-border deals, whereas financial buyers have been more open to international ventures with a domestic to cross-border acquisition ratio of 40/60.

This can mainly be attributed to the very regional and fragmented education industry in many countries. Strategic buyers, who have been building on a business model based on capturing domestic or regional market share, often find it difficult to reap the benefits of potential synergies that could be created by engaging in cross-border M&A deals. Financial investors on the other hand have benefited from understanding the value of acquiring entities in different regions, as this offers a unique entry option into local markets, which were until recently inaccessible to outsiders and foreigners. With the rapid digitalization of the education sector, this trend will continue to increase, with more and more cross-border acquisitions in the industry, just as it has been across previous years.

Mainly small deals – geographically dominated by Asia

Regionally, the global M&A scene in the education market is dominated by activities in Asia with around 41% of global education deals, followed by North America with 28% and Europe with 22%, whereas 71% of these acquisitions remain at very small volumes under €10mm, while only around 7% lie above a transaction volume of €100mm. Most transactions are still attributed to small regional players, that tend to shy away from engaging in deals with counterparts that operate in an entirely different subsector or geographic region, especially if there are language barriers involved, leaving the upper-cap and mid-cap levels unsaturated and full of great potential for entering new markets and operational areas in this new age of digitalization.

Nevertheless, acquisitions specifically in the digital education market have been growing at a fast pace as well, with most investments being made in the US with €10.2bn, followed by China with €2.2bn. in 2019. The EdTech sector in Europe has been emerging even faster, with a growth rate of around 40% p.a. between 2017 and 2019, dominated by the UK with 80% of all European investments at around €435mm, and Germany only at €16mm for FY 2019, underlining once again the difficulties those regions are facing, where education is handled very regionally by municipalities and states.



Primary and secondary education mainly funded publicly – private businesses aim for later stages

These trends are reflected on a national basis as well. Primary and secondary education are under the custody of governmental funding, while most private companies concentrate on growing in the post-secondary level. Consequently, we are seeing more acquisitions at the latter levels. Especially non-formal Quaternary level Education is experiencing a boom in investments and acquisition activities alike, caused by the wave of interest towards the idea of receiving education, that is tailored to ones needs with the comfort and the ease of learning from home, while being quicker and cheaper than alternative options offered by most tertiary educational institutions.

Finally, we see a trend of companies in the TIC (training, inspection and certification) sector increasingly profiting from digitalization. Digital platforms and e-learning opportunities are further increasing their already elevated profit margins, by cutting costs simply through online trainings and certifications that can handle more clients with less instructors.

Primary, Secondary, Tertiary

Content Providers	<p>Formal:</p> <ul style="list-style-type: none"> • Heavily dominated by large local players • Tertiary is dominated by university content 	<p>Informal:</p> <ul style="list-style-type: none"> • Growing especially content offered by universities. As people start to realize that online education can be much more lucrative
Distribution & Service	<ul style="list-style-type: none"> • Problems entering the market, due to pressure on gov. budgets, & problems with • Great potential for gamification for both public and private. • Content filtering and unwanted access especially for younger age groups is still a problem • eBook providers are gaining importance, as they are cost-efficient, are more sustainable and offer much better mobility to students 	<ul style="list-style-type: none"> • Great opportunities for Gamification providers as well • Language and other skill teaching programs are experiencing growth • Growth in audiobooks and e-book sectors
Management Systems & Platforms	<ul style="list-style-type: none"> • Problems entering the market, due to pressure on gov. budgets, & problems with implementation, however lately gaining a lot of importance with distance learning 	<ul style="list-style-type: none"> • No strong presence on primary levels

Quaternary

Content Providers	<p>Formal:</p> <ul style="list-style-type: none"> • Often offered by universities that are broadening their customer base. As variable costs are quite low, universities are making use of their reputation 	<p>Informal:</p> <ul style="list-style-type: none"> • Universities, e-learning platforms and other formal education-oriented players, are now offering content for this segment due to the low variable costs
Distribution & Service	<ul style="list-style-type: none"> • Companies in the TIC (Testing, Inspection and Certification) are making use from even higher margin via online trainings 	<ul style="list-style-type: none"> • Profiting from recent developments and corona crisis • High M&A activity
Management Systems & Platforms	<ul style="list-style-type: none"> • Networks that offer certifications are moving towards a platform model, to cut operating costs even more 	<ul style="list-style-type: none"> • Profiting immensely since the corona crisis • Platforms gaining popularity amongst all age groups and professions • High M&A activity

Mergers Alliance Education Contacts

For information on sector trends contact the Mergers Alliance Education sector team.



Mr. Greg Quinn
 ☎ +61 2 8274 1701
 ✉ greg.quinn@eacpartners.com.au

EAC PARTNERS



Mr. Erik van der Werf
 ☎ +31 20 820 3606
 ✉ erik.vanderwerf@oxeyeadvisors.com

OXEYE
advisors



Mr. Leonardo Antunes
 ☎ +55 21 2543 5409
 ✉ lantunes@brocap.com

BROADSPAN
CAPITAL



Mr. Ryan Balsam
 ☎ +1 416-219-2508
 ✉ rbalsam@firepowercapital.com

FIREPOWER
CAPITAL



Mr. Juan Carlos Parra
 ☎ +56(2) 2599-8000
 ✉ jcparra@altis.cl

ALTIS



Ms. Christine de Briganti
 ☎ +33 (0)7 71 91 79 45
 ✉ c.debriganti@aurfi.com

AURIGNAC
FINANCE



Mr. Jan Pörschmann
 ☎ +49 89 388 881 11
 ✉ j.poerschmann@proventis.com

ProventisPartners.
FOR GREAT TRUST COVANTS



Mr. Bimal Raj
 ☎ +91 22 61496621
 ✉ bimal.raj@singhi.com

SINGHI
ADVISORS



Mr. Stefano Trifone
 ☎ +39 3925348442
 ✉ stefano.trifone@ethica-group.com

ethica
corporate finance



Mr. Keisuke Saito
 ☎ +81-3-5219-8635
 ✉ keisuke-saito@tkao.com

Tokyo Kyodo
Accounting Office



Mr. Bratzo Torres
 ☎ (+51) 717-6810
 ✉ bratzo.torres@efic.pe

EFIC
partners



Mr. Mario Senra Fernández-Miranda
 ☎ +34 91 590 16 60
 ✉ msenra@norgestion.com

NORGESTION



Mr. Hakan Persson
 ☎ +46 8 510 663 50
 ✉ hakan.persson@experia.se

Experia
CORPORATE FINANCE ADVISORS



Mr. Nigel McNelly
 ☎ +44 207 025 3602
 ✉ nigel.mcnelly@opuscf.com

opus
corporate finance



Mr. Brian Schofield
 ☎ +1 3127807227
 ✉ bschofield@dresnerco.com

DRESNER PARTNERS
INVESTMENT BANKING

Author: Winnie Marie Fuchs



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www.mergersalliance.com