



Solganick & Co.



Learning & Education Technology M&A Update: Q1 2019

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DISCLAIMER

The information contained herein is of a general nature and is not intended to address the circumstances of any particular company, individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. We perform our own research and also use third-party research. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation. This is not an offer or recommendation to buy or sell securities nor is it a recommendation to merge, acquire, sell, or exit a specific company or entity. We do not hold any equity or debt position in any of the securities listed herein as of the date of this report.

Sources for our research and data include: Yahoo Finance, BizJournal, AGC, Capstone Headwaters, Berkery Noyes, Raymond James, Lincoln International, Robert Baird.

M&A Market Brief

Global, U.S., and Learning/Education Technology, Q4 2018 Review and Q1 2019

Worldwide

Q1 2019 kicked off on a high note with Bristol-Myers Squibb announcing a whopping **\$96.8 billion** offer for US-based **Celgene Corp** just three days into the new year. However, global M&A has dropped by 17 percent in Q1 2019.

During Q1, global M&A volume reached **\$1.01 trillion** with **7,470 deals**, representing a decrease of 13.8% and 22.1% in volume and deal count, respectively when compared to Q1 2018.

M&A valuations have also seen a gradual decline with the median EV/EBITDA multiples globally falling to the lowest level since 2012, at **12.01x**. This decline can result in another wave of M&A deal making in the next few months.

Sponsor M&A exits are also seeing an increase in Q1 2019 with a high volume of \$106.8bn as compared to \$77.6bn during the same time period last year.

United States

US-targeted M&A reached a total volume of **\$537.6 billion across 2,158 deals**. Healthcare has been the largest contributor to US M&A deals (33.9% market share) followed by Technology with 24.5% market share.

Despite fears of market correction, there has been an increase in mega deals with **deal value over \$10bn** in Q1 2019. The key drivers for this trend mostly include (a) the fear from being disrupted by tech giants such as Amazon and Google, (b) cheap debt and (c) strategic motivation for growth.

However, **the number of deals has fallen** significantly from last year signaling fears of impending economic slowdown.

Learning & EdTech

106 Learning & Education Technology transactions were announced in Q1 2019; approximately 53% were minority PE deals.

\$5.8 billion in Q1 2019 in announced transaction value is driven by PE majority deals.

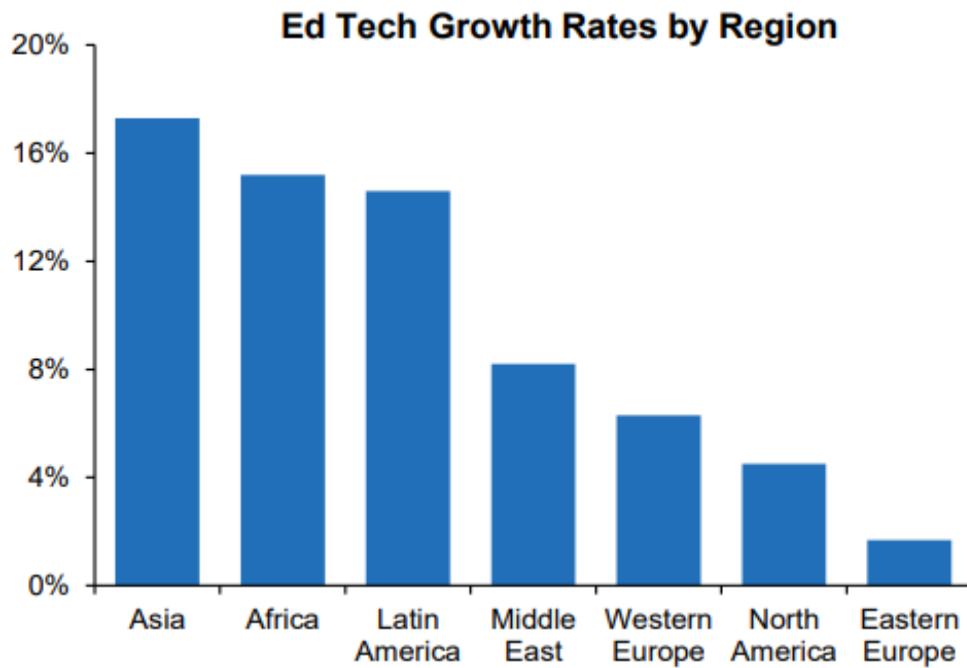
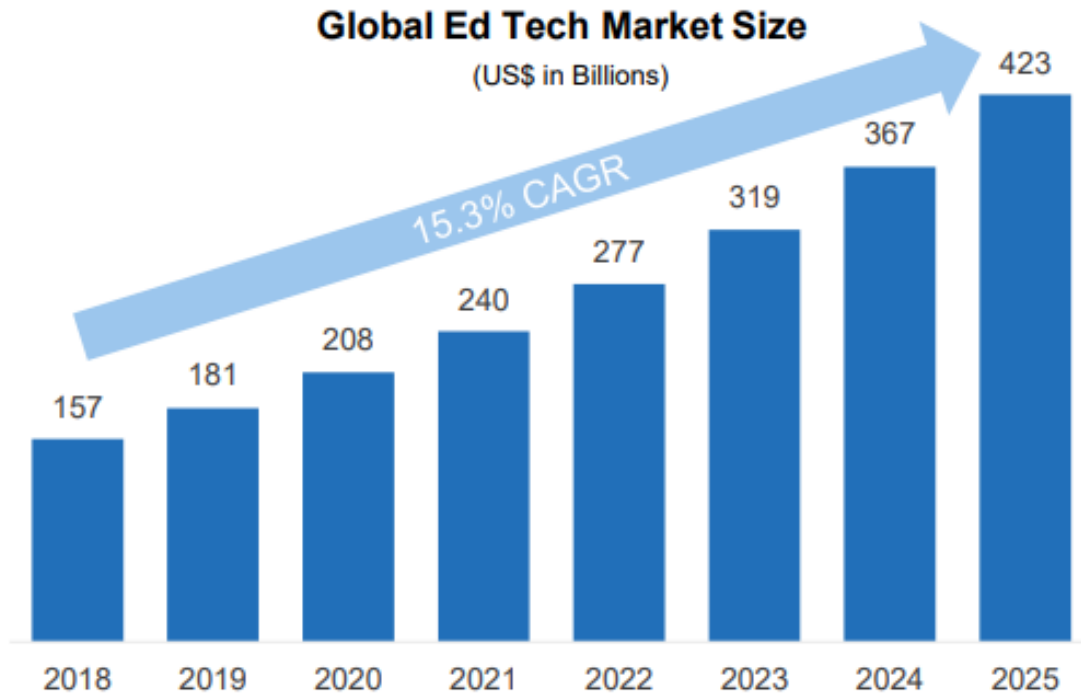
Companies focused on the Corporate market comprised Of approximately 45% of transactions announced in Q1 2019.

The industry saw a healthy mix of activity across all domains in Q1 2019, with Career & Recruiting comprising 25%, Learning and Training 17%, Administrative 17%, Tutoring, Training & Certification 14% of total transactions,

Q1 2019 deals announced include the \$1.75 billion **Turnitin.com** acquisition by **Advance Publications**, and **Reverence Capital Partners** acquisition of **Blackbaud's Transact** division for \$700M.

Source: Pitchbook, Yahoo Finance, BizJournal, ACG, Capstone, Berkery Noyes, Raymond James, EdSurge, Capital IQ, GETChina, Docebo, Capterra, Markets and Markets, Fresco Capital, Ambient Insights, EdTechXGlobal, Grand View Research, Commonfund, NCEs, The Economist, Wall Street Research

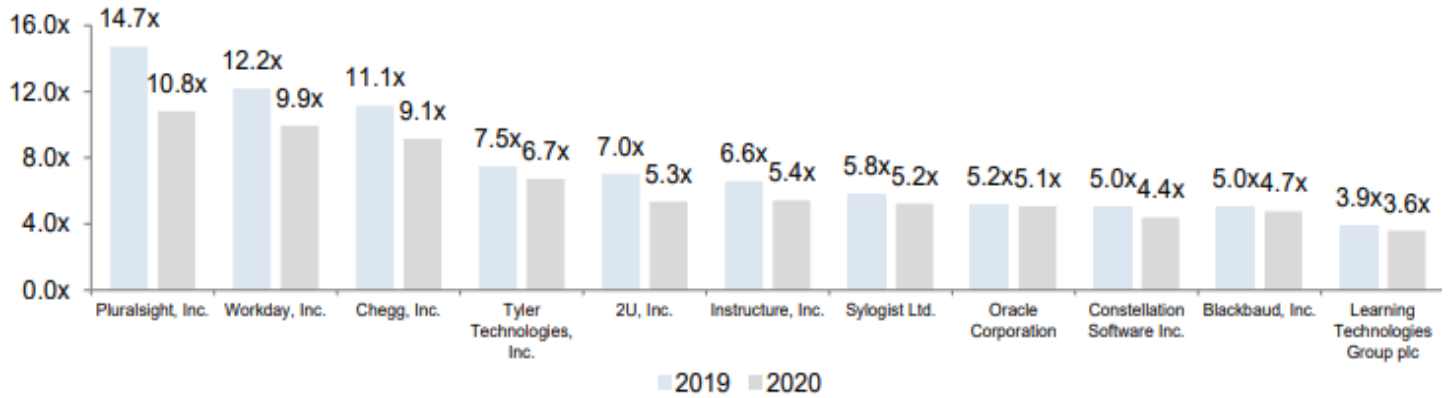
Global Learning and EdTech Market Size and Growth Rate



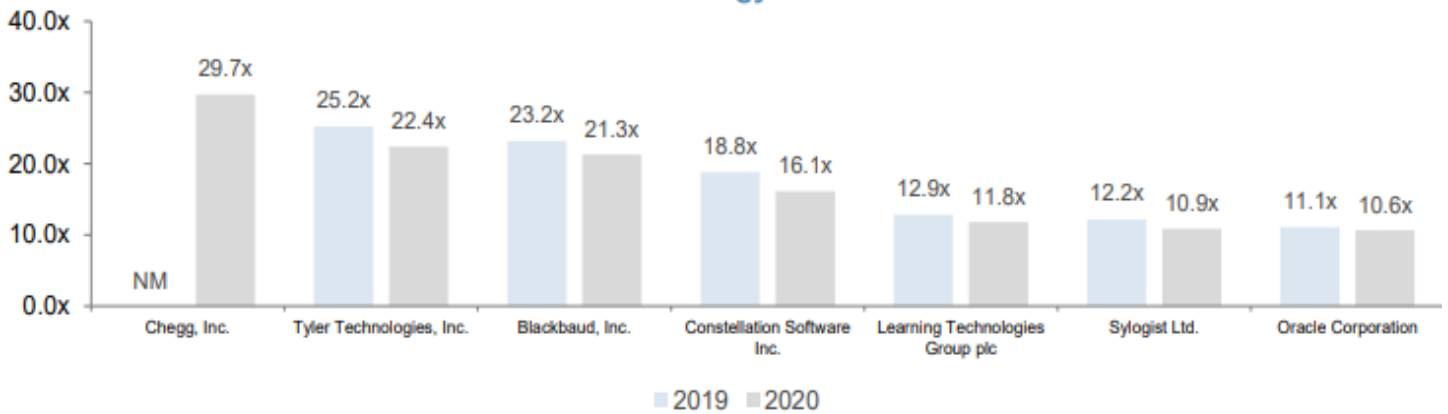
Source: AGC Edtech Report

Publicly Traded Learning and EdTech Valuation Multiples Comparison by Type, Q1 2019

Education Technology TEV / Revenue

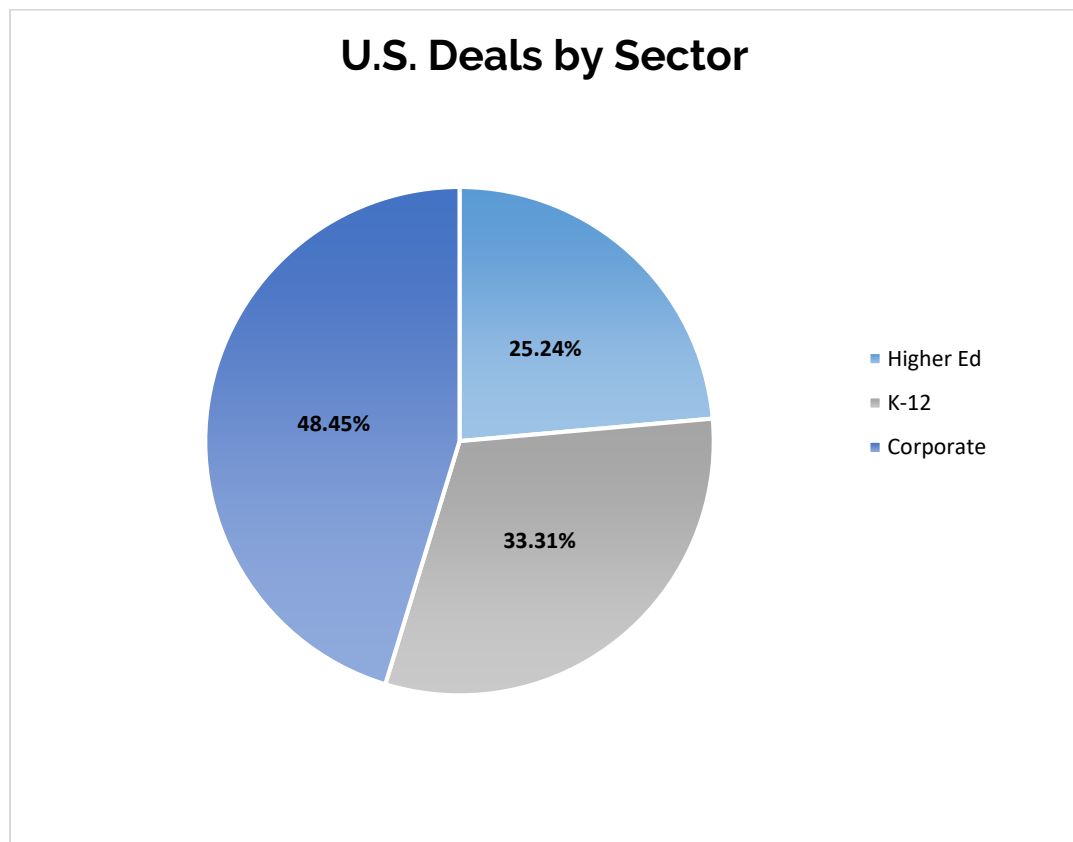
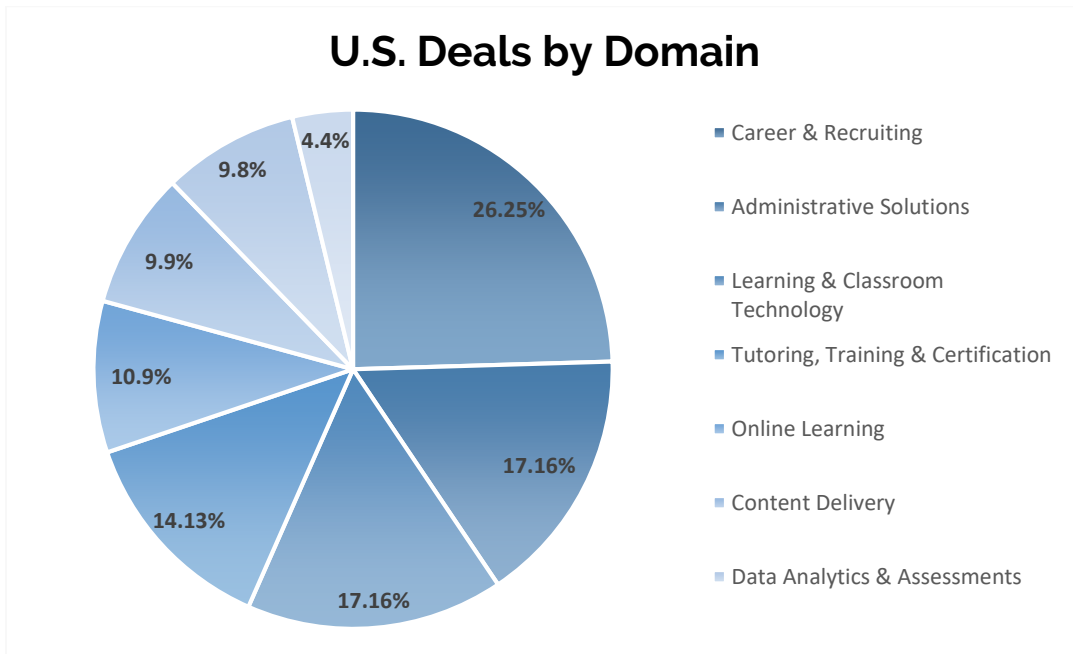


Education Technology TEV / EBITDA⁽¹⁾⁽²⁾



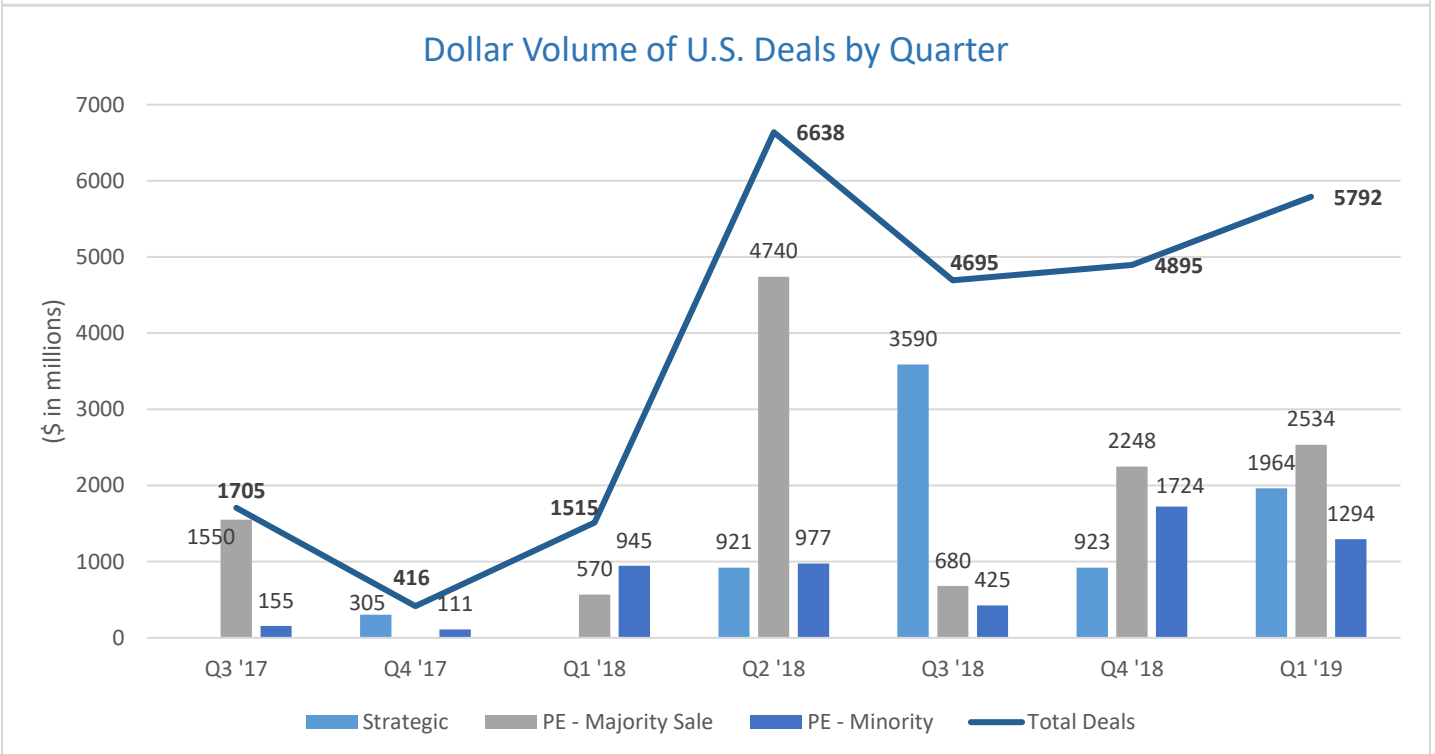
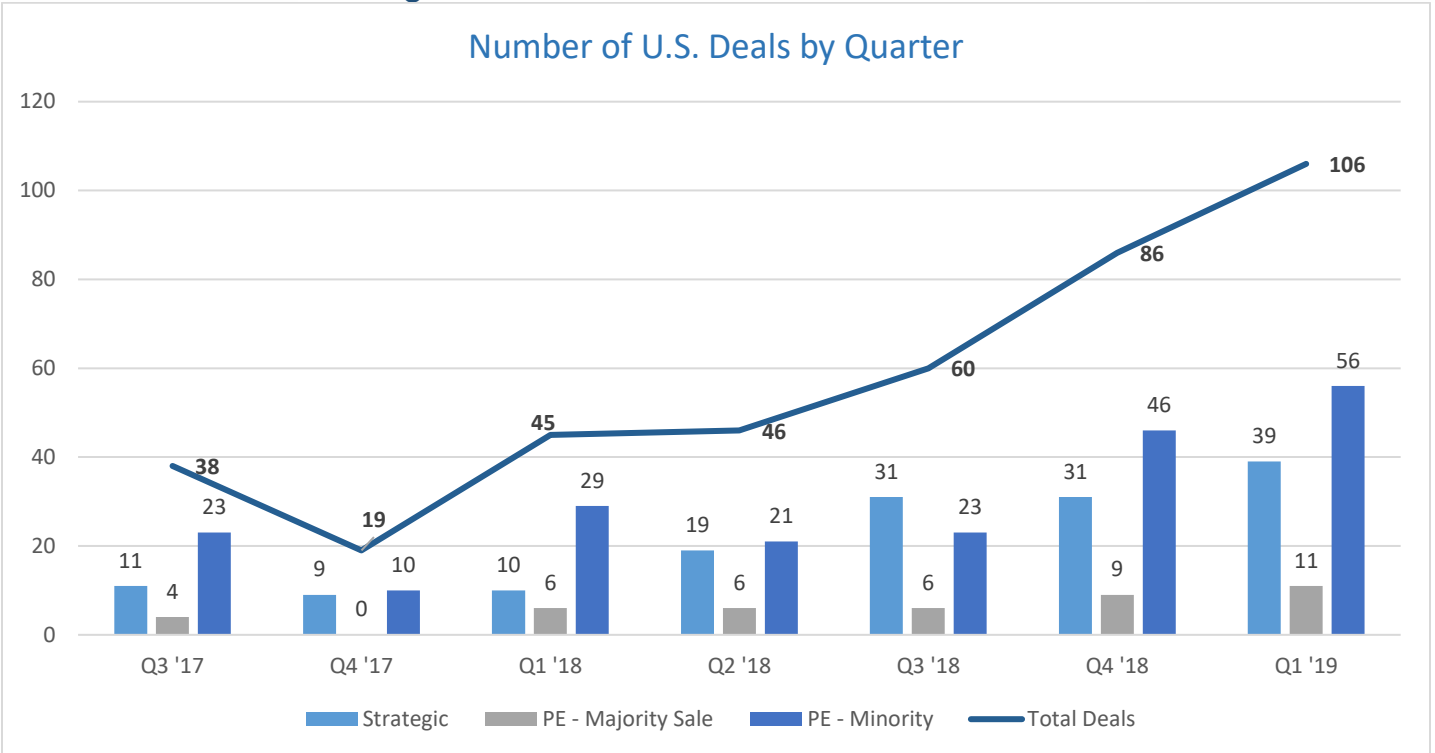
Source: Raymond James

Learning & EdTech: U.S. Deals Breakdown



Source: Raymond James

Learning & EdTech: Number of U.S. Deals and Dollar Volume



Source: Raymond James

2019 Learning and Education Technology Trends & Drivers

2019 Predicted To See Accelerated M&A Activity Globally for Learning and EdTech Companies

According to AGC, the current **\$157B** EdTech market is expected to reach **\$420B by 2025** (15%+ CAGR) and expand on a global scale. Learning and EdTech is poised to unlock vast budgetary savings for both governments and households, and this will see growth accelerate within the coming decade. In developing countries, the focus is more on access to educate their populations. eLearning has huge potential to educate these rapidly growing populations instead of a highly developed school infrastructure. Corporate sector eLearning is gaining significant traction for many employers in a historically tight labor market. Investment in EdTech is growing strong. In non-US markets, funding for Learning and EdTech start-ups has surged, reaching a new record of over \$5B in 2018. Not to be outdone, 2018 US deal flow has increased to \$8B in M&A value in 2018 with a heavy mix of PE-led deals.

Management and Distribution are among the fastest growing segments in the EdTech Market. Within the Management segment, **LMS and Learning Analytics markets are expected to grow 24.7% and 25.9% to 2020**, respectively. Within the Distribution segment, **Education Gaming** and MOOC markets are expected to grow 66.2% and 36.0% to 2020, respectively. **Educational Content** providers see slower growth rates due to the shift towards in-house content development and proliferation of open and free resources.

Education Technology Is An Incredibly Underrepresented Market

In 2018, the US spent \$1.4 trillion on education – representing 7% of total GDP. 92% of that is funded through non-profit institutions by public taxpayer dollars or private tuitions/endowments. As a result, the pace of technology adoption has been painfully slow. It is estimated that universities and schools spend less than 5% of their annual budget on IT. This compares to a range of 5-10% for Corporate America. Furthermore, the US public school system is one of the most highly regulated funding mechanisms at all levels of government.

K-12 Segment

47% of K-12 school revenues in the US comes from State funds, and 45% comes from Local funds. In the fiscal year ending June 2018, State revenues grew by 6.3% nationwide compared to an average annual increase of 2.3% over the prior seven years. Midway through the 2019 fiscal year, 34 States say they are meeting or exceeding revenue forecasts with special appropriations for K-12 education increasing by 26% versus 2018.

Higher Education Outlook

Higher education price tags are showing signs of slowing down. Since 2011, annual inflation in college tuition prices as measured by the US Bureau of Labor Statistics has downshifted from a 4-6% range to a 2-2.5% range, roughly in line with CPI. This coincided with a 10% decline in college enrollments, which peaked at 20.6M in 2011 and stands 2M lower today. Education providers are now looking more closely at online courseware to reduce delivery costs and price points. In 2017, “producer costs” as measured by the Commonfund Higher Education Price Index rose 3.7% vs. a 2.5% rise in headline tuition rates and college fees, thereby reducing margins for providers. If this squeeze continues, it’s likely to accelerate the move to disruptive technologies further to control costs better and improve outcomes.

Private & Public Markets Reflect Improving Sentiment

Learning and EdTech private markets slowed down in the US after a four-year uninterrupted run, ending in 2015 with a record \$1.45B in private funding and 165 total transactions. In 2018, funding rebounded to \$1.45B, matching the 2015 record high, albeit on thinner volumes of 110 total transactions but larger check sizes. Chinese EdTech companies have increased their spending substantially and are growing at a rapid pace. Investors are drawn to companies developing English language learning applications for Chinese youth, which number 250 million in grades K-12. After trailing market indices for several years, EdTech stocks have outperformed over the last two years. In the new issue market, there have been 8 EdTech IPOs in 2018, equaling the total of the prior 4 years. Of these 8 IPOs, 4 were Chinese companies listed on the NYSE.






Source: AGC, EdSurge, Capital IQ, GETChina, Docebo, Capterra, Markets and Markets, Fresco Capital, Ambient Insights, EdTechXGlobal, Grand View Research, Commonfund, NCES, Bureau of Labor Statistics, Tax Policy Center, CBPP.Org, National Association of State Budget Officers, BMO Capital Markets, The Economist, Wall Street Research, Capstone Headwaters





Publicly Traded Learning and Education Technology Firms Valuation Table (*Stock Price as of 4/5/2019)

Ticker	Name	Stock Price*	Market Cap	Enterprise Value	EV/Revenue	EV/EBITDA
TWOU	2U, Inc.	70.07	4.07B	3.65B	8.87	-
BLKB	Blackbaud, Inc	82.14	3.89B	4.26B	5.02	31.93
ASUR	Asure Software, Inc.	6.40	98.59M	192.18M	2.16	23.99
CHGG	Chegg	37.02	4.29B	4.15B	12.91	-
CSOD	Cornerstone OnDemand	54.08	3.2B	3.21M	5.97	-
GPX	GP Strategies	15.68	262.2M	402.11M	0.76	15.13
HMHC	Houghton Mifflin Harcourt Co.	7.39	916.83M	1.43B	1.08	24.96
INST	Instructure, Inc.	43.10	1.58B	1.56B	7.11	-
LRN	K12 Inc.	36.07	1.39B	1.21B	1.24	17.06
PSO	Pearson plc	10.98	8.48B	8.7B	-	-
PS	PluralSight	33.83	4.68B	3.13B	12.41	-
RST	Rosetta Stone	22.19	524.59M	473.63M	2.73	-
STRA	Strategic Education, Inc.	0.54	2.99B	2.59B	4.08	27.25
TYL	Tyler Technologies	209.44	8.03B	7.78B	8.31	40.53
ULTI	The Ultimate Software Group	330.46	10.47B	10.31B	9.04	-
WDAY	Workday, Inc.	186.29	41.36B	40.6B	14.39	-
Average					6.41	25.84

*Negative EBITDA Not Included For TWOU, CHGG, CSOD, INST, PSO, RST, ULTI, WDAY
Source: Solganick & Co. Analysis, Pitchbook, Yahoo Finance

Notable M&A Transactions, Q1 2019

Date Announced	Acquirer	Target	Description	Enterprise Value (\$ USM)
3/6/2019			Turnitin provides online plagiarism detection	1.75B
3/18/2019		[equiday]	Equiday is a provider of software and strategic support to help K-12 public school districts design and implement equitable school funding models	-
2/4/2019			Brightbytes develops an evidence-based platform designed to deploy technology in school classrooms and to assess outcomes in student achievement	-

Date Announced	Acquirer	Target	Description	Enterprise Value (\$ USM)
2/19/2019	INSTRUCTURE		<p>Portfolium is a provider of an academic portfolio network for students intended to help them bring their stories to life and shine a light on their individuality and potential</p>	43M
2/6/2019	WELD NORTH	 GLYNLYON	<p>Glynlyon is an education technology company that empowering students, school districts and families use of technology to learn, teach and share at home and school</p>	-
2/4/19			<p>SureWatch develops software designed to provide school administrators with the needed tools to track student movement and manage campus activities.</p>	

Date Announced	Acquirer	Target	Description	Enterprise Value (\$ USM)
1 /15/2019	 <p>Houghton Mifflin Harcourt</p>		Waggle develops of AI-driven learning solution that analyzes student decisions, learning behavior, and progress.	-
1/2/2019			Turning Technologies develops audience response systems and data collection solutions for K-12 schools, universities, and businesses worldwide.	-
1/22/2019			Veritas Prep is an operator of an educational training institute designed to offer test preparation services	-

Source: Company websites, Mergr.com, Pitchbook

M&A Spotlights

Advanced Publication Acquires Turnitin for \$1.75B



March 6, 2019 -Turnitin, a California based software developer that specializes in artificial intelligence plagiarism detection, will be acquired by **Advance Publications**, a media conglomerate that also owns Condé Nast. The \$1.75 billion deal is expected to close in the second quarter of 2019.

At \$1.75 billion, the deal is larger than the total amount that EdTech startups raised in 2018, which reached a new peak last year at \$1.45 billion. It's one of the biggest sales in the industry in this decade, surpassing LinkedIn's \$1.5 billion purchase of Lynda in 2015. But it's not the largest as Ellucian, a higher-ed software provider, was acquired for an estimated \$3.5 billion in 2015.

Turnitin is expected to expand its footprint beyond the U.S. as the company has seen the most growth in the U.K. and Australia, and will be focusing on expanding in India, Latin America, and the Middle East.

Turnitin is also planning to extend its grading and plagiarism tools beyond writing and into science and math fields. It is also launching a new tool that aims to detect ghostwriting, or if students have hired others to write a paper for them.

Source: <https://www.edsurge.com/news/2019-03-06-turnitin-to-be-acquired-by-advance-publications-for-1-75b>

TAL Education Group Acquires Ready4



February 7, 2019 – NYSE-listed, Beijing-headquartered educational service company TAL Education Group (TAL) has acquired Boston-Tel Aviv mobile-first and AI-powered online test preparation and admissions services startup company Ready4, Inc. The acquisition of Ready4 adds on-demand and live online courses, cutting-edge technology products, and adaptive assessment science to TAL's portfolio of products.

David Zhao, General Manager of TAL's test prep division, KMF said, "Ready4's expertise in mobile technology and adaptive learning science is unmatched and allows us to provide greater access to KMF's leading online test prep courses outside of our traditional market. With the completion of the deal today, we are excited to bring Ready4 into TAL family fully."

Tomorrow Advancing Life (NYSE: [TAL](#)) is a leading education and technology enterprise in China. TAL is committed to integrating the Internet and technology into education to deliver a better study experience for children.

Ready4 is the only mobile-first company that delivers high-quality AI-powered live online test prep courses and admissions services to prospective students in their journey to their top school. Ready4's iOS and Android apps, all ranked at the top-5 app in ranking and reviews in their respective categories, have already helped more than 2M students in ~150+ countries around the globe to improve their scores and admissions chances.

Source: <https://www.prnewswire.com/news-releases/tal-education-group-acquires-ready4-300791962.html>

Microsoft Acquires BrightBytes Data Management Platform



February 4, 2019 – Microsoft acquired data integration platform DataSense from the education data analytics organization BrightBytes. Microsoft plans to integrate the platform to be a service (IPaaS) solution for both education solution providers and U.S. school districts to improve data interoperability and integration across a global market.

DataSense, a winner of multiple Microsoft Partner of the Year Awards, currently integrates secure data for millions of learners across hundreds of districts daily. Both companies believe that adding DataSense to the Microsoft education product offering was the natural next phase in their ongoing work together. It is believed that Microsoft can help scale to more people faster with the new platform.

BrightBytes provides educators with the power to turn big data into big benefits for students. The organization's decision-support platform, Clarity, employs advanced analytics, including machine learning, psychometrics, and predictive analytics to organize and visualize actionable data across research-based frameworks to drive student learning. BrightBytes' mission is to use data to improve the way the world learns can only be achieved when educators have access to high-quality, communicable data.

Source: <https://www.brightbytes.net/resources-archive/microsoftdatasense>

Centre Lane Partners, LLC Acquires Turning Technologies, LLC



CENTRE LANE PARTNERS

January 2, 2019 - New York-based private equity firm Centre Lane Partners has completed an add-on acquisition of education software provider Turning Technologies. Terms of the deal were not disclosed.

Founded in 2002, Turning Technologies has sold over 20 million response solutions and offers real-time learning, engagement, and assessment software solutions to K-12 schools, universities, and businesses.

The company's global headquarters and management team will remain in Youngstown, Ohio, and the company foresees hiring additional talent in key areas.

The company's software includes TurningPoint, a solution that allows the integration of interactive questions within PowerPoint presentations or poll their learners over various applications and ResponseWare, a solution that allows participation over mobile and smart devices.

Centre Lane Partners' Managing Director Kenneth Lau said in a press release. "TurningPoint's comprehensive learning platform is scalable and designed in a manner that will allow Turning to expand its capabilities significantly."

Source:

<https://centrelanepartners.com/turning-technologies-the-global-leader-for-learning-engagement-and-assessment-solutions-announced-today-that-an-affiliate-of-centre-lane-partners-llc-has-acquired-the-company-from-brockway-moran/>

Houghton Mifflin Harcourt Acquires Waggle



Houghton
Mifflin
Harcourt



January 15, 2019 – **Houghton Mifflin Harcourt**, a global learning company, acquired **Waggle**, a leader in AI-driven adaptive solutions.

Waggle is recognized industry-wide as a leader in AI-driven adaptive solutions. It is a multiple award winner while earning the affection of administrators, teachers, and students, including the SIAA Education Technology CODiE award for Best Learning Capacity-Building Solution.

Houghton Mifflin Harcourt (NASDAQ: HMHC) is a global learning company that delivers integrated solutions that engage learners, empower educators, and improve student outcomes. As a provider of K-12 core curriculum, supplemental and intervention solutions and professional learning services, HMH partners with educators and school districts to uncover solutions that unlock students' potential and extend teachers' capabilities. HMH serves more than 50 million students and 3 million educators in 150 countries, while readers enjoy its award-winning children's books, novels, non-fiction, and reference titles throughout the world.

The combined companies plan to create a purposeful connection between its core content and adaptive supplemental offerings by aligning Waggle's capabilities with HMH's *Into Reading*, *Into Literature*, and *Into Math* programs. Waggle will help teachers identify student learning gaps to better support their students by using real-time data and insights. The acquisition continues HMH's investment in the extension of its core solutions.

Source: <https://www.hmhco.com/about-us/press-releases/hmh-acquires-award-winning-adaptive-learning-solution-waggle>



About Solganick & Co.

Solganick & Co., Inc. is an independent investment banking and M&A advisory firm focused exclusively on the global technology and digital media industry sectors, including an active practice within learning and education technology. We advise buyers and sellers of companies and efficiently execute M&A transactions that help increase shareholder value. Our professionals have advised on \$20+ billion in M&A transactions to date and have current clients and relationships globally with entrepreneurs, companies, and leading private equity firms within the sectors we cover.

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