

First LBO In For-Profit Education

WSJ Reports that Providence Equity Partners and Goldman Sachs are about to purchase Education Management Corp. (Nasdaq: EDMC) for \$3.4 billion.

Education Management runs 72 primary campuses across the U.S. and Canada, training its 72,000 enrolled students in fields such as fashion, psychology and Web-site design. It also runs a small but growing operation providing online instruction.

Market leader Apollo Group (Nasdaq: APOL) did 2005 revenue of \$2.3 billion on a total enrollment of 315,000 students, while rival Career Education Corp. had revenue of \$2 billion and 104,000 students. In the fiscal year ended June 30, 2005, Education Management had net income of \$101.6 million, or \$1.35 a share, on revenue of \$1.02 billion, and ranks third in the for-profit education market.

Apollo operates the famous University of Phoenix chain of educational campuses, and has recently had some hiccups, including the resignation of its long-time CEO Todd Nelson. The stock slid to a 52-week low of \$47.27. It is rising again, today, on speculation that other Private Equity deals might happen in the for-profit education sector, and APOL ranks at the top of that list.

Another interesting company waiting in the wings to go public soon is Capella Online University. The fast-growing company operates Capella University, an online university that offers undergraduate and graduate degree programs in business, organization and management, education, psychology, human services, and information technology. More than 13,000 students are enrolled in the school, which employs about 740 faculty members. Students seeking doctoral degrees account for 47% of enrollment. Nearly 70% of revenues are from federal student financial aid programs.

Federal financial aid, in fact, is boosting the entire sector, from primary education (Sylvan via NCLB) to higher education (Capella, Apollo, etc.).

About Sylvan: In 2003 Educate purchased Sylvan Learning Centers, the after-school tutoring operations of Laureate Education. Educate has about 1,000 franchised and company-owned centers in North America, operating under the Sylvan name. The centers offer personalized assessment and tutoring to students in grades pre-K through 12, as well as test prep for college entrance exams. Its Catapult Learning group offers supplemental reading and math education in schools. (Source: Hoovers)

It amazes me that Silicon Valley doesn't aggressively play in this sector! In fact, Venture Capitalists in Silicon Valley have a definitive negative bias against the Education sector, and entrepreneurs interested in building education businesses almost always have to look for other kinds of money than traditional venture capital.

Some Billionaire Angels have made Education their cause, and George Roberts of KKR is one of them. George Invested in Voyager, a very successful education business.

Voyager Expanded Learning? is a leading provider of in-school core reading programs, reading and math intervention programs, and professional development programs for school districts throughout the United States. Founded in 1994 by Dallas entrepreneur Randy Best and Admiral Thomas B. Hayward (Ret.), Voyager has delivered its programs to more than 1,000 school districts, resulting in dramatically improved student performance.

Michael Milken and his Knowledge Universe also has an educational agenda, having found success in Leapfrog, the educational toy company.

At any rate, expect an uphill battle if your heart lies in Education Entrepreneurship.

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About the Author

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