EBITDA multiples for preschools, childcare centers, and K-12 schools - Some valuation considerations

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We are frequently asked by sellers and buyers what the EBITDA multiples for schools are. That is how this article originated. In this article we explain how to use this metric and provide some information about the multiples we see today in the marketplace. Finally, we argue that EBITDA multiples are only one indicator to value a school. There is a more precise method. By "school" we mean a network of childcare centers, preschools or K-12 schools or even a single location of any of these educational institutions.

What is EBITDA?

EBITDA means Earnings Before Interest, Taxes, Depreciation, and Amortizations. It is a financial measure calculated with information found in the Income Statement of any school. It is widely used, because it is a rough approximation of the cash flow generated by a school in a given period of time.

What taxes are included in the "T" of EBITDA?

Those taxes refer only to income taxes (state and federal).

What interest is included in the "I" of EBITDA?

Typically, that is the interest related to any loan from banks, other financial institutions, and even loans from shareholders.

What EBITDA to calculate?

If the EBITDA is stable, i.e. has not been growing or decreasing over time, typically, the EBITDA to calculate is the trailing last twelve months of operations at the date of the valuation. In deals of schools with growing enrollment or recently opened, this is not an appropriate valuation method. You would have to use the Discounted Cash Flow method or adjust the EBITDA multiple method. How to do this is beyond the scope of this article.

To apply this methodology correctly, the EBITDA to use should be an adjusted EBITDA. An adjusted EBITDA is one that excludes non-recurrent income and expense items. Adjustments to be made include issues related to employee benefits, property taxes, leases, among others. That is, you must be technically consistent in the calculation of your EBITDA, so the calculation of school value is accurate.

Firm Overview

Mergium Advisors specializes in selling schools and other educational institutions. We also do capital raising, and related advisory services (including business valuations) in the education and other sectors.

Education Focus

- K-12
- Preschools
- Childcare centers
- Special Education
- Autism services (ABA in school, centers, and homes)
- Colleges & Universities
- Continuing Education & Training
- Education Technology
- Language Training and Tutoring
- Publishing & Instructional Materials

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What are the EBITDA multiples for childcare, preschools, and K-12 schools today?

There is no simple answer for this. Multiples depend on several school characteristics: geography, location, conditions of the real estate, academy delivery and quality, condition of personal property (e.g. furniture, computers, playgrounds, sports equipment, etc.), management quality, strength of back office, administrative software, security, quality of staff, brand recognition, staff turnaround, etc.

Today, we see EBITDA multiples as low as 4x and as high as 7x EBITDA and even multiples out of this range. Larger network of preschools and K-12 might attract larger multiples.

What are some of the pitfalls in using EBITDA multiples to value a school?

Most of these are related with the calculation of the EBITDA and the incorrect application of adjustments.

Is there a more precise method than EBITDA multiples to calculate the value of a school?

Yes. The method that really captures the equity value (value of a school business) is the Discounted Cash Flow method. It is based on the yearly projection of the school's future cash flows, balance sheets, and income statements for the next few years. This value is adjusted by excess cash flows (cash flows above the normal levels for the school's operation), the market value of non-operational assets, financial debt, and hidden liabilities, among others. The challenge of this methodology is the determination of discount rates used to calculate the present value of the future cash flows. These discount rates will depend on the financing aspects of the school (bank debt and shareholders debt), changes of debt levels through time, and the required rate of return on the owner's equity capital. However, this method really captures all the strengths and weaknesses of the school, as well as all of its intangible assets (brand, students list, community image, etc.).

Why engage Mergium to Sell Your School?

We are specialized and experienced in Early Childhood and K-12 school sales

- We specialize in selling schools and school real estate.
- More than 20 years doing mergers and acquisitions and Big Four experience.

Our Buyers are National School Operators

- Our focus is to sell to qualified buyers that are either institutional investors (like private equity funds) or large national school operators. These buyers have clear investment criteria, know the industry, and have plenty of capital for cash closings.

We Maximize your Sale Price

- We have working relationships with large national operators and school real estate investors. By selling to these buyers, the sale price of your school will be maximized.
- We run well structured competitive bids offering your school to as many qualified buyers as possible. We bring to the process as many qualified buyers as there are currently in the marketplace.

We do your school Pre-Engagement and Preliminary Valuation at no cost to you

- We do this to provide a preliminary price range so you have a key parameter to evaluate if it is the right time to sell your school.

We sell your Real Estate

- If the buyer does not acquire your real estate, we assist you in leasing it to the buyer and then finding a real estate investor to acquire it.

We give you Peace of Mind

- We keep the confidentiality of the process and cause no disturbance to your business operation.
- The sale of your school could be done as a share or asset sale. In a shares sale, which is a securities transaction, your advisor must be affiliated to a broker dealer, member of FINRA. Members of Mergium are representatives of StillPoint Capital, a broker dealer. Your transaction with us will not incur in any risk of breaking federal securities laws. Most brokers/advisors do not have securities licenses.