

Trends and Recent M&A Activity in the Early Childhood and K-12 Education Market

Spring 2021



This newsletter presents trends and selected M&A transactions in the Early Childhood and K-12 markets as well as implications for school owners.

The Covid 19 pandemic brought almost to a halt the M&A activity when compared to prior years. However, investors are again actively looking for deals of schools with good reputation in their communities, good demographics, infrastructure, curriculum, location, and brand.

M&A activity

Selected Early Childhood Transactions

-  Learning Care Group acquired Young School, six preschools serving families in Maryland.
-  Endeavor schools acquired preschools in Colorado, Georgia, and Virginia.
-  Funds advised by Apex Partners (the “Apax Funds”) announced they had reached an agreement to acquire Cadence Education, from investment funds managed by Morgan Stanley Capital Partners (“MSCP”)
-  Big Blue Marble of Avathon Capital continues investing in expansion of its network of preschools.

Selected K-12 Transactions

-  ISP acquired schools in the Greater Toronto area. ISP also acquired schools in other regions of the world during the last few months.
-  Nord Anglia Education acquired schools in Mexico, the UK, and China.

Our View For the Short and Middle Term

Changes to Capital Gains Taxes

- President Biden recently announced a proposed significant increase in long term capital gains taxes. The details are likely to change as the legislation makes its way through Congress. The proposed capital gains tax increase may double the rate that high-earners would pay when they sell their family business. The current rate is 20 percent, and Mr. Biden has proposed increasing it to 39.6 percent. Added on top of both rates is a 3.8 percent surcharge to help pay for the Affordable Care Act (source, NYT).

M&A in the Early Childhood Market

- During the pandemic, in the education sector, the most affected institutions were preschools. For example, Bright Horizons announced in its Annual report that: (1) total revenue decreased to \$1.5 billion in 2020 from \$2 billion in 2019; (2) Income from Operation decreased to \$53 million in 2020 from \$268 million in 2019. At the end of last year, Bright Horizons had 651 centers in North America and 363 in Europe. (Source: Bright Horizons, 10-K report, 2021).

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Firm Overview

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

Education Focus

- K-12
- Preschools
- Childcare Centers
- Special Education
- Autism services (ABA in school, centers and homes)
- Pediatric PT/OT/ST at outpatient clinics and at home and schools
- Education Staffing
- Colleges & Universities
- Continuing Education & Training
- Education Technology
- Language Training and Tutoring
- Publishing & Instructional Materials

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- Procure said that during the week of March 8th, the attendance in early childhood centers using Procure in the US was 58% versus 97% right before the pandemic started (source: Procure report tracking the impact of Covid 19 on the childcare industry, March 16/21).
- In the middle of the current normalization of economic activity, changes in the dynamics of the labor market, and people going back to offices and places of work, investors are looking for acquisition opportunities. The themes remain the same as prior to the pandemic: private pay models, accreditation preferred, 3+ year operating history, high teacher retention, 100+ capacity per center, 15%+ EBITDA margins, areas where median annual household income exceeds \$80,000 (i.e., more affluent areas).
- Thus, we expect operators, well established in the market, to continue acquiring small networks of schools and single schools with strong infrastructure, quality academic standards and good locations.
- Currently, the issues at play in school sale processes are school valuation and transaction structuring. On one hand, school valuation might be an issue if attendance at closing does not get to the pre-pandemic levels. Associated to this there is the issue of purchase price and potential future consideration payments linked to school performance and enrollment in the months post closing of the transaction.

M&A in the Prek-5, PreK-8 and PreK-12 Markets

- We also saw a decrease in M&A activity in the sale and acquisition of K-12 schools during the pandemic. However, as in the early childhood market, buyers are looking for acquisition opportunities. Even though decreases in enrollment and in revenue have not been as severe as in the early childhood market, deals of Prek-12 schools will face also challenges in term of school valuation and transaction structuring.

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 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.