

Consolidation in US Higher Education

What Boards and Cabinets Need to Know About the Industry Consolidation Landscape Before Evaluating New Opportunities

Overall Industry Readiness for M&A

Adult and Graduate Market Is More Primed than Traditional Undergraduate



Low Readiness

Likely an uptick in M&As, but not a disruptive wave

- · Residential model has high fixed costs that do not scale or substantially benefit from network effects
- Students value brand and experiential components, protecting smaller providers

14%

of undergraduates are enrolled in exclusively distance learning programs

of traditional students go to college within 100 miles of their home

High Readiness

Currently experiencing significant activity and likely to continue

- · Online education has nationalized the market and created substantial economies of scale and network effects
- Market is not an oligopoly, but scale in regional and national markets matters

1 in 5

online graduate students attend one of just seven institutions (including WGU1, SNHU², and ASU³)

57%

of online graduate students attend out-of-state institutions

Click here for more of EAB's research on the adult and grad market.

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Arizona State University.

Many HEIs More Likely to Struggle Along in Short-Term than Close

Closures Certainly on the Rise...



Total HFI closures since 2000



60%

...But There Is More to the Story

of total HFIs closed since 2000 are 2-year institutions



Increase in number of HEI closures from 2011-2013 to 2014-2016



75%

of total HEIs closed since 2000 are for-profit



Average annual number 10 6 of non-profit closures since 2015



30

More non-profit institutions existed in 2018 than 2010. despite closures1

Disincentives to Closing in Higher Ed



Shareholder Activism

Alumni and other stakeholders have a vested interest in institutional preservation and intervene to fight closure



Fiduciary Duty

Boards and leadership persevere to keep institution open as long as possible



Forbearance

Lenders, vendors, and donors may provide just enough relief to avoid outright closure

¹⁾ Based on IPEDS degree-granting postsecondary institution count data, FY18.

Spectrum of Partnership Pathways to Bolster Institutional Mission and Margin

Least Integrated Most Integrated

Consortia

- Multiple independent institutions share resources and services
- **Partnerships** typically focus on administrative services

Strategic Alliances | Joint Ventures

- Multiple institutions enter a i collaborative while remaining independent
- Partners integrate resources and services, but also cooperate on revenue opportunities

- Two or more institutions form a shared entity to generate revenue
- Most ventures take form of joint academic units

Multiple

institutions affiliate with central governing bodv

Private Systems

Affiliated institution may retain its own brand, board, and legal entity

M&As

- Two or more institutions combine their institutions, or one absorbs the another
- Entities fall under unified control and governance structure



Description

Example



Green Mountain Higher Education I Consortium shares financial and IT services



I TCS¹ Education System schools share services and collaborate on enrollment strategy



ITCU2 and UNTHSC3 launched a ioint i medical school in 2015



The National University System Lincludes four affiliated institutions in its network





Boston University acquired Wheelock College in 2018

- 1) The Common Solution.
- 2) Texas Christian University.
- 3) University of North Texas Health Science Center.

Weighing Partnership Pathway Opportunities



Partnership Pathway	Adoption Likelihood	Rationale	Target Segments
Consortia		Lower implementation barriers and moderate economies of scale make consortia applicable to most institutions	All institutions
Strategic Alliances		Shared revenue strategy unlocks potential network effects but sacrifices institutional agency	Public systems, regional privates
Joint Ventures		Ideal for niche market opportunities, although limited in scalability	Larger or specialized privates and publics
Private Systems		Greatest potential ROI made difficult by high implementation barriers	Regional privates

Market Intelligence on Industry Activity

6

8 Critical Findings About M&A Opportunities Based on Historical Data

False Starts

1

No Appetite for Bailout Via Buyout

Fewer institutions are looking to do deals of goodwill, despite the demand.

2

Few Deals of True Equals

Most M&As are asymmetric in institutional resources and strategic position.

Real Opportunities

3

Rise of State-Mandated Consolidation

Mergers are a growing response to rising costs, changing demographics in public systems.

4

Buying (Rather than Building) Way into New Markets

M&A can serve as a cost-effective way to diversify and grow enrollments.

5

For-Profits as Acquisition Targets

Select non-profits have purchased for-profits to fuel growth aspirations.

Lessons Learned

6

Underestimation of Implementation Costs

Closing, implementing deals often reveals hidden costs.

7

Lackluster Dividends of Higher Ed M&A

M&A attempts frequently have low success rates and limited ROI.

8

Not a Stand-Alone Solve to Industry Threats

Higher Ed's most pressing challenges are often unaddressed by M&A.



Lead with Mission, Brand, and **Strategy Before Finances**

Deals may look good on the balance sheet but be poor strategic fits and counterproductive to other goals



Consider the Full Spectrum of **Partnership Pathways**

Evaluate the benefits of partnering with other institutions through consortia or joint ventures before fully merging or acquiring institutions



Focus on Value Creation

M&A is a strategic means, not an end; prioritize partnerships that address core institutional and industry challenges, such as college affordability and access



Don't Be Afraid to Walk Away

Both sell-side and buy-side institutions should consistently be willing to walk away and let the due diligence process disrupt the deal formation if strategic and financial value cannot be assured

Four Archetypal Institutions' Strategic Position for Consolidation

Hiah

Market Fitness

TOW

LG Tech

- High market fitness, but limited resources
- Strongest acquisition candidate, but can also benefit from consortia, strategic alliances, and joint ventures

Apple University

- High market fitness and resource level
- Stronger buyer position, but often lacks urgency or need to consider acquisition
- Focused on brand, and able to build instead of buy

BlackBerry College

- Low market fitness and resource level
- Most interested in M&A on the sell-side, but has lowest buyside demand

Lenovo University

- Low market fitness, but high resource level
- Most interested in targeted acquisitions to bolster market fitness

Low

High

Resource Level