



**SECTOR SCOPE:** The **Post-Secondary Education** ("PSE") market consists of two primary segments: (1) not-for profit, publicly-funded educational organizations (i.e. state colleges) and privately funded institutions; and (2) for-profit educational organizations that offer accredited diplomas and degrees towards the special needs of adult students. The for-profit schools, which have been driving market growth, encompass six major curriculum groups: allied health; cosmetology; esthetics; culinary arts; allied trade professionals; and information technology.

**GROWTH OUTLOOK**

- ▶ The U.S market for postsecondary education was estimated to be \$213 billion in 1998. According to Corinthian Colleges Inc., it is expected to reach \$303 billion by 2010, growing at a compound annual growth rate ("CAGR") of approximately 3%.
- ▶ In 2004, for-profit PSE institutions accounted for approximately \$4 billion (or less than 2%) of the total PSE market. This market segment, however, is expected to grow at a CAGR of approximately 25%, reaching \$24 billion by 2012, according to the *National Center for Education Statistics*.
- ▶ According to *Eduventures Inc.*, the U.S online higher education market is expected to reach \$10.5 billion by 2007, from \$3.8 billion in 2003, growing at a CAGR of approximately 29%.

**DEMAND DRIVERS:**

- ▶ **An Expanding Pool of Potential Students** - The traditional 18-24 year old full-time college student profile is losing its dominance, falling to less than 25% of all post-secondary students in 2002. PSE is attracting a more diverse blend of learners that span all ages and income brackets and attend school on either a full or part-time basis. This trend, coupled with the recognized success of market leaders, has made vocational PSE increasingly acceptable to students and employers.
- ▶ **A Widening Income Gap Between Educational Levels** - According to U.S Census Bureau surveys, the average income of degree recipients was \$49,674 - nearly twice the \$26,059 average income amongst high school graduates. The growing economic value of post-secondary education has prompted a rise in enrollment rates, and vocational PSE segments are set to capture much of this growth due to inflating college tuition costs.
- ▶ **Increases in Federal Funding** - While diminished local and state government budgets are curbing higher education expenditures, the federal government continues to increase its spending on the industry. Total Federal PSE spending reached \$25 billion in 2004, from \$10 billion in 2001, growing at a CAGR of approximately 37%.
- ▶ **Economic Trends** - The 2005 unemployment rate has increased to 5% from 4% in 2000. The real effect of unemployment (i.e. time it takes for workers to adjust to unemployment) on enrollments has yet to materialize. Thus, Capstone believes that the strong upward trends related to enrollment in the for-profit PSE segment will continue over the next few years.

**MARKET PERFORMANCE:**

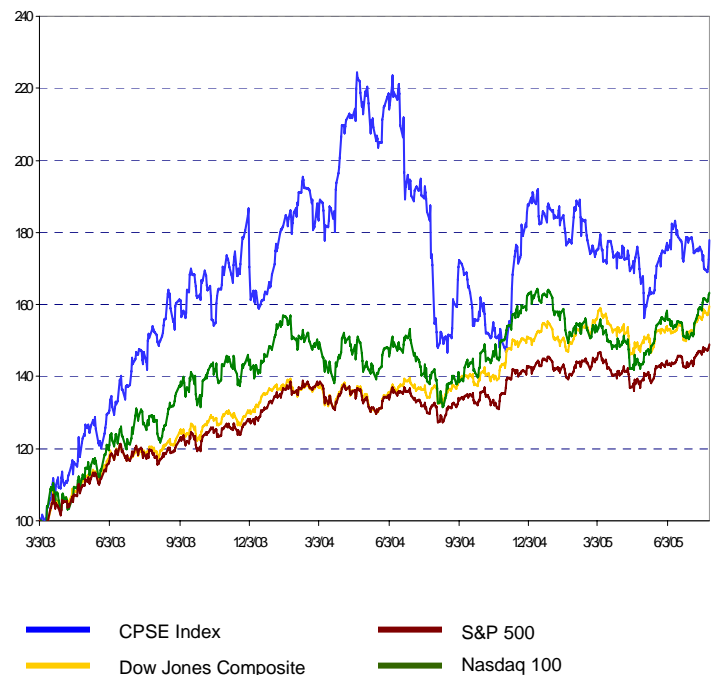
**Public Equity Markets**

Company Name	Ticker Symbol	Valuation Statistics	
		Enterprise Value /	
		Revenue	EBITDA
Apollo Group Inc.	APOL	5.9x	17.1x
Career Education Corp.	CECO	1.8x	8.7x
Concorde Career Colleges Inc.	CCDC	0.8x	9.2x
Corinthian Colleges Inc.	COCO	1.3x	7.2x
DeVry Inc.	DV	1.9x	12.5x
Education Management Corp.	EDMC	2.5x	10.0x
ITT Educational Services	ESI	3.2x	11.9x
Laureate Education Inc.	LAUR	3.2x	15.8x
Regis Corp.	RGS	1.1x	8.9x
Strayer Education Inc.	STRA	5.3x	13.8x
Universal Technical Institute	UTI	2.9x	13.4x

<b>Average</b>	<b>2.7x</b>	<b>11.7x</b>
<b>Median</b>	<b>2.5x</b>	<b>11.9x</b>
<b>Harmonic Mean</b>	<b>1.9x</b>	<b>10.9x</b>

Enterprise Value = Market Capitalization + Interest Bearing Debt - Cash & Cash Equivalents  
Source: CapitalIQ. Enterprise Value as of July 29, 2005.

**The Capstone PSE Index**



The Capstone PSE Index is a market capitalization weighted index that includes the following companies: APOL, CECO, CCDC, COCO, DV, EDMC, ESI, LAUR, RGS, STRA and UTI (March 03, 2003 to July 29, 2005).



Capstone Partners LLC is a leading national investment banking advisory firm dedicated to assisting middle market entrepreneurs through complex M&A and financing transactions.

#### Recent PSE Transactions



Has been acquired by

**REGIS CORP.**  
(NYSE:RGS)



**ROSS LEARNING INC.**

Has recapitalized with

**HURON CAPITAL PARTNERS**

#### Contact Information:

1 Boston Place, 39<sup>th</sup> Floor  
Boston, MA 02108

845 Oak Grove #115  
Menlo Park, CA 94025

[www.capstonellc.com](http://www.capstonellc.com)

#### John Ferrara

Managing Partner  
Direct (617) 619-3325  
Mobile (617) 291-5484  
jferrara@capstonellc.com

#### James Beakey

Director  
Direct (617) 619-3365  
Mobile (617) 794-0886  
jbeakey@capstonellc.com

#### Jacob Voorhees

Vice President  
Direct (617) 619-3323  
Mobile (617) 216-1543  
jvoorhees@capstonellc.com

#### DEAL ACTIVITY:

Date	Target	Deal Size (\$mm)	Buyer	Target Description	TEV / REVENUE	TEV / EBITDA
7/19/2005	American Career Training Institute, Inc.	N/A	Equus Resources, Inc.	Offers courses in home inspection, mortgage finance, real estate appraisal, and real estate sales.	N/A	N/A
7/1/2005	Martins College of Cosmetology	20.00	Regis Corp.	Offers training programs in hair care, skin care, nail technology, and esthetics.	CF	CF
6/30/2005	Technical Career Institutes, Inc.	16.00	EVCI Career Colleges Holding Corp.	Provides technological education services worldwide in electronics, computer, accounting, office, new media, climate control and building maintenance technologies.	0.46x	6.67x
6/20/2005	Professional Career Development Institute, LLC	N/A	CSFB Private Equity, DLJ Merchant Banking Partners III, L.P.	Offers courses in accounting, bridal consulting, plumbing, photography, pharmacy technician, motorcycle repair, floral design, property management, Web site design, tax preparation, interior decoration, gourmet cooking and catering, and real estate appraisal.	N/A	N/A
6/9/2005	Salem College	N/A	The Palmer Group	Offers graduate and undergraduate degrees in fields of humanities, arts, mathematics, social sciences, and natural sciences.	N/A	N/A
5/2/2005	Pierre's School of Cosmetology	3.10	Regis Corp.	Offers degree programs in cosmetic services and cosmetology.	CF	CF
3/8/2005	Ross Learning Inc.	20.30	Huron Capital Partners, L.L.C.	Provides medical education and employment programs.	CF	CF
1/7/2005	Capella Education Co.	62.50	InSight Venture Partners, Maveron, L.L.C., Technology Crossover Ventures	Provides online post-secondary education services in business, organization, and management; education; psychology; human services; and information technology.	N/A	N/A
1/4/2005	Education Corporation of America	N/A	Willis Stein & Partners, L.L.C.	Offers nondegree, as well as associate's, bachelor's, and master's degree programs in the areas of allied health, business, information technology, interior design, culinary arts, and automotive repair at campuses and online.	N/A	N/A
11/18/2004	Florida Career College	53.00	TA Associates, Inc.	Provides training and testing services in the field of allied health and information technology.	N/A	N/A
11/4/2004	The Marco Group, Inc.	52.00	Education Affiliates LLC	Operates vocational and professional training schools focused on healthcare, offering certificates and degrees to medical technicians truck driving, business administration, and information technology.	N/A	N/A
10/12/2004	Educational Services of America, Inc.	40.00	Trimaran Capital Partners	Operates schools and provides educational services to children with learning disabilities and emotional handicaps.	2.70x	N/A
9/16/2004	Walden e-Learning, Inc.	106.33	Laureate Education Inc.	Offers undergraduate and graduate degree programs to working professionals through distance	N/A	N/A
6/1/2004	Blaine Beauty Career Schools	27.40	Regis Corp.	Offers training courses in cosmetology, esthetics, and nail designing.	CF	CF

Average	2.02x	6.58x
Median	2.10x	6.65x
Harmonic Mean	1.59x	6.06x

\* Highlighted transactions were executed by Capstone Partners LLC.

\* CF = Confidential values used in calculating Average, Median and Harmonic Mean multiples.

#### A CLOSER LOOK AT ALLIED HEALTH:

- ▶ The Allied Health sub-segment is a broad category that includes dental assistance, dental hygiene, medical billing, medical transcription, pharmacy assistance, radiology, respiration, therapy, sonography, surgical assistance and veterinary assistance. Rapid technological advances and an aging population continue to drive job growth in many of these areas.

#### Growth Trends and Drivers

- ▶ There is a substantial need for workers in most professions within the allied health and general health industry; Capstone has seen a resurgence in hiring across all allied health occupations.
- ▶ As Allied health schools have limited slots, the number of students enrolled in allied health programs will not keep pace with demand, which creates a sizeable market opportunity for businesses with the wherewithal to expand their curricula and open new campuses.
- ▶ Hospitals, nursing homes, pharmacies and other healthcare establishments are seeking to hire people with vocational backgrounds rather than higher-paid professionals with four-year and/or postgraduate degrees, which reinforces the demand for post-secondary allied health professionals.

#### M&A Outlook

- ▶ The acquisition pace in the Allied Health sector will continue to be strong. As PSE businesses see record levels of applicants, larger players such as Concorde and Kaplan will be looking to increase their presence in the industry through strategic programmatic expansion. Furthermore, with the entrance of both Career Education and DeVry, competition will be fierce resulting in a strong acquisition environment.