Post-Secondary Education
Coverage Report

TRENDS IN FOR-PROFIT & NON-PROFIT EDUCATION

Workforce demands for additional skilled professionals during the economic downturn has increased the role of for-profit post-secondary education (PSE) institutions in providing students of all backgrounds access to higher education and specialized career training. These fundamental economic shifts, combined with a growing population of potential students and the increasing costs of traditional education platforms, have created significant demand for highly specialized career training. These programs allow students to earn their diploma or degree of choice in less time and with less capital resources, greatly enhancing the education ROI.

According to the National Center for Education Statistics (NCES), overall undergraduate enrollment in post-secondary education institutions increased from 13.2 million students in 2000 to 18.1 million in 2010 and is projected to reach 20.6 million students in 2021. Overall undergraduate enrollment increased by 37.4% between 2000 and 2010 due to increased enrollment at private institutions. Student enrollment in public institutions increased by 30.0% from 10.5 million students in 2000 to 13.7 million students in 2010. Private institutions experienced a higher rate of growth over this period, increasing enrollment from 2.6 million students in 2000 to 4.4 million students in 2010, an increase of 67.2%. Most of the growth in private enrollment over this time period occurred among for-profit institutions. Two-year institutions experienced enrollment increases from 5.9 million to 7.7 million students from 2000 to 2010, with enrollment expected to reach 8.8 million students by 2021. The exhibit below illustrates projected undergraduate enrollment growth (in millions of students) from 2006 to 2021.

Undergraduate Enrollment 2006-2021(P)

Source: National Center for Education Statistics
The number of Title IV eligible, for-profit PSE institutions increased from 2,584 in 1997-98 to 3,194 in 2010-11 (a CAGR of 1.64%), while the number of private non-profit institutions decreased from 2,052 to 1,810 over the same time frame.

**FOR-PROFIT INSTITUTIONAL GROWTH**

With the growing demand for higher education, total PSE revenues for 2011 were estimated at $556 billion, an increase of 10.5% over the previous year. The for-profit sector is a significant contributor to the overall growth in the PSE market. Revenues among for-profit colleges increased at a CAGR of approximately 17.5% since 2000, reaching $29.6 billion in 2010. In the 1997-1998 school year, for-profit revenues represented only 1.3% of total PSE revenues; this figure has increased to 6.1% as of 2011. For-profit PSE year over year revenue growth has been in the double digits every year since 2001, including a significant surge from 2007 through 2010, as a spike in U.S. unemployment created strong demand for affordable and timely career-oriented education.

**For-Profit Revenue & Y/Y Growth Rates**

*Source: National Center for Education Statistics*
Relative to the overall PSE market, for-profit career colleges have benefited the most from a growing adult learner student population. Traditionally, for-profit providers receive a disproportionate share of enrollments from adult learners (67% of students). According to ED projections, the total adult learner population (classified as students over 25 years of age) is expected to increase from 9.0 million students in 2010 to 10.7 million students in 2020, a CAGR of 1.8%. Meanwhile, enrollment for students under the age of 25 is expected to increase at a CAGR of 1.0%, in line with overall enrollment growth.

**CHALLENGES TO FOR-PROFIT GROWTH**

Increased media and regulatory scrutiny has put significant pressure on for-profit PSE over the past year, which has been reflected in preliminary enrollment figures (Fall 2012) that show four-year for-profit enrollment likely decreased 7.2% in the last year. In the summer of 2010, a report from the GAO included a scathing analysis of for-profit PSE recruitment tactics. The report (which was later subject to significant revisions) increased the pressure on Congress to further regulate the for-profit education sector. The result was the so-called “gainful employment” legislation, passed in the summer of 2011, which placed requirements on career colleges for repayment and debt rates of graduates in order to receive Title IV funding. Critics accused the legislation of being discriminatory against for-profit institutions (most non-profit PSE institutions were exempt from the new rules on Title IV requirements) and based on misleading data from the GAO. Proponents argued that the new legislation would prevent students from pursuing expensive degrees with little impact on career prospects. Critics won a major victory in the summer of 2012 when a judge struck down the debt repayment standards (although disclosure requirements were upheld).

In August of 2012, a U.S. Senate Committee on Health, Education, Labor and Pensions (HELP) again criticized the for-profit education sector, citing low graduation rates, excessive marketing budgets, high tuition costs and poor student outcomes. There are still many unknowns in regards to legislation and Title IV funding for for-profit PSE, but the reelection of President Obama indicates continued scrutiny for the industry (the Democratic party is generally more critical of for-profit education than the GOP). In addition to regulatory issues, for-profit PSE may begin to face a shortage of capital for investment and expansion. A market cap weighted index of publicly traded, for-profit PSE companies (e.g. Apollo Group, Corinthian Colleges) has significantly underperformed the S&P 500 since the summer of 2009, when the original GAO report was released. While publicly traded PSE stocks are an imperfect proxy for the overall for-profit market, the abysmal equity returns of these large public entities may suggest a decreased appetite for investment in the industry and could indicate reduced capital availability in the future.
DEMAND DRIVERS

A variety of systemic and demographic factors are propelling the growth of PSE. These factors impact both the size of the potential student population and the incentives that encourage candidates within this population to pursue degrees from PSE schools. These growth factors include:

- **Demand for skilled professionals** – As a result of economic globalization and continued technological advances, higher levels of education have become, and will continue to be, a prerequisite for many occupations. Fewer lower skilled jobs are available domestically as many of these positions are being moved abroad by companies as they focus on hiring a more skilled domestic workforce. The BLS estimates that jobs requiring some college or higher are expected to increase by 17.5% from 2010 to 2020, compared to a 14.1% increase in jobs requiring a high school diploma or less.

- **Acceptance and growing use of technology** – As a result of economic globalization and continued technological advances, higher levels of education have become, and will continue to be, a prerequisite for many occupations. Fewer lower skilled jobs are available domestically as many of these positions are being moved abroad by companies as they focus on hiring a more skilled domestic workforce. The BLS estimates that jobs requiring some college or higher are expected to increase by 17.5% from 2010 to 2020, compared to a 14.1% increase in jobs requiring a high school diploma or less.

The Parthenon study concludes that brand recognition will continue to serve as an advantage for non-profit schools entering the online education market, particularly with regard to tuition levels and student recruitment. In addition, as online education gains in popularity among traditional students (18 to 24 years of age and financially dependent), highly selective non-profit schools can leverage existing program curriculums, faculty and employer relationships to compete for those students. Growing awareness about the convenience and quality of online education will continue to drive growth for online PSE programs across all institutional types.
➢ **Economic conditions & competition within the job market** – Recent economic conditions have highlighted the inherent counter-cyclicality of the PSE market. This is due to the fact that when economic conditions worsen and competition for jobs is heightened, workers seek higher education in order to make themselves more viable candidates for employment opportunities. For-profit and two year colleges have exhibited the highest counter cyclicity, likely due to the availability of lower cost and shorter duration programs. For unemployed workers during a recession, the opportunity cost of returning to school is less than when employment opportunities are plentiful.

➢ **Increasing percentage of population attending college** – Most students seek post-high school education. According to NCES, in the fall of 1991, the percentage of high school students enrolling in college was 62.4%. In 2011, this percentage reached 68.3%. The sluggish economic environment could accelerate college participation rates and should keep the percentage of high school students enrolling in college near the 70% level. In addition, NCES forecasts the number of older students (aged 25-44) attending college to increase by 28.1%, reaching 9.6 million students by 2020.

➢ **Widening income gaps among educated vs. uneducated** – The value proposition for Americans obtaining a college degree remains firmly intact. Individuals who complete higher levels of education have proven more employable and continue to command higher salaries. According to economists at the Federal Reserve Bank of Chicago, an individual’s earnings increase by approximately 11%, on average, for each additional year of schooling. This clear economic value calculation has directly resulted in increasing PSE enrollments. The education earnings premium (beyond a high school degree) has been on the rise for associate, bachelor’s and master’s degrees. Both associate and master’s degrees reached a peak earnings premium in 2009 with 32% and 118% incremental earnings from high school graduates. For bachelor’s degree holders, the earnings premium reached 75% peaks in both 2008 and 2010 (the most recent data available).

➢ **Public funding exposure** – A combination of irresponsible fiscal planning and sluggish economic growth has put at risk the availability of direct government funding for education as well as government backed student loans. Two-year public institutions, which often compete directly with for-profit career oriented schools, have the largest exposure to direct government funding at 72%. Public institutions as a whole receive 47% of funding from government entities, while private non-profits and private for-profits receive 15% and 8%, respectively. Should the Federal, state or local governments slash PSE funding, private institutions will have minimal exposure and may benefit from reduced competition.

➢ **Education increasing job security** – Recent employment trends have shown that incremental levels of education result in not only lower unemployment levels, but also less volatility in the employment market. Since the third quarter of 2009, unemployment rates for those without a high school degree, with a high school degree but no college, with some college or an associate’s degree and with a bachelor’s degree or higher peaked at 15.4%, 10.7%, 8.8% and 4.9%, respectively. For the same four categories volatility in unemployment, as measured by quarterly standard deviation, was 1.03%, 0.83%, 0.53% and 0.30%. Attaining higher levels of education provides not only job security, but reduces the risk of job loss due to economic volatility.

**NON-PROFIT/FOR-PROFIT PARTNERSHIP**

A 2012 study published by Educause, a non-profit organization focused on information technology in higher education, highlights the history and potential growth of non-profit/for-profit education partnerships. Non-profit institutions tend to cater to traditional college students, but the growth in nontraditional learners with unique programmatic, scheduling, facility and career services needs has forced many institutions to operate outside of their core expertise. In addition, the capital requirements (financial and otherwise) for new program offerings that cater to nontraditional students can be burdensome for many non-profit institutions.

Beyond the growth in nontraditional students and online education, non-profits are seeking out for-profit partners to aid them in measuring student outcomes, which have become increasingly important in light of increased scrutiny from accrediting bodies, legislators and regulators. For-profits are required to have stringent student outcome systems in place, and their infrastructure can be leveraged for process, governance and program improvements at the non-profit level. Lastly, declines in endowments and gifts during the recession, reductions in government funding and the ever increasing costs of PSE facility and program expansions have forced non-profit schools to seek alternative forms of financing for operations and capital expenditures. Partnerships allow the private sector to deploy capital through non-profit platforms, where regulatory requirements are less stringent, accreditation is generally easier, student acquisition costs are less, faculty expertise is often superior and school brands and programs are well established.
The Educause article likens for-profit/non-profit education partnerships to credit unions, which rely on larger, for-profit institutions for services such as online banking, credit cards and IT infrastructure. The for-profit banks offer the advantages of scale and expertise, while the credit unions offer an advantageous platform and customer base. The four most common partnerships between a for-profit and non-profit educational institution are described in the exhibit below.

<table>
<thead>
<tr>
<th>Partnership Structures and Examples</th>
<th>Type</th>
<th>Description</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Support</td>
<td>Outsource a single function or process for a university</td>
<td>California Community College/Kaplan (high demand course capacity)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Arizona State University/Pearson (enrollment management and remedial math)</td>
</tr>
<tr>
<td></td>
<td>Contract-Replica</td>
<td>Third party recreates an existing program in a new format (e.g. online)</td>
<td>USC/2tor (development and management of USC’s MAT degree online)</td>
</tr>
<tr>
<td></td>
<td>Contract-New</td>
<td>Third party leverages a university program or brand to create a new program, generally in a new format</td>
<td>Villanova/Bisk Education (course development)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Indiana Wesleyan (and others)/Institute For Professional Development (development and operation of adult accelerated degree programs for small liberal arts colleges)</td>
</tr>
<tr>
<td></td>
<td>Joint Venture</td>
<td>College/university and third party create a joint venture to build a new program with expectation of creation of new institution</td>
<td>Antioch College/Sojourner Douglass (Sojourner Douglass created as a branch campus of Antioch)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Sojourner Douglass/Latimer Education (Latimer creating a branch campus from Sojourner Douglass)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Tiffin University/Altius Education (Altius created Ivy Bridge College as a branch campus of Tiffin)</td>
</tr>
</tbody>
</table>

Source: EDUCAUSE “Early Days of a Growing Trend: Non-profit/For-Profit Partnerships in Higher Education”

In 2010, Princeton Review came to an agreement with Bristol Community College (BCC) in Massachusetts in which Princeton would lend its capabilities to develop accelerated versions of BCC health science programs in exchange for $100 per credit hour, which was added to program tuition. BCC agreed to the partnership to both improve its financial strength and fill a gap in education demanded in the region.

The University of Phoenix recently announced a plan to partner with over 100 community colleges across the country. Many community colleges are eager to participate, hoping to provide further opportunities for their students to earn bachelor level degrees. The Apollo Group (University of Phoenix’s parent company) is seeking to boost slumping revenues caused by decreasing enrollments. In addition, Apollo hopes to earn positive publicity in light of several reports critical of the for-profit PSE industry. The first two partnerships, announced in 2012, are with Northern Virginia Community College and Maricopa Community Colleges in Arizona. Both non-profit and for-profit institutions bring unique capabilities to the table, and during times of economic uncertainty and rapidly changing education needs, increased collaboration is likely to continue.
MERGER & ACQUISITION ACTIVITY

The post-secondary education industry has been on a bit of a roller coaster ride for the last three years. Due to an increasing demand for career-focused education during the economic downturn, most schools were performing very well in 2008 and 2009. As a result, transaction and market multiples were extremely high. In July 2010, with the announcement of pending gainful employment legislation, transaction activity came to a screeching halt and market multiples began their inevitable decline. Moreover, vilification by the media and the government as a result of class action lawsuits, the GAO report, accrediting body turmoil and state-level investigations piled on to diminish perceived market value.

A review of M&A activity in post-secondary education reflects the uncertainty that has afflicted the industry and shows 2008 as the last “normalized year”, with 36 transactions completed. As in most industries, the number of transactions declined in 2009, reflecting the steep economic decline and the impact of the credit crunch on M&A activity in general. Industry transactions rebounded somewhat in 2010, which may have had the potential to reach record levels had it not been for gainful employment. From July to September of 2010, there were 20 transactions of $8mm of EBITDA or higher in various stages of closure that were pulled due to uncertainty in the market. Although market activity has been light in Q1-2013, Capstone is aware of several transactions that are in process and expects deal momentum to pick up significantly for the remainder of the year.

U.S. Post-Secondary Education M&A Activity (2008 to Q1-2013)

Although a significant amount of uncertainty remains around Department of Education legislation and regulations, Capstone is beginning to see a surge in activity within our post-secondary education practice. We believe the sector’s long-term growth prospects are compelling and that the PSE industry will continue to attract both private equity and corporate buyers. In addition, an abundance of cash in the hands of corporate buyers, a large overhang of private equity capital, the reappearance of commercial lenders, low interest rates and an improving economy will continue to drive accelerated M&A activity.
KEY VALUE DRIVERS

The strategic benefits of mergers & acquisitions in the PSE industry have been widely recognized. From an infrastructure standpoint alone, strategic combinations have generated immediate synergies, allowing buyers and targets to leverage each other’s brand name, program content, technology platform and sales & marketing expertise within different geographies. Capstone has identified several key characteristics of post-secondary education companies that tend to be desirable to potential buyers. To the extent that the selling company has these characteristics, the following attributes can attract heightened buyer interest and premium valuations.

90/10 Solutions: In the current market, most larger for-profit school conglomerates are experiencing severe 90/10 issues. In our recent experience, schools that provide comprehensive solutions (such as 90/10 rates below 75%, non-Title IV schools, corporate reimbursement arrangements, corporate training, continuing education/licensure, foreign schools) are trading off a multiple of revenue instead of EBITDA. These multiples range from 1.0x to 4.0x (average of 1.5x to 2.0x) based on size and industry fundamentals. The primary reason for these premium multiples lies with large school chains who are desperate to provide a “Band-Aid” fix to their 90/10 issues or they recognize that $50 million in non-Title IV revenue represents an additional $500 million in Title IV money that can be drawn down.

Clean Regulatory History: Schools that exhibit an extremely clean regulatory history are also receiving significant premiums to the public market. This means recent accreditation visits with limited to no findings, limited to no exposure to gainful employment regulations, a significant cushion to 3-year cohort default rate limits, satisfactory 90/10 rates, minimal exposure to ATB students and a historical focus on the student with above-industry results in student retention, graduation, employment and satisfaction. In our experience, these schools (depending on the combination of the above) are being valued between 6.5x and 8.0x EBITDA which represents over a 2x premium to publicly traded comparable companies, granted that several of these public companies have significant regulatory concerns. Schools with regulatory issues are trading in-line with public markets at 4.0x to 6.0x EBITDA.

Renewed Focus on Tertiary Markets: In most metropolitan areas, for-profit post-secondary education has saturated the market for students and more importantly, graduate employment. The hyper-competitive nature of these markets has led to a renewed focus on tertiary markets as small as 50,000 to 250,000 in population where there is limited competition primarily via small regional chains and “mom-and-pop” schools. Those schools that are able to perform admirably within these smaller markets are receiving a premium to market multiples, especially if buyers can introduce new programs that currently do not exist in the market.

Compelling Curricula: Schools that offer programs with compelling employment narratives also have been trading at a premium. The most in-demand programs are related to niche healthcare curricula with a focus on nursing programs. Skilled trades and cosmetology programs are also receiving a premium to market, given their advantageous gainful employment and employment rates. Those schools that are able to offer advanced bachelors, masters and doctorate degrees within the auspices of gainful employment are also receiving premiums.
## SELECT POST-SECONDARY EDUCATION M&A TRANSACTIONS

<table>
<thead>
<tr>
<th>Date</th>
<th>Target</th>
<th>Acquirer</th>
<th>Target Business Description</th>
<th>Enterprise Value (mm)</th>
<th>EV / LTM</th>
</tr>
</thead>
<tbody>
<tr>
<td>3/14/13</td>
<td>Phoenix East Aviation</td>
<td>Renovus Capital</td>
<td>Provides pilot and professional flight instructor training services</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>1/8/13</td>
<td>Spartan College of Aeronautics and Tech.</td>
<td>Sterling Partners</td>
<td>Aviation-maintenance school for training pilots, technicians and nondestructive testing professionals</td>
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</tr>
<tr>
<td>1/8/13</td>
<td>Airline Career Academy</td>
<td>Pan Am International Flight Academy</td>
<td>Provides JAA and FAA flight training programs and courses in FL</td>
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</tr>
<tr>
<td>12/4/12</td>
<td>South College of Tennessee*</td>
<td>Renovus Capital</td>
<td>Offers a variety of degrees in health, legal, education and business ranging to associate to doctoral level</td>
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</tr>
<tr>
<td>10/23/12</td>
<td>Southern Technical Institute</td>
<td>The Wicks Group</td>
<td>Operates as a post-secondary technical college with six campuses in Central FL</td>
<td>--</td>
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</tr>
<tr>
<td>10/11/12</td>
<td>Midwest Technical Institute</td>
<td>Summer Street Capital Partners</td>
<td>Offers courses in career fields including welding, HVACR, allied health and cosmetology</td>
<td>--</td>
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</tr>
<tr>
<td>10/11/12</td>
<td>The Ariel Group</td>
<td>Renovus Capital</td>
<td>Provider of training programs that teach leadership and communication skills to executives</td>
<td>--</td>
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</tr>
<tr>
<td>10/1/12</td>
<td>NTT</td>
<td>ECPI University</td>
<td>Provides instructor-led, customized training for skilled laborers through on-site, public and online training</td>
<td>CF</td>
<td>CF</td>
</tr>
<tr>
<td>8/9/12</td>
<td>Health &amp; Safety Institute (The Riverside Company)</td>
<td>DW Healthcare Partners</td>
<td>Provides emergency care and response training services</td>
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</tr>
<tr>
<td>8/1/12</td>
<td>Mountain State University</td>
<td>University Of Charleston</td>
<td>Operates a group of four post-secondary schools in the Eastern U.S.</td>
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</tr>
<tr>
<td>7/9/12</td>
<td>Patten University</td>
<td>UniversityNow, Inc.</td>
<td>Offers online and on campus liberal arts undergraduate and graduate degrees</td>
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</tr>
<tr>
<td>6/26/12</td>
<td>Texas Wesleyan University School of Law</td>
<td>Texas A&amp;M University</td>
<td>Operates as an accredited law school in Fort Worth, TX</td>
<td>$25.0</td>
<td>--</td>
</tr>
<tr>
<td>5/30/12</td>
<td>Oxford Aviation Academy</td>
<td>CAE Inc.</td>
<td>Provides commercial pilot training</td>
<td>$311.3</td>
<td>1.1x 9.0x</td>
</tr>
<tr>
<td>5/15/12</td>
<td>Brillare Hairdressing Academy</td>
<td>Anaphora, LLC</td>
<td>Cosmetology school chain based in the Southeast</td>
<td>CF</td>
<td>CF</td>
</tr>
<tr>
<td>5/11/12</td>
<td>Luxury Attitude (Career Education Corp)</td>
<td>Formastra S.A.</td>
<td>Designs and develops corporate training programs and tools for team building and hotel management</td>
<td>--</td>
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</tr>
<tr>
<td>4/30/12</td>
<td>College of Law</td>
<td>Montagu Private Equity</td>
<td>Provides graduate and undergraduate legal training</td>
<td>$318.5</td>
<td>--</td>
</tr>
<tr>
<td>4/15/12</td>
<td>Falcon Physician Reviews</td>
<td>Devry</td>
<td>Provides medical licensure training</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>4/15/12</td>
<td>Anthem Education</td>
<td>Florida Career College</td>
<td>Offers various degrees and diplomas through 23 campuses under various brands</td>
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<tr>
<td>3/7/12</td>
<td>Camelot Healthcare Training Institute, Inc.</td>
<td>MedTech College</td>
<td>A post-secondary nursing and allied health care education provider in Central FL</td>
<td>--</td>
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</tr>
<tr>
<td>2/28/12</td>
<td>Career Training Academy</td>
<td>HCP &amp; Co.</td>
<td>Provides allied health and business training in PA</td>
<td>--</td>
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</tr>
<tr>
<td>2/16/12</td>
<td>B Street Design School of International Hair Styling</td>
<td>Scope Beauty Enterprises, Inc.</td>
<td>Provides career training for the cosmetology industry</td>
<td>--</td>
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</tr>
<tr>
<td>2/14/12</td>
<td>Emergency Training Services, Inc.</td>
<td>International Education Corporation</td>
<td>Provides first responder, CPR healthcare provider, and emergency medical technician training</td>
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</tr>
<tr>
<td>2/1/12</td>
<td>Westervelt College</td>
<td>ECC/Maxim Partners</td>
<td>Provides career training in business, healthcare, law and information technology</td>
<td>CF</td>
<td>CF</td>
</tr>
<tr>
<td>1/24/12</td>
<td>Medical Technology Management Institute, Inc.</td>
<td>Herzing University</td>
<td>Provides education and training services for medical imaging and radiation therapy professionals</td>
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</tr>
</tbody>
</table>

* Minority investment
LTM = last twelve months; EV = enterprise value;
CF = Confidential

Transactions highlighted in blue are Capstone clients.
Sources: Capstone Partners LLC research; Capital IQ; public filings and press releases as of April 30, 2013

Mean 1.3x 7.1x
Median 1.1x 6.8x
Harmonic Mean 0.9x 6.8x
Capstone Partners has a long history of successfully closing transactions within the post-secondary education space. These have included complex transactions in several different states/ED regions involving a variety of regulatory bodies. In addition, Capstone has worked with a variety of colleges offering degree and certificate programs across disciplines that include traditional subjects such as allied health, cosmetology, IT and paralegal as well as unique curricula such as government intelligence and oriental medicine.

Our track record speaks for itself. Capstone has closed over 20 transactions in the education sector in the past ten years. Since the PSE industry first felt the effects of the uncertainty caused by gainful employment regulations, Capstone has completed five transactions in the space, we have already closed two transactions in the industry this year and we are currently representing another ten companies in the PSE and related educational services sectors, with these transactions expected to close in 2012 or early 2013. We have been retained by both private equity firms and leading corporations in the industry to assist in selling portfolio companies, divesting assets and/or sourcing and negotiating acquisitions. Our deep industry experience and relationships in the post-secondary education sector provides us insight into the valuable attributes and valuation metrics of a target company, the active buyers in the industry and the nuances of transactions in this space.

PUBLIC COMPANY TRADING & OPERATING DATA

<table>
<thead>
<tr>
<th>Company</th>
<th>Price 4/30/13</th>
<th>% 52 Wk High</th>
<th>Market Cap</th>
<th>Enterprise Value</th>
<th>LTM Revenue</th>
<th>EBITDA Margin</th>
<th>1-Yr Rev Growth</th>
<th>EV / LTM</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Public Education</td>
<td>$33.53</td>
<td>79.5%</td>
<td>$592.3</td>
<td>$477.4</td>
<td>$313.5</td>
<td>$79.9</td>
<td>25.5%</td>
<td>20.4%</td>
</tr>
<tr>
<td>Apollo Group</td>
<td>$18.37</td>
<td>47.9%</td>
<td>2,068.6</td>
<td>1,307.9</td>
<td>4,008.3</td>
<td>803.4</td>
<td>20.0%</td>
<td>(10.3)%</td>
</tr>
<tr>
<td>Bridgepoint Education</td>
<td>$10.78</td>
<td>48.4%</td>
<td>583.3</td>
<td>190.4</td>
<td>939.7</td>
<td>217.1</td>
<td>23.1%</td>
<td>(1.5)%</td>
</tr>
<tr>
<td>Capella Education</td>
<td>$35.42</td>
<td>92.6%</td>
<td>439.0</td>
<td>311.1</td>
<td>417.7</td>
<td>67.4</td>
<td>16.1%</td>
<td>(2.4)%</td>
</tr>
<tr>
<td>Career Education</td>
<td>$2.19</td>
<td>29.6%</td>
<td>146.6</td>
<td>(77.6)</td>
<td>1,398.4</td>
<td>NM</td>
<td>NA</td>
<td>(21.7)%</td>
</tr>
<tr>
<td>Corinthian Colleges</td>
<td>$2.00</td>
<td>51.0%</td>
<td>172.4</td>
<td>159.1</td>
<td>1,630.5</td>
<td>116.4</td>
<td>7.1%</td>
<td>5.0%</td>
</tr>
<tr>
<td>DeVry</td>
<td>$28.01</td>
<td>81.2%</td>
<td>1,764.3</td>
<td>1,492.4</td>
<td>2,002.6</td>
<td>333.6</td>
<td>16.7%</td>
<td>(6.0)%</td>
</tr>
<tr>
<td>Education Management</td>
<td>$5.67</td>
<td>43.0%</td>
<td>706.5</td>
<td>2,003.3</td>
<td>2,542.5</td>
<td>387.4</td>
<td>15.2%</td>
<td>(9.7)%</td>
</tr>
<tr>
<td>Grand Canyon Education</td>
<td>$25.57</td>
<td>94.1%</td>
<td>1,163.2</td>
<td>1,158.9</td>
<td>511.3</td>
<td>136.0</td>
<td>26.6%</td>
<td>19.8%</td>
</tr>
<tr>
<td>ITT Educational Services</td>
<td>$18.31</td>
<td>26.9%</td>
<td>427.8</td>
<td>367.7</td>
<td>1,233.1</td>
<td>310.5</td>
<td>25.2%</td>
<td>(15.5)%</td>
</tr>
<tr>
<td>Lincoln Educational Services</td>
<td>$5.57</td>
<td>75.6%</td>
<td>131.8</td>
<td>143.6</td>
<td>391.6</td>
<td>24.4</td>
<td>6.2%</td>
<td>(17.1)%</td>
</tr>
<tr>
<td>National American University</td>
<td>$3.34</td>
<td>63.0%</td>
<td>85.5</td>
<td>62.7</td>
<td>129.1</td>
<td>15.7</td>
<td>12.2%</td>
<td>13.4%</td>
</tr>
<tr>
<td>Strayer Education</td>
<td>$47.36</td>
<td>41.8%</td>
<td>518.7</td>
<td>597.4</td>
<td>550.0</td>
<td>127.0</td>
<td>23.1%</td>
<td>(9.1)%</td>
</tr>
<tr>
<td>Universal Technical Institute</td>
<td>$11.87</td>
<td>84.3%</td>
<td>289.4</td>
<td>210.1</td>
<td>394.4</td>
<td>27.0</td>
<td>6.9%</td>
<td>(8.9)%</td>
</tr>
</tbody>
</table>

LTM = last twelve months; EV = enterprise value; NM = not meaningful

Sources: Capstone Partners LLC research; Capital IQ; public filings and press releases as of April 30, 2013

CAPSTONE PARTNERS: POST-SECONDARY EDUCATION EXPERIENCE

Capstone Partners has a long history of successfully closing transactions within the post-secondary education space. These have included complex transactions in several different states/ED regions involving a variety of regulatory bodies. In addition, Capstone has worked with a variety of colleges offering degree and certificate programs across disciplines that include traditional subjects such as allied health, cosmetology, IT and paralegal as well as unique curricula such as government intelligence and oriental medicine.

Our track record speaks for itself. Capstone has closed over 20 transactions in the education sector in the past ten years. Since the PSE industry first felt the effects of the uncertainty caused by gainful employment regulations, Capstone has completed five transactions in the space, we have already closed two transactions in the industry this year and we are currently representing another ten companies in the PSE and related educational services sectors, with these transactions expected to close in 2012 or early 2013. We have been retained by both private equity firms and leading corporations in the industry to assist in selling portfolio companies, divesting assets and/or sourcing and negotiating acquisitions. Our deep industry experience and relationships in the post-secondary education sector provides us insight into the valuable attributes and valuation metrics of a target company, the active buyers in the industry and the nuances of transactions in this space.
Capstone Partners maintains the most active education & training practice in the middle market, having represented clients across various regions and core curricula. This market presence allows Capstone to provide education companies with real-time transaction feedback and immediate access to key decision makers among the industry’s most active acquirers and investors.
EDUCATION SERVICES

A Premier Provider of Early Education & Childcare Services

2012 SELECTED INDUSTRY AWARDS

M&A ADVISOR AWARDS
2012 WINNER

AMERICAS M&A ATLAS AWARDS
2012 WINNER

INTERNATIONAL M&A AWARDS
2012 WINNER
THE POST-SECONDARY EDUCATION TEAM

John Ferrara, President and Managing Partner
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John Ferrara serves as the Managing Partner of Capstone, responsible for the firm’s investment and merchant banking operations, as well as managing client transactions. During his tenure as Managing Partner, Capstone has completed three acquisitions to expand the firm’s presence from Boston to include seven offices internationally, culminating in the “Global Investment Banking Boutique of the Year” award in 2012. Over his 25+ year career in mergers & acquisitions, venture capital and management consulting, John has executed well over 150 transactions and related engagements. His entrepreneurial endeavors have included serving as a founding member of seven financial service practices and a principal shareholder in five start-up businesses. Prior to 2002, when he acquired the practice he initially founded from Arthur Andersen to form Capstone, John served as a Regional Managing Partner with Andersen Corporate Finance LLC. While with Andersen, John held various national and global leadership positions. He started his career in Lehman Brothers’ M&A group in New York, London and Riyadh, later becoming a founding member of Rodman & Renshaw's M&A practice in New York. After a break to compete in Australia’s semi-professional baseball league, John joined The Deloitte Consulting Group in Los Angeles to focus on turnaround and interim management engagements.

John has been recognized as “Investment Banker of the Year” in 2012, “Deal Maker of the Year” in 2010 and received the “40 Under 40” award for entrepreneurial excellence in 2006. He is the founder of the Spirit Triumph Cancer Foundation, author of the children’s book “Beyond the Waterspout” and former owner in the Holyoke Sox, a baseball franchise in the NECBL. John earned his MBA from The Anderson School at UCLA and the London School of Economics. He holds dual BA degrees from Wesleyan University and is qualified as a General Securities Principal.

Jacob Voorhees, Director and Principal
Head of Post-Secondary Education Practice
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Jacob is a founding member of Capstone Partners. He focuses on asset positioning, strategy articulation, due diligence and negotiations coordination. Formerly, Jacob was with Andersen Corporate Finance LLC, where he focused his efforts on the software and direct marketing industries. He started his career in New York City with Rabobank International, a multi-national Dutch investment bank headquartered in Utrecht, the Netherlands.

While at Rabobank International, Jacob worked in the mergers and acquisitions group focusing on cross-border transactions in the consumer products, food and beverage industries. Jacob holds dual BS degrees from Cornell University. He is qualified as a General Securities Representative.
Eric Williams, Managing Director
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Eric serves as Managing Director and Head of the Eastern Region for Capstone, based out of Philadelphia. Prior to Capstone, Eric was responsible for managing the Eastern region for Morgan Stanley Smith Barney’s Capital Strategies Group and its predecessor, Citi Capital Strategies. Eric has 20 years of experience managing strategic sale assignments and leveraged recapitalizations for owners of privately held companies. He has successfully completed over 100 transactions in a wide range of industries including post-secondary education, health care services, medical technology outsourcing, defense, pharmaceutical services, and education and training.

He has also executed complex cross-border transactions with foreign buyers based in London, Germany, Sweden, and Switzerland and has structured deals with leading private equity groups and strategic corporate buyers. He graduated cum laude from the University of California and is a Series 7 and 63 Registered Securities Representative as well as a Series 24 Registered Securities Principal.

Mark Surowiak, Director
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Mark is a Director in the Philadelphia office, supporting the management of the Eastern Region. Previously, Mark served over 10 years as a senior investment banking professional in Morgan Stanley Smith Barney’s Capital Strategies Group. Over his career, Mark has focused on developing deep credentials and expertise in the sale and recapitalization of privately held businesses.

Mr. Surowiak’s experience spans a broad range of industries, including the post-secondary education, government and defense contracting, manufacturing, and outsourced business services sectors. Prior to investment banking, Mark enjoyed a career in the social services field. Mark is a graduate of Illinois State University with a BS in Business Administration. He is a Series 7 and 63 Registered Securities Representative.

Sophea Chau, Vice President
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Sophea joined Capstone in 2008 and specializes in mergers & acquisitions, private placements and financial advisory services. Her responsibilities include providing financial and valuation analysis, performing due diligence and drafting all marketing materials. Prior to joining Capstone, Sophea was an analyst at FTN Midwest Securities, a full-service investment banking firm based in Cleveland.

While working in their New York office, she focused on M&A advisory for middle-market companies in a variety of industries, including healthcare, pharmaceutical services and marketing & advertising. Sophea is on the Board of the Columbia University Club of New England and is the Chairperson of the Boston Columbia College Young Alumni group. Sophea holds a Bachelor of Arts in Economics from Columbia University.
Daniel Schultz, Vice President
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Daniel oversees Capstone’s national business development and industry coverage activities, working closely with current and prospective clients of the firm on matters related to corporate sales, recapitalizations, mergers & acquisitions and growth financings. In his role, Dan is able to deliver specific market intelligence to clients regarding M&A, financing, strategic, industry and competitive trends. Prior to spearheading the firm’s business development and market initiatives, he was a Vice President in Capstone’s M&A group, managing numerous successful transactions across a variety of industries. Dan also gained hands-on transaction experience as an investment banker at Headwaters MB.

He started his career with Ernst & Young’s National Professional AABS practice in New York and later worked in Assurance and Advisory Business Services in the Denver office. Dan received a BE in Biomedical Engineering with a Business Minor from Vanderbilt University. He earned an MBA and a Master of Accountancy from the Daniels College of Business at the University of Denver.

Michael Duffy, Analyst
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Michael joined Capstone in 2012 and supports senior team members on the execution of a variety of corporate finance transactions. Prior to joining Capstone, Michael was an analyst at HFP Capital Markets LLC, a boutique investment bank in Manhattan catering to middle market clients. Michael also worked as a financial analyst for Fidelity Investments, supporting the Controller of the institutional products business.

He holds a Bachelor of Science in Mathematical Business from the Wayne Calloway School of Business and Accountancy at Wake Forest University. He is a Series 7 and 63 Registered Securities Representative as well as a Series 79 Limited Representative. Michael has passed all three levels of the Chartered Financial Analyst (CFA) exam.

Dan Mozer, Analyst
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Dan works closely with senior team members while executing a variety of corporate finance transactions. Prior to joining Capstone, Dan was an analyst at S & H Representatives and Associates, where he worked directly with large consumer products companies analyzing industry trends and bringing products to market with major market retailers. Prior to S & H, Dan was an analyst at Spare Backup, Inc., a California based internet software and services company focused on online backup solutions.

Dan holds a Bachelor of Science in Finance with a concentration in Marketing from the Stillman School of Business at Seton Hall University. Dan graduated with distinction as a member of the Leadership Development Honors Program.
ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is a leading international investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. The firm provides merger & acquisition, private placement, corporate restructuring, valuation and financial advisory services. Capstone maintains various industry specialties including one in post-secondary education. The firm also possesses merchant banking capabilities to actively co-invest in transactions.

Additional information about Capstone Partners can be found at www.capstonellc.com.

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