



# Sectorwatch: Educational Software

December 2019

# Educational Software

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Sector Dashboard	[4]
Public Basket Performance	[5]
Operational Metrics	[7]
Valuation Comparison	[10]
Recent Deals	[13]
Appendix	[15]

# Overview

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7MA provides Investment Banking & Advisory Services to the Business Services and Technology Industries globally. We advise on M&A and private capital transactions, and provide market assessments and benchmarking. As a close knit team with a long history together and a laser focus on our target markets, we help our clients sell their companies, raise capital, grow through acquisitions, and evaluate new markets. We publish our sectorwatch, a review of M&A and operational trends in the industries we focus.

## Dashboard

- Summary metrics on the sector
- Commentary on market momentum by comparing the most recent 12-month performance against the last 3-year averages.



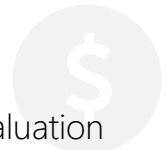
## Public Basket Performance

- Summary valuation and operating metrics for a basket of comparable public companies



## Valuation Comparison

- Graphical, detailed comparison of valuation multiples for the public basket



## Recent Deals

- The most recently announced deals in the sector



# Dashboard



## Revenue Growth Momentum

**↑ 2.7%**

1 - year revenue growth compared to revenue growth average for last 3 years

Current revenue growth rate exceeds the average of the last 3 years by this amount, indicating that market momentum is increasing

## Pricing / Gross Margin

**↓ -0.1%**

1 - year gross profit % compared to gross profit % average for last 3 years

Current gross profit margin is less than the average of the last 3 years gross profit margins, indicating customer pricing power

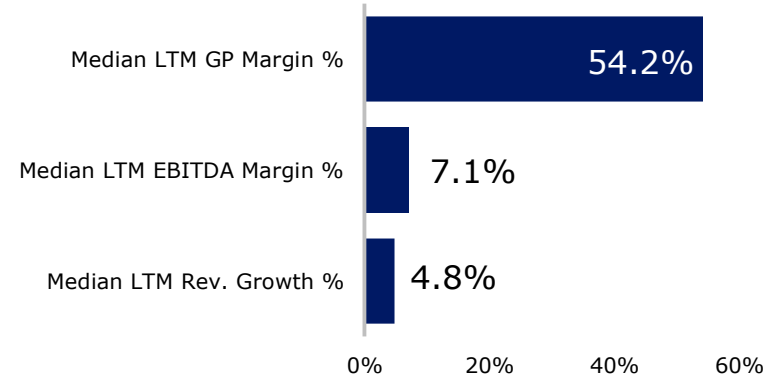
## Profitability Momentum

**↑ 1.9%**

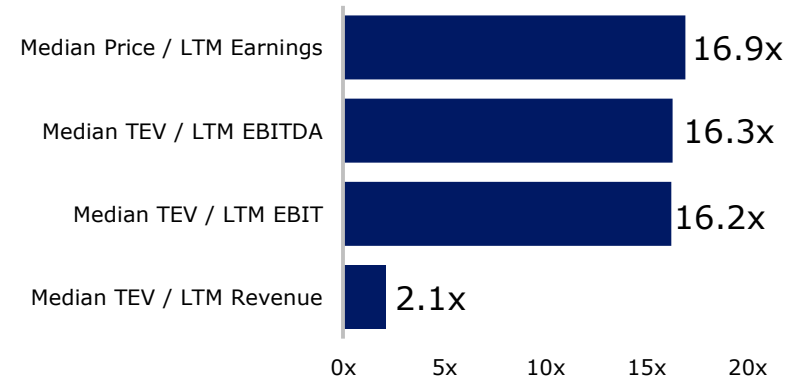
1 - year EBITDA % compared to EBITDA % average for last 3 years

Current EBITDA margin exceeds the average of the last 3 years EBITDA margin by this amount, a condition that may attract new entrants

## Operating Metrics



## Valuation



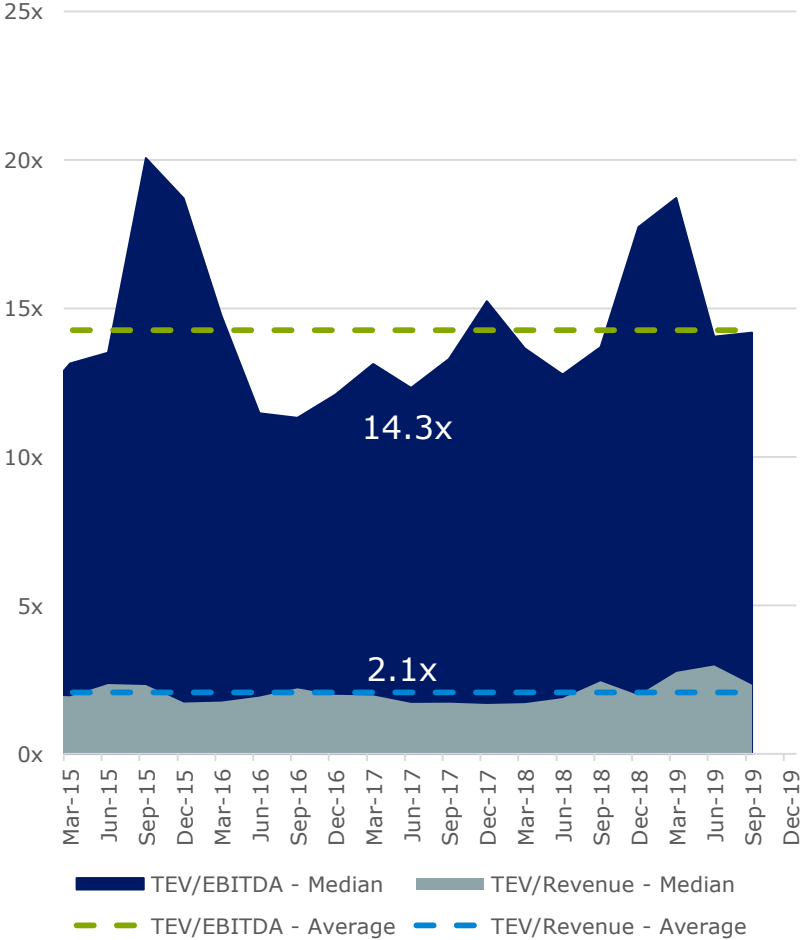
# Public Basket



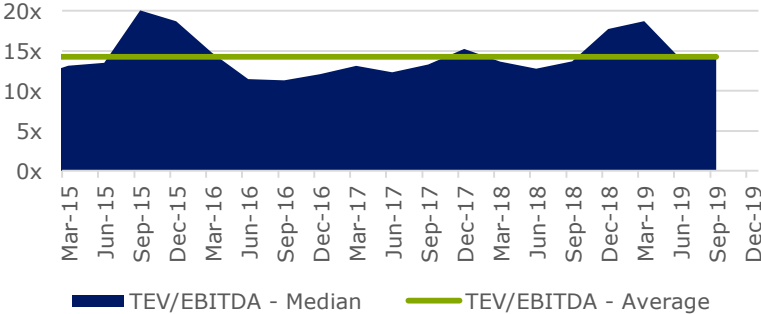
Company	TEV \$m	LTM Rev \$m	Rev Growth YoY	GP %	EBITDA %	TEV / Rev X	TEV / EBITDA X	# FTEs	Rev / FTE \$k
NIIT Limited	9	130	5%	47%	7%	0.1	0.5	2,565	51
Rosetta Stone Inc.	382	181	4%	80%	2%	2.1	133.7	723	250
K12 Inc.	658	1,022	9%	34%	6%	0.6	11.0	4,550	225
2U, Inc.	1,563	527	37%	74%	-12%	3.0	0.0	2,583	204
Cengage Learning Holdings II, Inc.	2,868	1,376	-2%	47%	13%	2.1	16.3	4,900	281
Cornerstone OnDemand, Inc.	3,359	565	6%	74%	3%	5.9	196.8	1,953	289
Blackbaud, Inc.	4,340	884	5%	54%	13%	4.9	38.1	3,353	264
Chegg, Inc.	4,603	381	27%	77%	10%	12.1	123.6	1,087	351
Pearson plc	8,789	5,201	-5%	53%	14%	1.6	10.7	24,000	217
<b>Average</b>	2,952	1,141	9%	60%	6%	3.6	59.0	5,079	237
<b>Median</b>	2,868	565	5%	54%	7%	2.1	16.3	2,583	250

share price as of 13Dec19

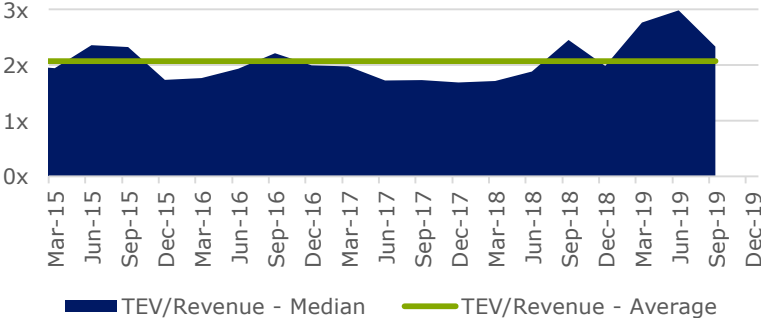
# Public Basket Valuation Trends



## Public EBITDA Multiples over Time



## Public Revenue Multiples over Time



# Operational Metrics



LTM Gross Profit Margin %



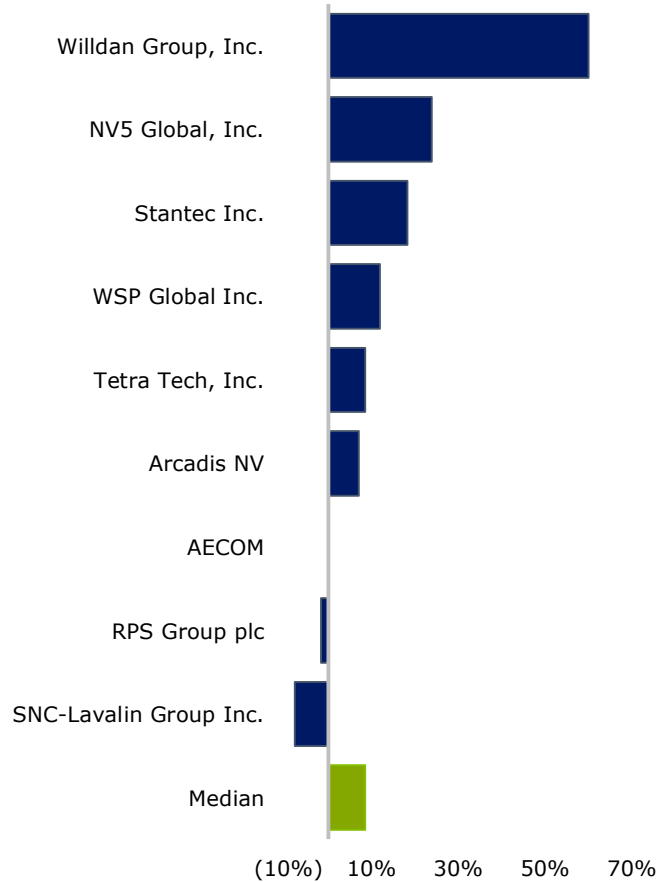
LTM EBITDA %



# Operational Metrics



LTM Revenue Growth %



LTM Revenue per Full Time Employee x 000's

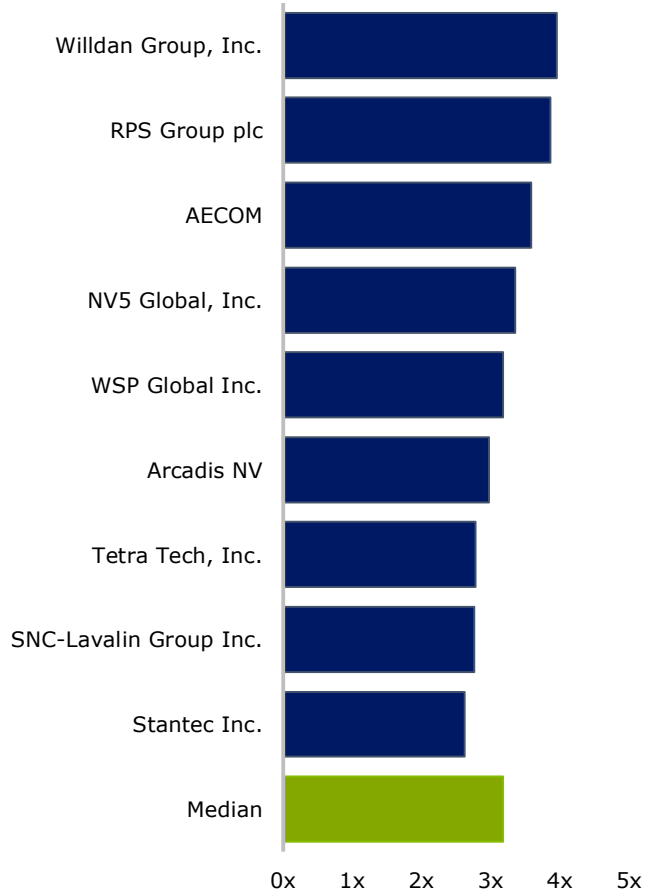




# Operational Metrics



## Accounts Receivable Turnover



## Average Days Sales Outstanding



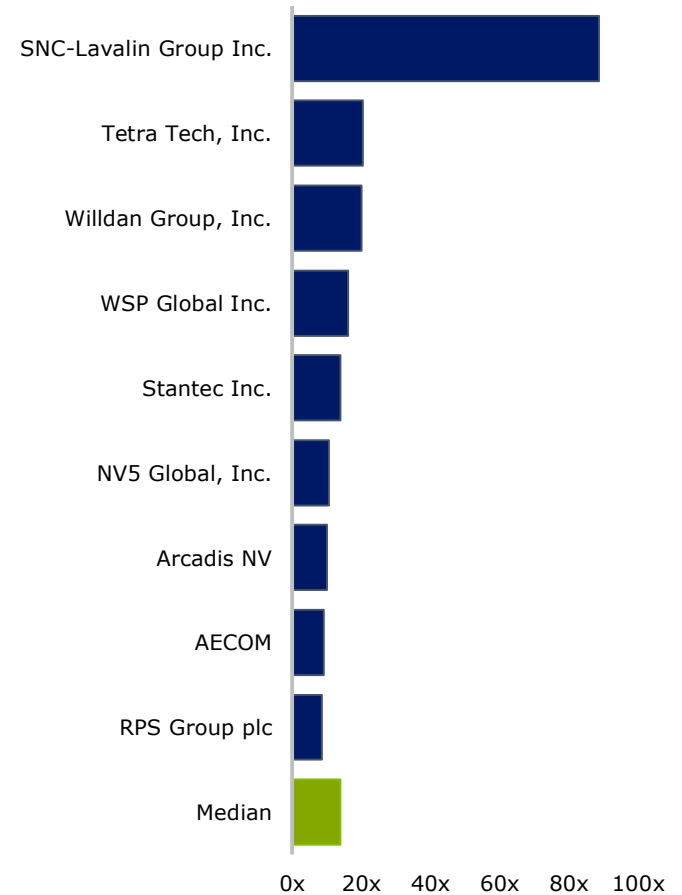
# Valuation



TEV / LTM Revenue



TEV / LTM EBITDA



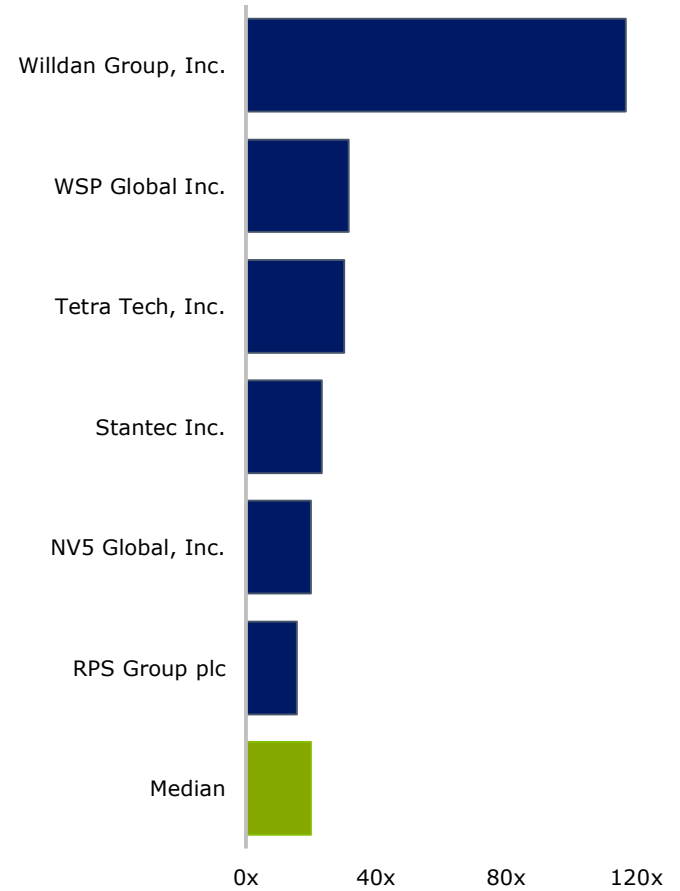
# Valuation



TEV / LTM EBIT



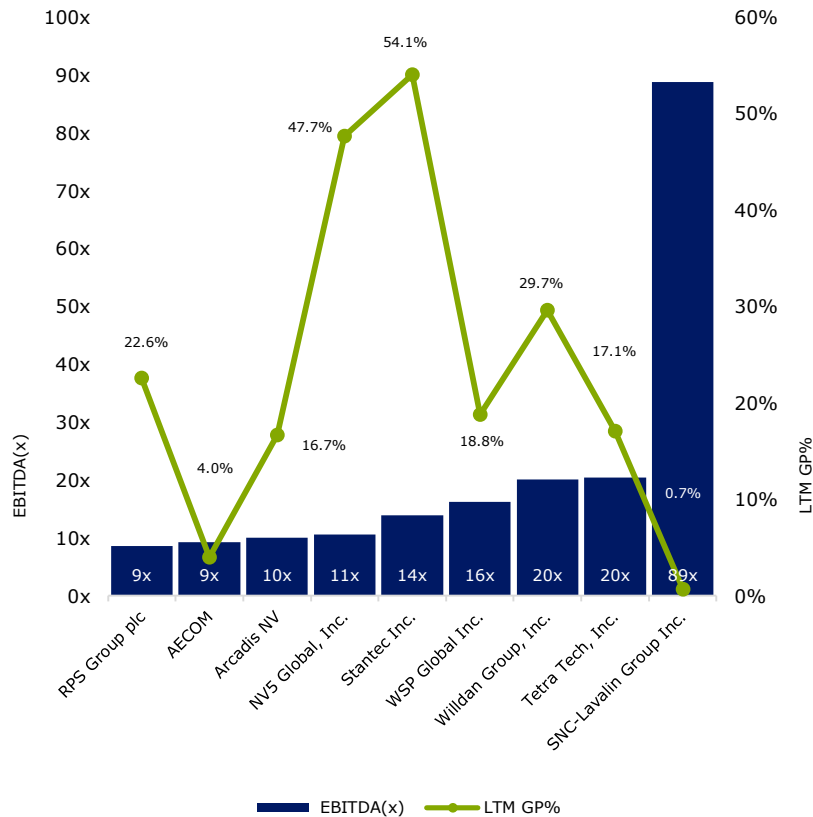
Price / LTM Earnings



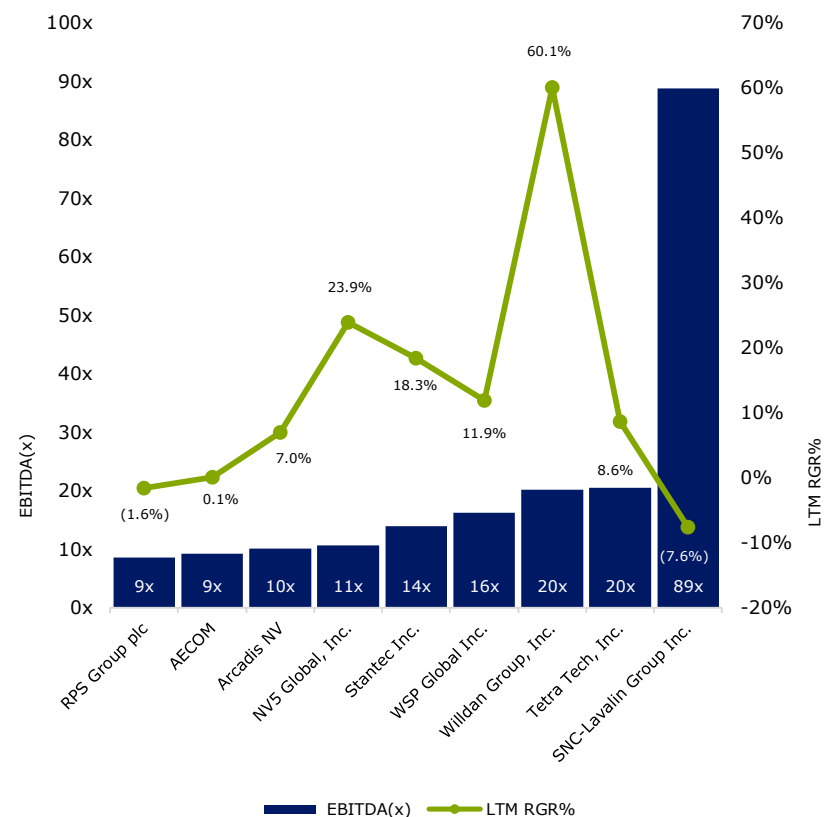
# Valuation



## Historical Valuation Multiples versus Gross Profit



## Historical Valuation Multiples versus Revenue Growth Rate



# Recent Transactions



<u>Date</u>	<u>Target</u>	<u>Buyer / Investor</u>	<u>Total Transaction Value</u>	<u>Target Revenue</u>	<u>TEV / Revenue</u>	<u>TEV / EBITDA</u>
18Nov19	n2y LLC	Providence Equity Partners L.L.C.	-	-	-	-
3Sep19	Enterprise Study Ltd	Allocate Software Limited	-	-	-	-
1May19	Learning Management Solutions Suite in the United States of CU Training Inc.	CU Solutions Group, Incorporated	-	-	-	-
20Mar19	Singularity Education Group	Adtalem Global Education Inc.	-	-	-	-
15Mar19	Futurism, LLC	Singularity Education Group	-	-	-	-
2Nov18	UpAbility, Inc.	MemberClicks, Inc.	-	-	-	-
6Sep18	Carnegie Learning, Inc.	CIP Capital	-	-	-	-
18Jun18	Flipgrid, Inc.	Microsoft Corporation	-	-	-	-
7Jun18	FutureWhiz Media B.V.	Levine Leichtman Capital Partners, LLC	-	-	-	-
14Feb18	Guangdong Xizhou Education Co., Ltd.	New City Development Group Limited	-	-	-	-
4Jan18	Weld North Education, LLC	Silver Lake	-	-	-	-
15Dec17	Beijing Xinzhitang Educational Technology Development Company Limited	-	3.90	-	-	-
5Oct17	Global Institute of Forensic Research, Inc.	Multi-Health Systems Inc.	-	-	-	-
13Sep17	Globaloria, LLC	Carnegie Learning, Inc.	-	-	-	-
4Aug17	Frontline Technologies Group LLC	Thoma Bravo, LLC	-	-	-	-
18Jul17	Edify Learning LLC	Silverback Learning Solutions, Inc.	-	-	-	-
17Jul17	School Improvement Network, LLC	Frontline Technologies Group LLC	-	-	-	-
13Jul17	PathSource, Inc.	AcademixDirect, Inc.	-	-	-	-
2May17	Rafter, Inc.	A Book Company, LLC	-	-	-	-
31Mar17	Smart Technologies Inc.	Hon Hai Precision Industry Co., Ltd.	271.47	331.81	0.7x	27.3x

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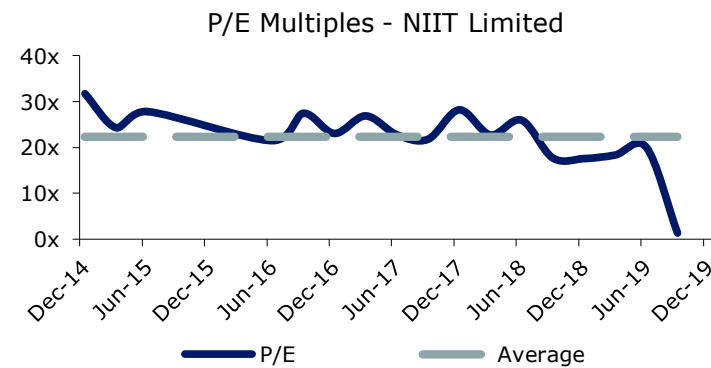
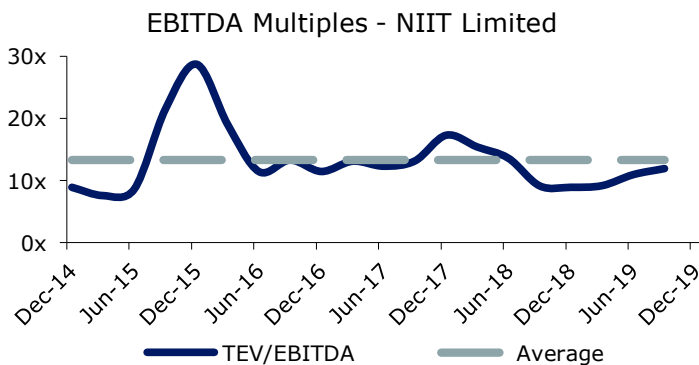
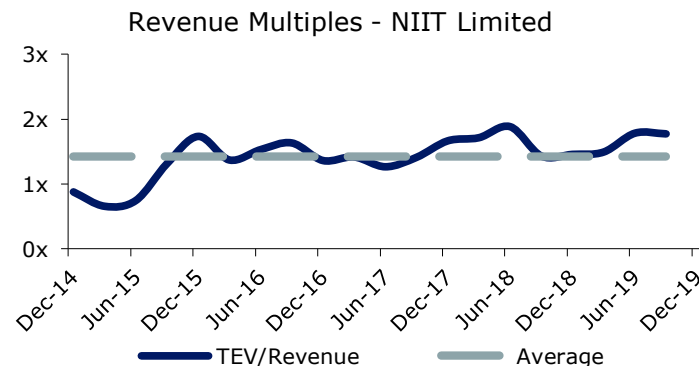
APPENDIX:  
Public Basket  
Constituents

# Public Basket



## NIIT Limited

NIIT Limited provides training and development solutions to individuals, corporations, and institutions worldwide. The company offers managed training services, such as custom curriculum design and content development, learning administration and technology, learning delivery, strategic sourcing, and advisory services; and learning and talent development programs in banking, finance and insurance, retail sales enablement, management education, multi-sectoral vocational skills, digital media marketing, and programs in digital transformation technologies. Its brands portfolio comprises the training.com, a learning platform for career programs; Talent Pipeline as a Service, a just-in-time job ready talent for organization; NIIT.tv, a digital learning platform. The company was founded in 1981 and is headquartered in Gurugram, India.



Date	Key Development Headline
11/14/19	KPMG In India and NIIT Limited Enter into Exclusive Partnership to Launch the KPMG NIIT Finance Academy in India
8/20/19	NIIT Limited Collaborates with Automation Anywhere to Deliver Comprehensive RPA Workshops to Developers, Students and It Professionals Across India
8/11/19	NIIT Limited (BSE:500304) entered into share purchase agreement to acquire remaining 25% stake in Niit Institute of Process Excellence Ltd from Genpact Consulting for INR 55 million.
8/10/19	NIIT Intends To Seek Acquisitions

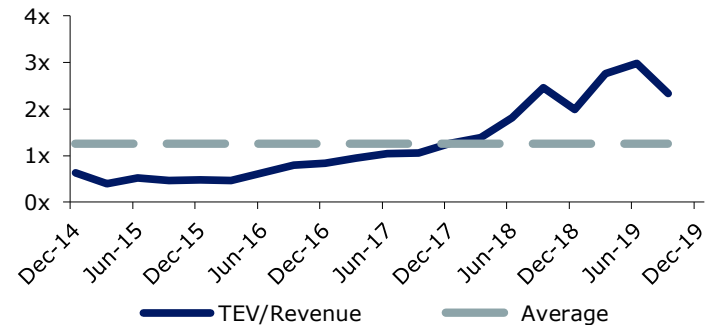
# Public Basket



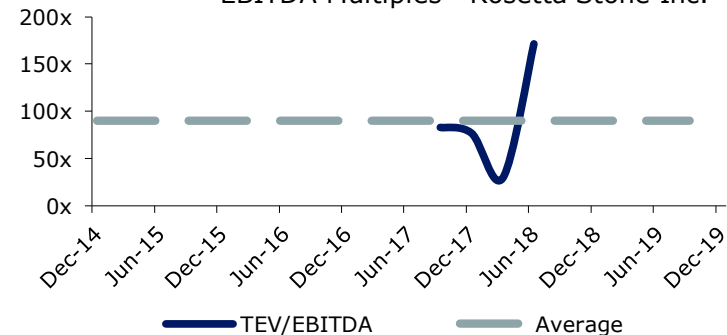
## Rosetta Stone Inc.

Rosetta Stone Inc., together with its subsidiaries, provides technology-based learning products in the United States and internationally. It operates through three segments: Literacy, E&E Language, and Consumer Language. The company develops, markets, and supports a suite of language-learning, literacy, and brain fitness solutions consisting of Web-based software subscriptions, perpetual software products, online and professional services, audio practice products, and mobile applications. It also provides administrative tools for performance monitoring, and to measure and track learner progress; and custom solutions, including curriculum development, global collaboration programs, group and live tutoring, and language courses for mission-critical government programs. The company offers its courses in approximately 30 languages under the Rosetta Stone, The Blue Stone Logo, Lexia, Lexia PowerUP Literacy, TruAccent, and Catalyst brand names. It sells its products and services through call centers, Websites, app-stores, third party e-commerce Websites, select retail resellers, consignment distributors, daily deal partners, and third-party resellers, as well as directly to individuals, educational institutions, corporations, and government agencies. Rosetta Stone Inc. was founded in 1992 and is headquartered in Arlington, Virginia.

Revenue Multiples - Rosetta Stone Inc.



EBITDA Multiples - Rosetta Stone Inc.



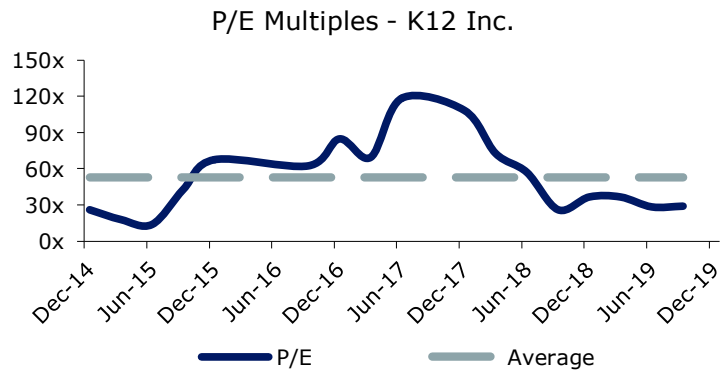
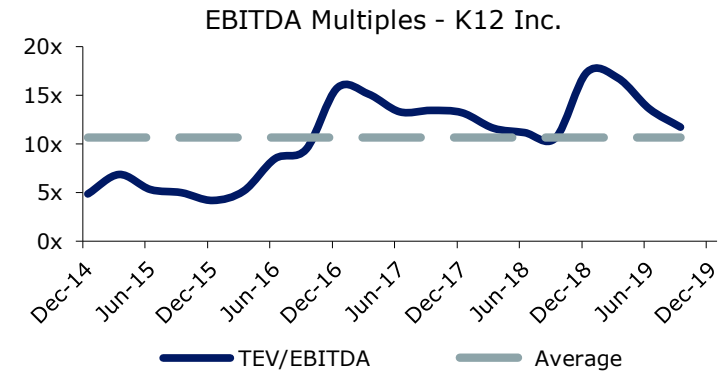
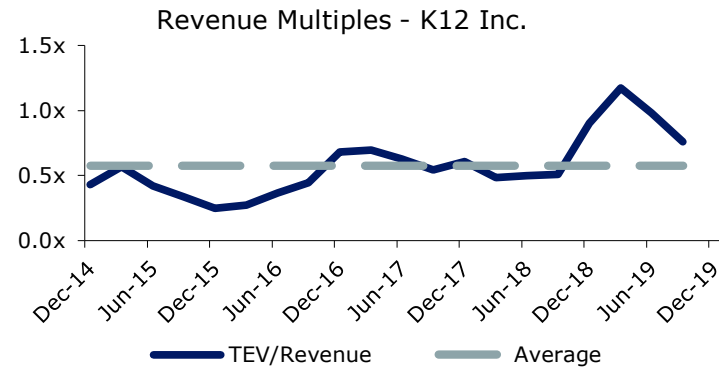


# Public Basket



## K12 Inc.

K12 Inc., a technology-based education company, together with its subsidiaries, provides online curriculum, software systems, and educational services to facilitate individualized learning for students primarily in kindergarten through 12th grade in the United States and internationally. It also offers full-time programs virtual and blended public schools; full-time virtual programs, semester courses, and supplemental educational products; and teacher training, teaching, and other academic and technology support services to public schools, school districts, private schools, charter schools, early childhood learning centers, and corporate partners. In addition, the company provides FuelEd suite of offerings, such as K12 curriculum, FuelEd online courses, and FuelEd anywhere learning systems; Middlebury Interactive Languages; Stride; and the Big Universe literacy solutions. Further, it operates online private schools, including K12 International Academy, The Keystone School, and the George Washington University Online High School. Additionally, the company offers access to the online lessons and curriculum through proprietary learning management system; learning kits and guides; student computers; and administrative, accreditation, compliance and tracking, financial management, and human resources support services, as well as facility, operations, and technology support services. K12 Inc. was founded in 2000 and is headquartered in Herndon, Virginia.

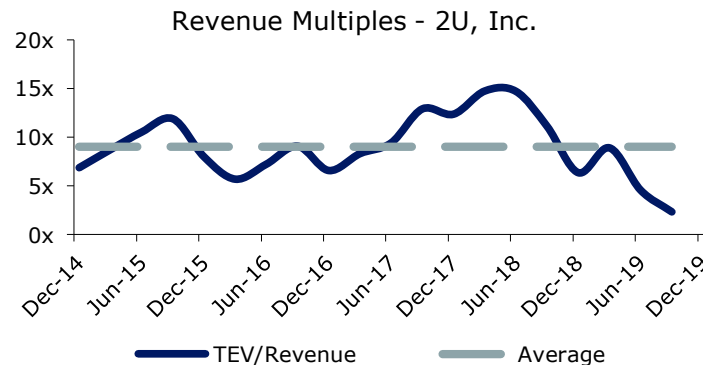


# Public Basket



## 2U, Inc.

2U, Inc. operates as an education technology company in the United States, Hong Kong, South Africa, and the United Kingdom. It operates in two segments, Graduate Program Segment and Short Course Segment. The Graduate Program Segment targets students seeking a full graduate degree. The Short Course Segment targets working professionals seeking career advancement through skills attainment. The company builds, delivers, and supports online graduate programs and certificates for working adults through its 2U Operating System, a platform that provides front-end and back-end cloud-based SaaS technology and technology-enabled services to university clients. The company was formerly known as 2Tor Inc. and changed its name to 2U, Inc. in October 2012. 2U, Inc. was founded in 2008 and is headquartered in Lanham, Maryland.



Date	Key Development Headline
9/30/19	The St. John Fisher College Wegmans School of Pharmacy and 2U, Inc. Partner to Deliver New Hybrid Doctorate of Pharmacy
9/12/19	2U, Inc. and Keypath Education Join Emerson College to Deliver Online MA in Digital Marketing and Data Analytics
5/21/19	2U Inc. (Nasdaq:TWOU) completed the acquisition of Trilogy Education Services Inc.
4/8/19	2U, Inc., Trilogy Education Services, Inc. - M&A Call
4/7/19	2U Inc. (Nasdaq:TWOU) entered into an agreement to acquire Trilogy Education Services Inc. for \$750 million.

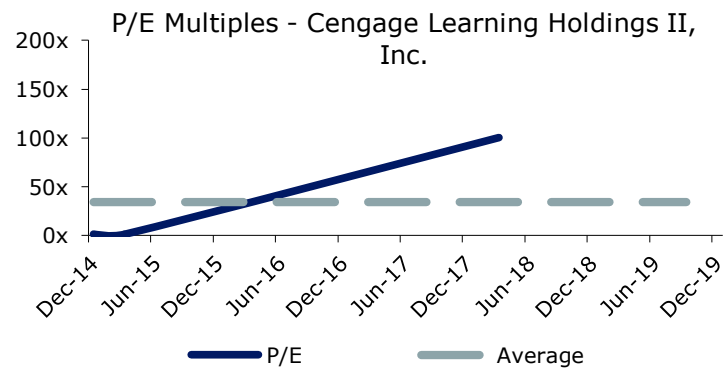
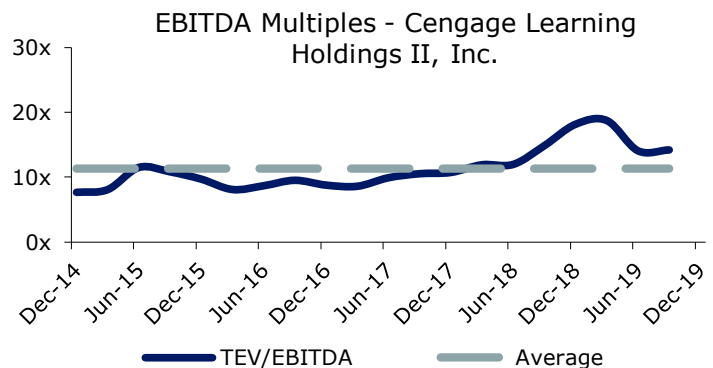
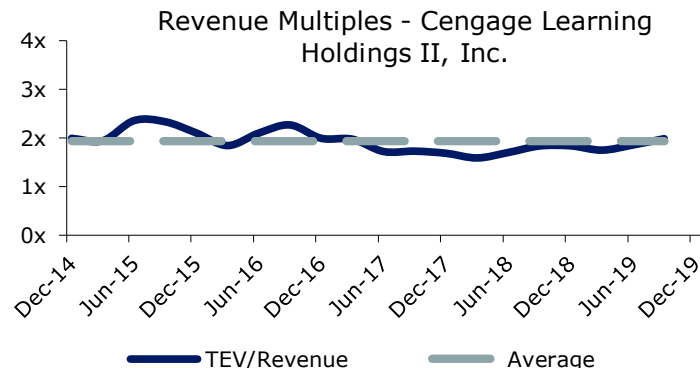
# Public Basket



## Cengage Learning Holdings II, Inc.

Cengage Learning Holdings II, Inc., together with its subsidiaries, operates as an education and technology company for learners, serving the higher education, school, professional, library, and workforce training markets worldwide. It operates through Learning, Gale, and International segments. The Learning segment produces various digital and print educational solutions and associated services for the academic, skills, and school markets in the United States. The Gale segment offers research platforms, which provide access to its original content, collections of primary source materials, and aggregated periodicals to learners at libraries, colleges, universities, schools, and businesses. The International segment distributes educational solutions across academic disciplines; provides English language teaching products; and adapts its Learning offerings for use in multiple countries and territories around the world. The company distributes its products through 'brick and mortar' college bookstores, and online book retailers that sell directly to students. Cengage Learning Holdings II, Inc. is headquartered in Boston, Massachusetts.

Date	Key Development Headline
5/1/19	Cengage Learning Holdings II, Inc., McGraw-Hill Education, Inc. - M&A Call
4/30/19	McGraw-Hill Education, Inc. entered into a definitive agreement to acquire Cengage Learning Holdings II, Inc. (OTCPK:CNGO) from Apax Partners LLP, KKR & Co. Inc. (NYSE:KKR) and Searchlight Capital Partners in a merger of equals transaction.

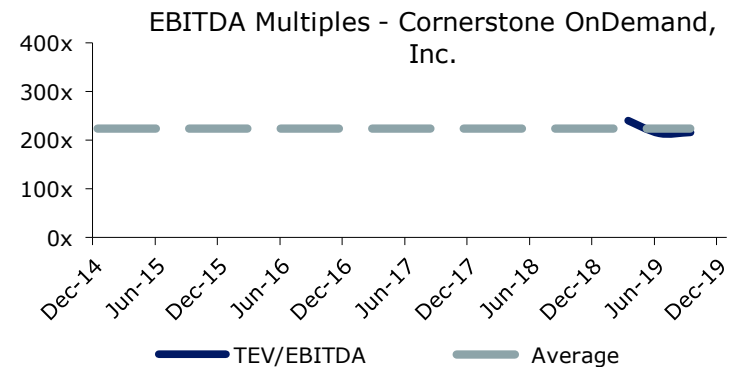
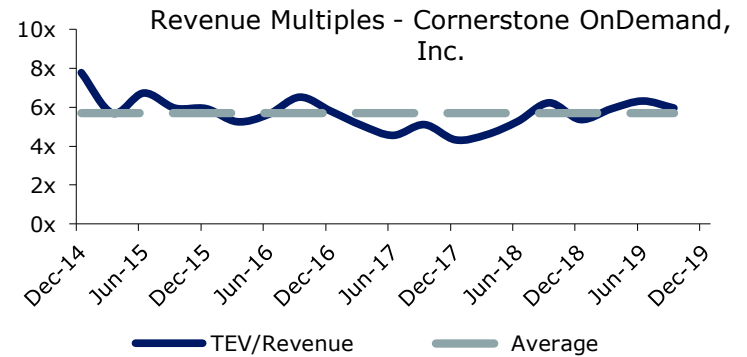


# Public Basket



## Cornerstone OnDemand, Inc.

Cornerstone OnDemand, Inc., together with its subsidiaries, provides learning and human capital management software through software-as-a-service model worldwide. Its enterprise human capital management platform comprises four product suites, such as Recruiting Suite that helps organizations to attract, hire, and onboard the right employees; Learning Suite, which provides robust, a modern learning management software to supports compliance, knowledge sharing, and employee-driven development training; Performance Suite that provides tools to manage goal setting, performance reviews, competency assessments, development plans, continuous feedback, compensation management, and succession planning; and HR Administration Suite, which provides an aggregated view of all employee data with workforce planning, self-service management, and compliance reporting capabilities. The company also offers professional services, including application configuration, system integration, business process re-engineering, change management, and training. Cornerstone OnDemand, Inc. was founded in 1999 and is headquartered in Santa Monica, California.



Date	Key Development Headline
9/11/19	Cornerstone Joins Ultimate Software' s Ultipro® Connect Partners Program

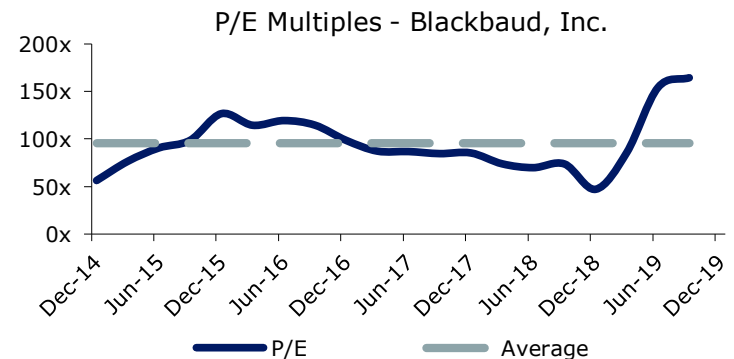
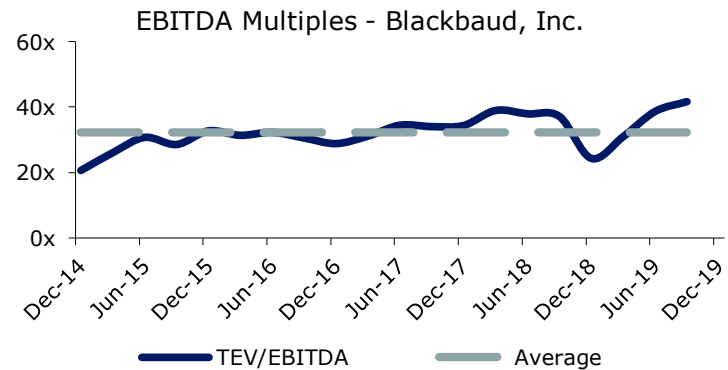
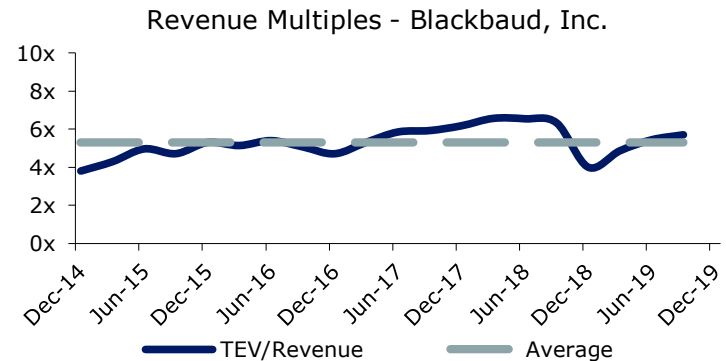
# Public Basket



## Blackbaud, Inc.

Blackbaud, Inc. provides cloud software solutions to nonprofits, foundations, companies, education institutions, healthcare organizations, individual change agents, and other charitable giving entities. The company offers fundraising and relationship management solutions and services, including Blackbaud Raiser's Edge NXT, Blackbaud CRM, Blackbaud Luminare CRM, Blackbaud eTapestry, Blackbaud TeamRaiser, everydayhero, Blackbaud Peer-to-Peer Fundraising, and Blackbaud Guided Fundraising; and marketing and engagement solutions, such as Blackbaud Luminare Online, Blackbaud Online Express, Blackbaud NetCommunity, Blackbaud Attentive.ly, and Blackbaud School Website System. It also provides Blackbaud Financial Edge NXT, Blackbaud Smart Tuition, and Blackbaud Smart Aid financial management solutions and services; and Blackbaud Grantmaking, Blackbaud Award Management, FIMS, and Blackbaud Outcomes grant and award management solutions. The company was founded in 1981 and is headquartered in Charleston, South Carolina.

Date	Key Development Headline
1/1/19	Blackbaud, Inc. (NasdaqGS:BLKB) acquired YourCause, LLC from Providence Strategic Growth Capital Partners L.L.C and others for approximately \$160 million.



# Public Basket

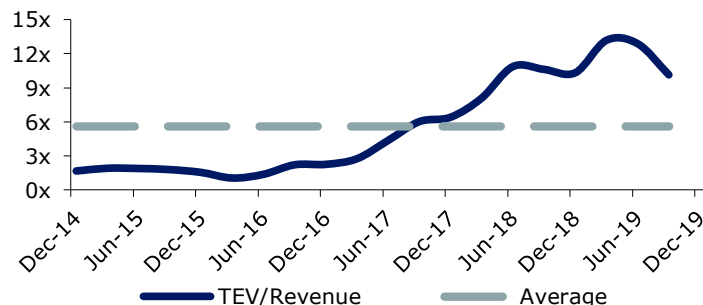


## Chegg, Inc.

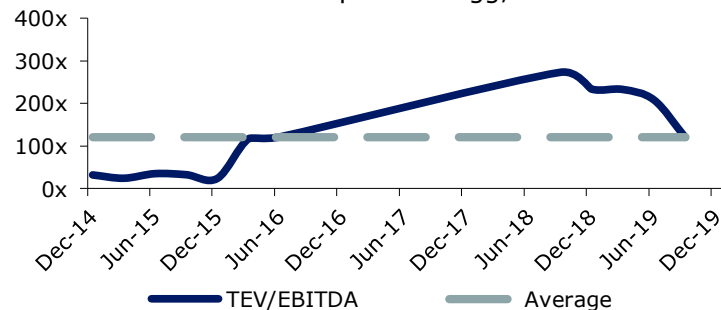
Chegg, Inc. operates direct-to-student learning platform that supports students on their journey from high school to college and into their career with tools designed to help them pass their test, pass their class, and save money on required materials. The company offers Chegg Services, which include digital products and services; and required materials that comprise its print textbooks and eTextbooks. Its digital products and services include Chegg Study, which helps students master challenging concepts on their own; Chegg Writing that enables automatically generate sources in the required formats, when students need to cite their sources in written work; Chegg Tutors that allow students find human help on its learning platform through a network of live tutors; and Chegg Math solver, which helps students to get math help through self-guided and individualized math solutions. Chegg, Inc. was founded in 2003 and is headquartered in Santa Clara, California.

Date	Key Development Headline
9/30/19	Chegg Inc. (NYSE:CHGG) completed the acquisition of Thinkful Inc.
9/3/19	Chegg Inc. (NYSE:CHGG) entered into a definitive agreement to acquire Thinkful Inc. for approximately \$100 million.
3/26/19	Chegg To Seek Acquisitions
3/20/19	Chegg Intends To Seek Acquisitions

Revenue Multiples - Chegg, Inc.



EBITDA Multiples - Chegg, Inc.



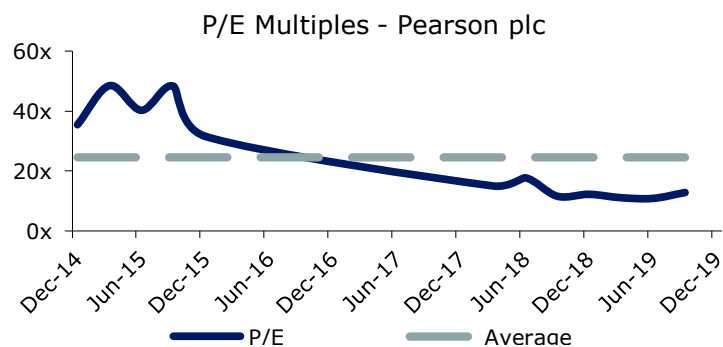
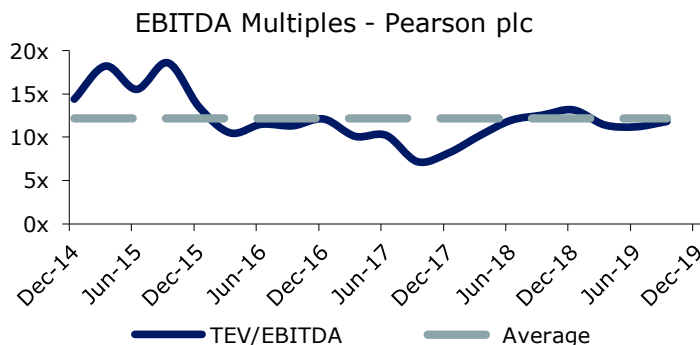
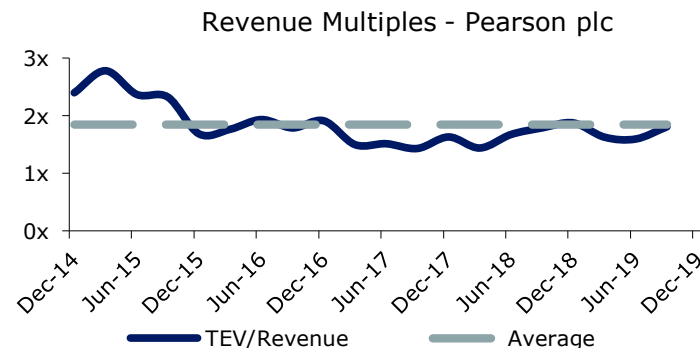
# Public Basket



## Pearson plc

Pearson plc provides educational products and services to institutions, governments, professional bodies, and individual learners worldwide. The company operates through North America, Core, and Growth segments. It offers courseware services, including curriculum materials provided in book form and/or through access to digital content; and assessments, such as test development, processing, and scoring services. The company also operates schools, colleges, and universities; and provides online learning services in partnership with universities and other academic institutions. In addition, it delivers and installs off-the-shelf software; and provides services to academic institutions, such as program development, student acquisition, education technology, and student support services, as well as undertakes contracts to process qualifying tests for individual professions and government departments under multi-year contractual arrangements. The company was founded in 1844 and is headquartered in London, the United Kingdom.

Date	Key Development Headline
3/28/19	Nexus Capital Management LP completed the acquisition of US K12 courseware business of Pearson plc (LSE:PSON).
2/17/19	Nexus Capital Management LP agreed to acquire US K12 courseware business of Pearson plc (LSE:PSON) for \$250 million.
12/16/18	An undisclosed buyer cancelled the acquisition of 44.75% stake in La Universidad Technologico Latinoamericana en Linea from Pearson plc (LSE:PSON).



# CONTACT INFO

7MA provides Investment Banking & Advisory Services to the Business Services and Technology Industries globally. We advise on M&A and private capital transactions and provide market assessments and benchmarking. As a close-knit team with a long history together and a laser focus on our target markets, we help our clients sell their companies, raise capital, grow through acquisitions, and evaluate new markets. Securities offered through 7M Securities LLC.

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