



2019 CAPPS Annual Conference

Renaissance Hotel

Long Beach, California

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“MANAGING THE MOVE”

Scott Haid – Weworski & Associates

Ron Holt - RF DeLuca Law

LeeAnn Rohmann - Legacy Education

“MANAGING THE MOVE”



“Keeping School Operations And A School Sale Process on Track”

A Move May Get You Some Attention...



You May Go Through Some Tight Spots



And You Might be Off Balance at Times...



You May Feel like Stopping on the Way



But if You Have a Full Team ...



You Should Be Able to Complete Delivery...

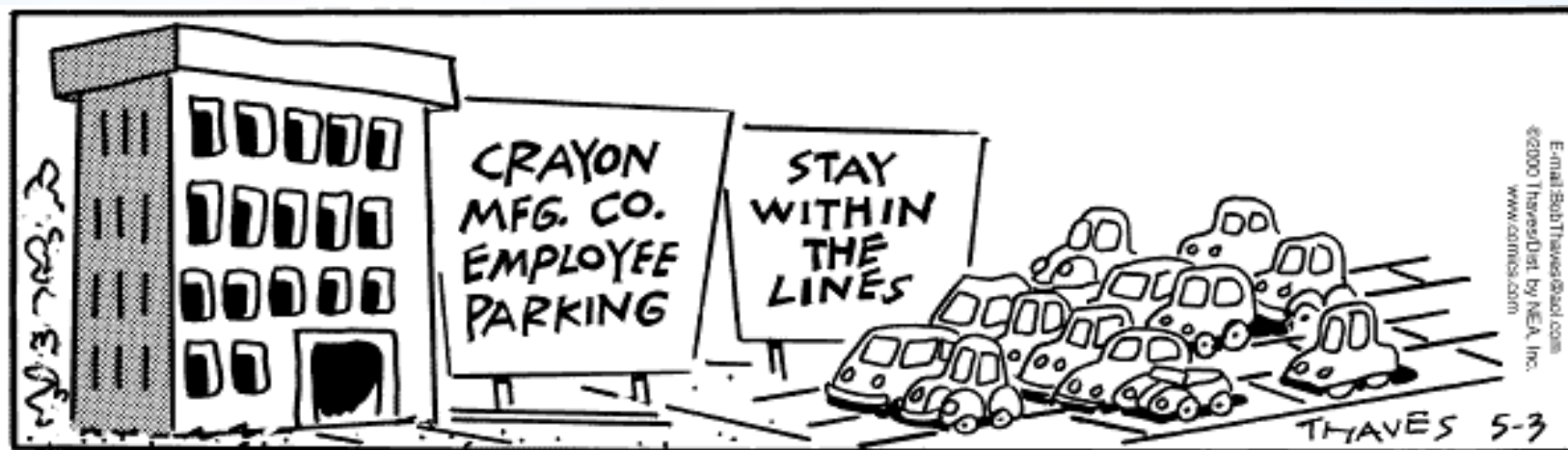


And Celebrate A Successful Deal



Managing the Move - **Our Agenda**

- I. **Environment:** Are schools being sold? Who are the Buyers? How are schools valued?
- II. **Process:** How are schools sold?
- III. **Buyers:** What are Buyers buying and why?
- IV. **Sellers:** What should Sellers expect and how can Sellers prepare?



RF DeLuca Law – Ron Holt

- KC based business, RE and litigation law firm
- Higher education practice has 4 lawyers specializing and more in supporting roles
- Routinely handle general regulatory advice, deals, student/employee claims, and other disputes/litigation, including with DOE, accrediting agencies, state licensing agencies
- 100+ closed deals in 15 years, with 5-10 generally active at a time
- 10+ deals closed in 2019, with several more in the works

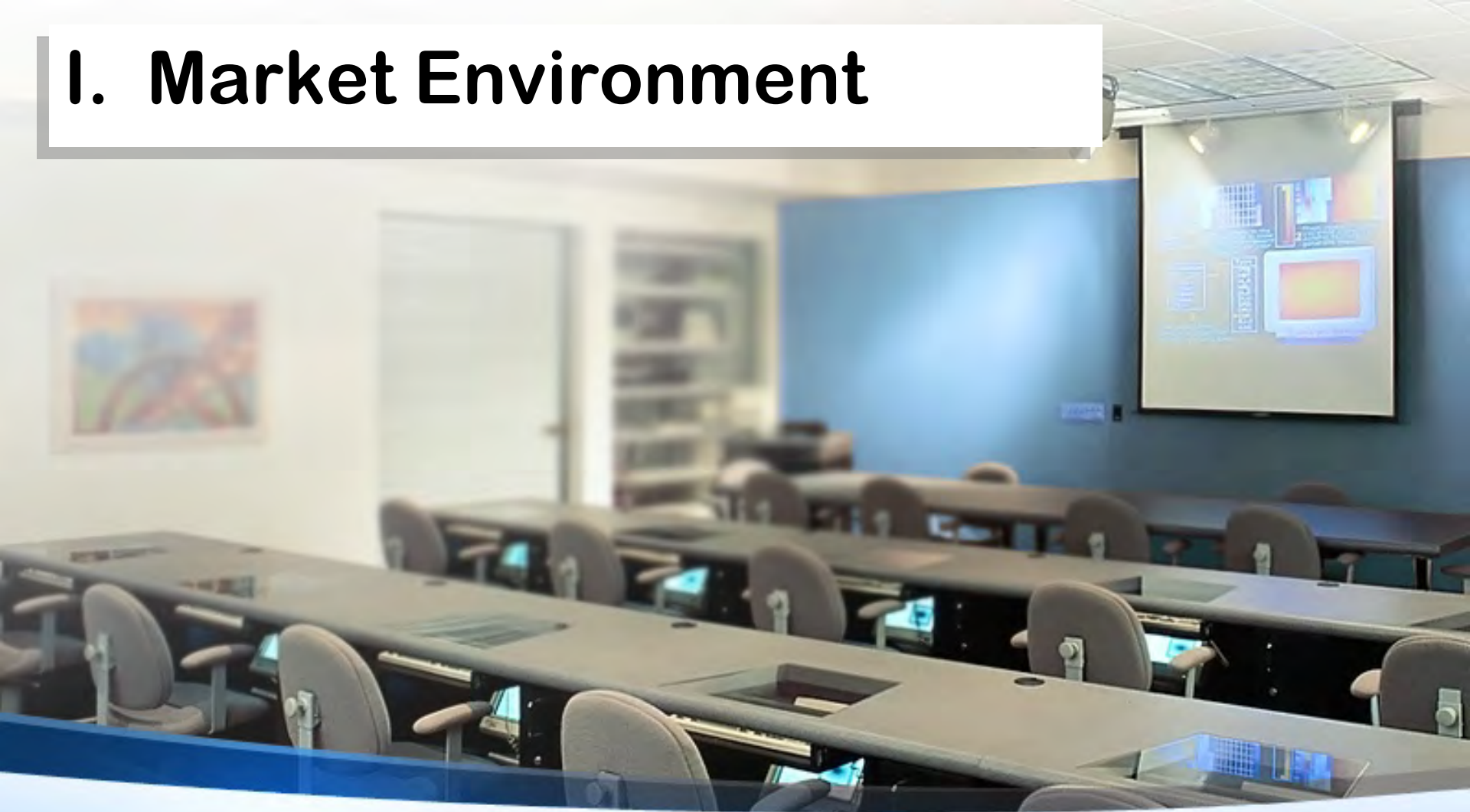
Weworski & Associates – Scott Haid

- San Diego, California based CPA firm: specializing in higher education
- Assist both buyers and sellers
- Due diligence (financial statement and compliance)
- Opening balance sheet audits and perform ongoing annual audits
- Involved with over 100+ transactions in last 10 years

Legacy Education – LeeAnn Rohmann

- Founded in 2010
- California based education institution:
 - Central Coast College - Salinas
 - High Desert Medical College – Lancaster, Bakersfield and Temecula
 - Managing Integrity College of Health – Pasadena
- Mission is to educate students in career specific disciplines in the areas of allied health veterinary and business that match industry standards.
- 21 approved programs
- 800 students across 5 campuses
- 5 year reaccreditation through ACCET in early 2019

I. Market Environment



Who Buys Schools and How Are They Valued

Why Do the Deal?

- “I don’t do it for the money. I’ve got enough, much more than I’ll ever need...Some people paint beautifully on canvas or write wonderful poetry. I like making deals, preferably big deals. That’s how I get my kicks.” **Celebrity X**



Acquisition Climate

- Continues to be a Buyer's market, more inventory than interested Buyers
- Low unemployment, enrollments down 6+ yrs
- Challenging regulatory environment, even with new BDR regulation (old) and GE rescission
- Still facing political pressure, negative media, school closings, lawsuits, investigations
- College affordability/debt \$1.6 Trillion
- Tuition funding: T4, VA, Vo-Tech, WIA, ISA
- PE still cautious and waiting for clear skies

Buyers: Who, What & Why



Who are the Buyers?

- **Rescue Buyers:** distressed schools (beware past performance)
- **Financial Buyers:** Investors (ROI)
- **Nonprofit Conversions:** held up but still interest
- [Strategic Buyers](#): in school business or related industry business (e.g., salon owner buys school)
 - Privately Held Platforms
 - Public Companies
 - Single School Operators

Baseline Valuation Methodology

How Schools Are Valued (calculating an estimate)

- **Price:** Multiple X “Adjusted” EBITDA
- **EBITDA** = *Earnings Before Interest, Depreciation, Taxes and Amortization*
- **Adjustments** = Owner Perks, Non-Recurring Costs, Discretionary Spending, Market Salaries and Rent for Closely Related LL
- **Rescue Deals:** assumption of debt, some cash and possible earn-outs

Valuation Methodology

A blurred background image of a classroom with students seated at desks, facing a screen at the front.

What Multiples Might a Motivated Buyer Pay for a School with Good Financial Health and Good Regulatory Track Record?

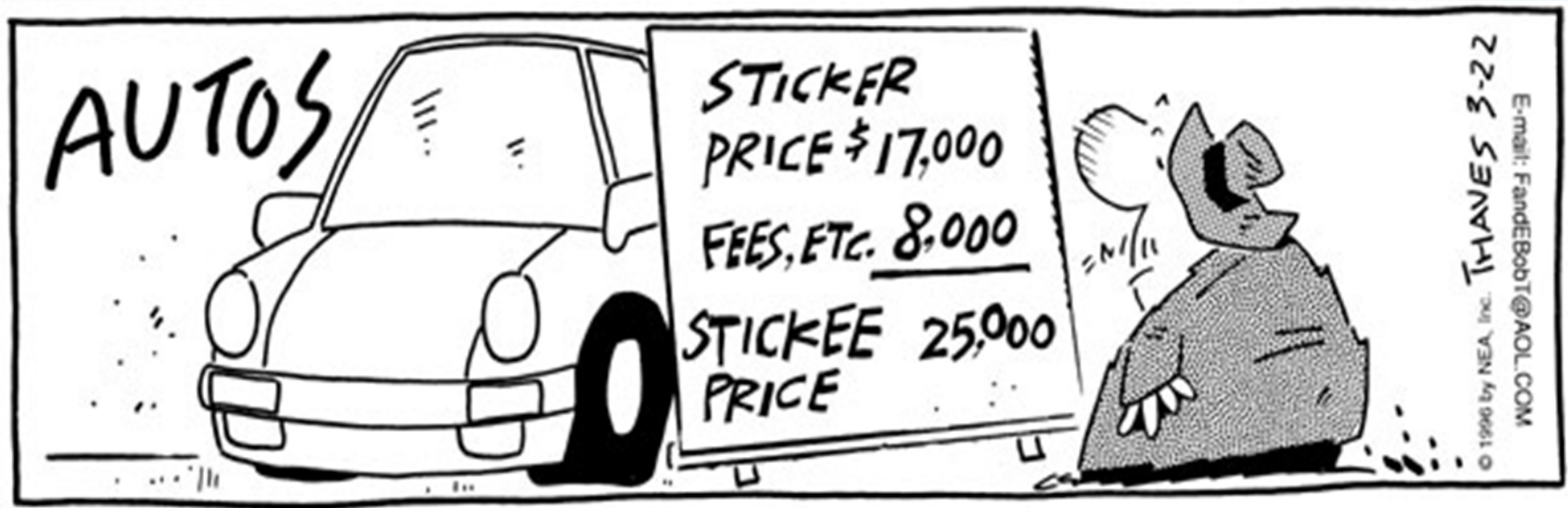
- Accredited, TIV Schools – **2.5/3.0** to **6** times adjusted EBITDA
- Non-Accredited Schools – **2-3** times adjusted EBITDA
- Forward going risk to the Buyer, weighed against benefit, determines the multiple
- Higher the risk, lower the multiple

Variables Impacting Multiples

- **Company Culture**
- **Accreditation/PPA Status**
- **Audit Findings**
- **Market/Demographics**
- **Platform - Online**
- **Data Systems**
- **Enrollment Trends**
- **Financial Condition**
- **Locations/Programs**
- **Delivery System**
- **Facilities/Equipment**
- **Competitive Landscape**
- **Management Team**
- **Brand Recognition**
- **Regulatory Compliance**
- **Outstanding Complaints**
- **Open Reviews/Issues**
- **DOE Metrics**
- **Loan Portfolio/Status**

The Purchase Price ... Doesn't Tell the Whole Story

- Working Capital Adjustment (zero?)
- Transactional Costs (lawyer/advisor/broker/LOC)
- Seller Financing (SBA loans – balance sheet impact)
- Seller Equity Rollover (exit horizon)
- Seller Post-Closing Employment (bonus - merit)
- Tax Impact (entity type/deal structure)



II. Sale Process & Structure



How are Schools Bought/Sold and What Structure Concerns Are There?

Overview

- **Finding Optimal Buyer**
 - Contacts with CPAs, lawyers, consultants, other owners
 - Use of broker or investment banking firm (auction)
- **Timeline (after finding Buyer)**
 - Title IV School: 6-12 months
 - Non-Title IV School: 4-6 months



Key Documents

- **Non-Disclosure Agreement (NDA):** protect confidential information
- **Letter of Intent:** key terms and exclusivity
- **Purchase Agreement:** binding terms, significant negotiation
- **Closing Documents:** transfer ownership, may include other matters such as employment / consulting arrangements, lease, financing (promissory note, security)
- **Regulatory Documents:** Applications and documents provided to DOE/accreditor

Other Process Items



- **Diligence**
 - Tremendous effort examining all aspects of operations (compliance, contracts, employees, complaints, etc.)
 - Prepare data/file with key documents
 - Consider who can help (staff, consultant) & confidentiality
- **Regulatory Approvals**
 - DOE: pre-acquisition review process, 45-90 days
 - Accreditor: varies by accreditor, usually some pre-closing component, NACCAS requires application 30 days prior
 - State: varies by state, usually post-closing
- **Other Third Party Approvals** (landlord, lender, etc.)

Potential Delays



- **Diligence:** fully disclose material facts at the outset so there are no surprises, respond to requests (data room, Dropbox), fix an end-date
- **Open Regulatory Issues:** recertification or reaccreditation, other substantive changes pending (Buyer requested or pre-existing), reviews
- **Buyer's Financing:** qualify Buyer's capability and commitment early: financing commitment letter
- **Deal Fatigue:** time is not your friend, the longer it takes, the less likely it will close

Structure Considerations

- Opening balance sheet audit
 - Acid test ratio (1:1)
 - Tangible net worth (Positive)
- Annual financial statement audit
 - Composite score



Accounting Considerations



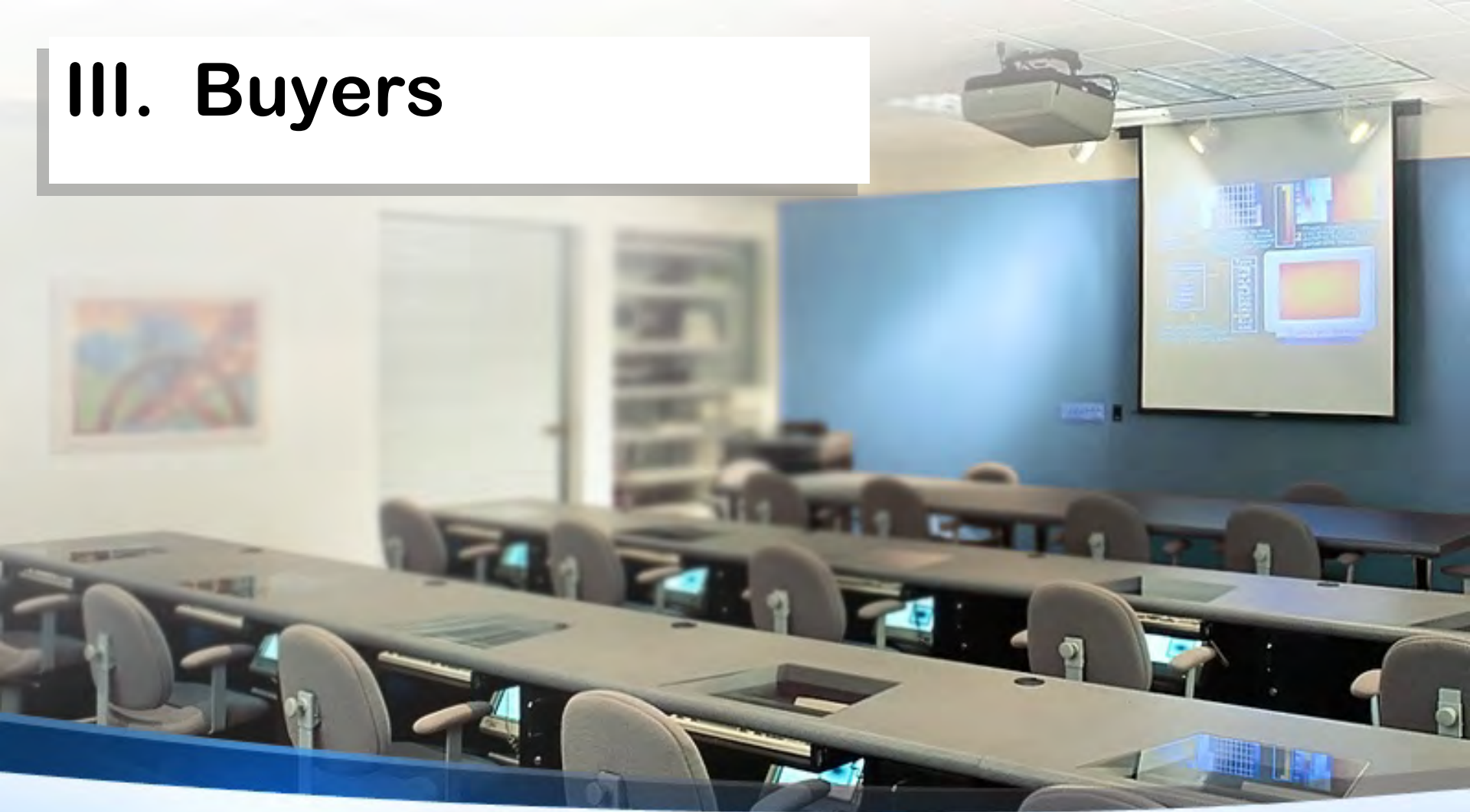
- Financial Accounting Standards Board (FASB)
Accounting Pronouncements
 - Revenue recognition (FASB ASU 2014-09)
Treatment of revenue from contracts with customers
 - Lease accounting (FASB ASU 2016-02)
Recognition of assets and liabilities
 - Business Combinations (FASB ASU 2017-01)

Regulatory Considerations



- U.S. Department of Education's updates composite score calculations (dated August 30, 2019) effective July 1, 2020
 - Treatment of Leases (FASB ASU 2014-09)
 - Presentation of Financial Statements of Not-for-profit Entities (FASB ASU 2016-14)
 - Long-term Debt (only included for purchase of fixed assets)

III. Buyers



What Buyers Buy & Why

What Do the Buyers Want?

- Sometimes accreditation & T4 eligibility
 - *Branching back to existing campuses
- Footprint expansion or new programs
- Some deals with non-accredited cash schools, often with VA/WIA funds



Buyers: Who, What & Why

Buyers' Market - Highly Selective

- Standout Features
- Good Student Outcomes
- Low Regulatory Risk
- Brand Value
- Bargains – caveat emptor
- May need to shop around



Buyers: Who, What & Why

Why are the Buyers Buying?

- Strategic needs/opportunities
- Consolidation bargains
- 90/10 relief (not as much)
- Profitability (niche deals)
- Expansion – programs, locations
- Industry training

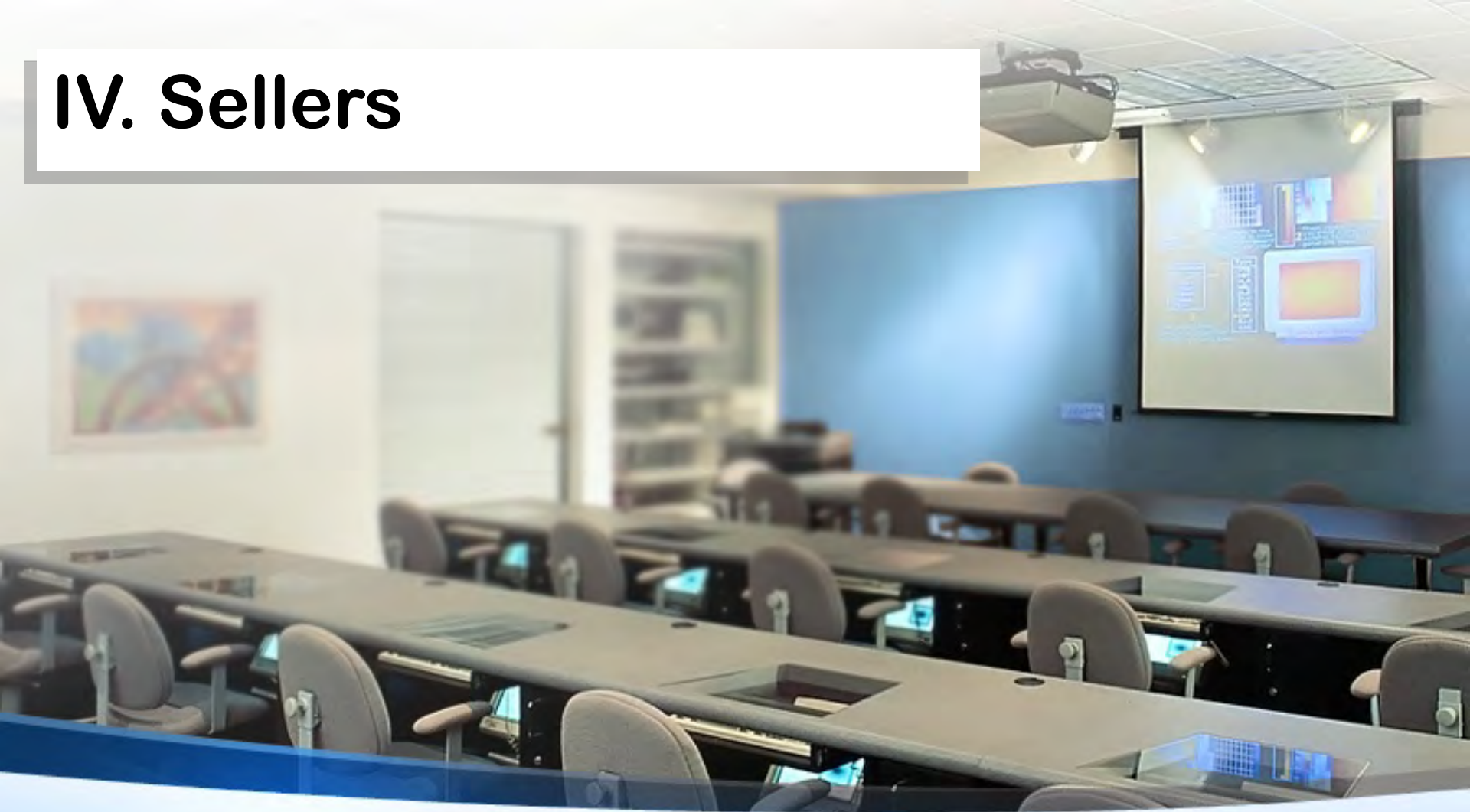


Buyer Variables

- **Company Culture**
- **Accreditation/PPA Status**
- **Audit Findings**
- **Market/Demographics**
- **Platform - Online**
- **Data Systems**
- **Enrollment Trends**
- **Financial Condition**
- **Locations/Programs**
- **Delivery System**
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- **Competitive Landscape**
- **Management Team**
- **Brand Recognition**
- **Regulatory Compliance**
- **Outstanding Complaints**
- **Open Reviews/Issues**
- **DOE Metrics**
- **Loan Portfolio/Status**



IV. Sellers



**How to Prepare to Sell And
Managing Your School**

Decision to Sell: **Exit & Timing**

A. Evaluate other succession options:

- Family/trusted employee
- ESOP

B. Legacy Factor

- Trust in buyer, ability to perpetuate legacy

C. Timing:

- Urgency: health, personal finances, school operations, political/regulatory concerns
- Burnout: interim Management Agreement option?
- Horizon Planning: 2 years plus



Decision to Sell: Preparing for Optimal Value

- **Assessment of Operational/Financial Position**
- What is the financial picture of the company?
- Positive enrollment/revenue trend with continual growth?
- Is there an opportunity to diversify and increase the business?
- Is there a Commitment to Excellence seen in ...
- Culture, student outcomes, operational outcomes
- Excellent Metrics
- Excellent Regulatory History
- Excellent Reputation

Can You Add Value – in 1 to 2 Years?

- Enhanced marketing and enrollment
- Good systems in place – accounting, information
- New program approvals – potential for multiple-stage deal
- New branch or satellite approvals and/or realignment
- Additional externship agreements
- Market tuition (?) - avoid increases unless necessary
- Facility deferred (?) upgrades - capital expenditures
- Explore online/hybrid – theory online CBE
- Negotiating new lease (and other third party contracts) reasonable term (FASB rule) with options
- Management: motivate (lawfully) key managers

Decision to Sell: Looking Under the Hood



- **Spend some money for mock visits/reviews**
- Regulatory compliance files/records
- Regulatory approvals - status
- 90/10, CDRs, incentive comp, disclosures
- Student outcomes – supporting documents
- Externships – active relationships, documents
- Financial accounting
- Accounting methodologies
- Leases: any special assignment/renewal issues
- Fixed Debt: any issues on payoff, lien release

Decision to Sell: Document Prep

- Create a password accessible data file/room:
Google Docs, DropBox, Sharefile
- PDF files of key documents relating to school:
- Business organization documents
- Leases and other third party contracts
- Regulatory approvals
- Annual financial/compliance audits (3 years)
- Current year unaudited financial statements
- Enrollment reports
- Give your Selling Team access to files



Decision to Sell: **Selling Team/Goals**

- Fellow owner(s)/family member(s)
- Trusted member(s) of management
- Consultant and/or contractor assisting with due diligence and operations
- Legal counsel
- CPA/accountant – tax advisor
- M&A Intermediary – broker
- **Determine goals:** price range, delivery, risks to avoid/accept, schedule



Selling Process: **School Management**



- **Delegating** in ordinary course, BEFORE entering the selling process, to key trusted manager(s)
- **Establish** trusted and **confidential relationship** that can be used during selling process
- Letting go, not micro-managing, before the sale
- Use of a consultant/contractor to assist with due diligence and/or with management
- Disclosure to Close Circle: most sellers – signed PA
- Disclosure to Staff: most sellers – closing
- Concern: staff could leave for fear of unknown

Selling Process: Employee Management

- Disclosure to Close Circle: most sellers – signed purchase agreement
- Disclosure to Staff: most sellers – closing
- Concern: staff could leave for fear of unknown
- Regulatory Applications: whether to file after LOI or after signed PA – issue is confidentiality
- Need to keep deal under wraps but push forward
- **Need to keep school ‘intact’** - ordinary course operation for buyer and it’s still your school and the deal may not close

CONCLUSION



A GOOD DEAL Requires

Preparation, Patience and Persistence
– on both sides.

And remember that a
Good Fit, Good Timing and
Reasonable Expectations
all help to avoid **Good Grief**.

Managing the Move

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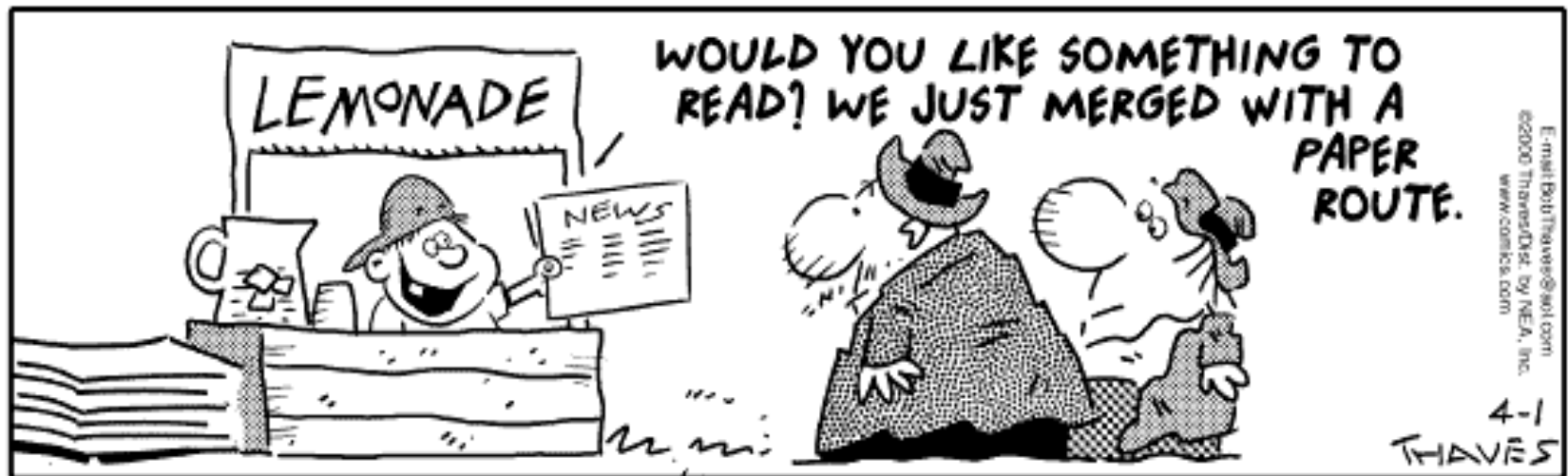
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