Parthenon Perspectives

THE PARTHENON GROUP
Boston • London • Mumbai • San Francisco

Balancing Opportunity and Risk in North American K-12 Publishing

July 26, 2012

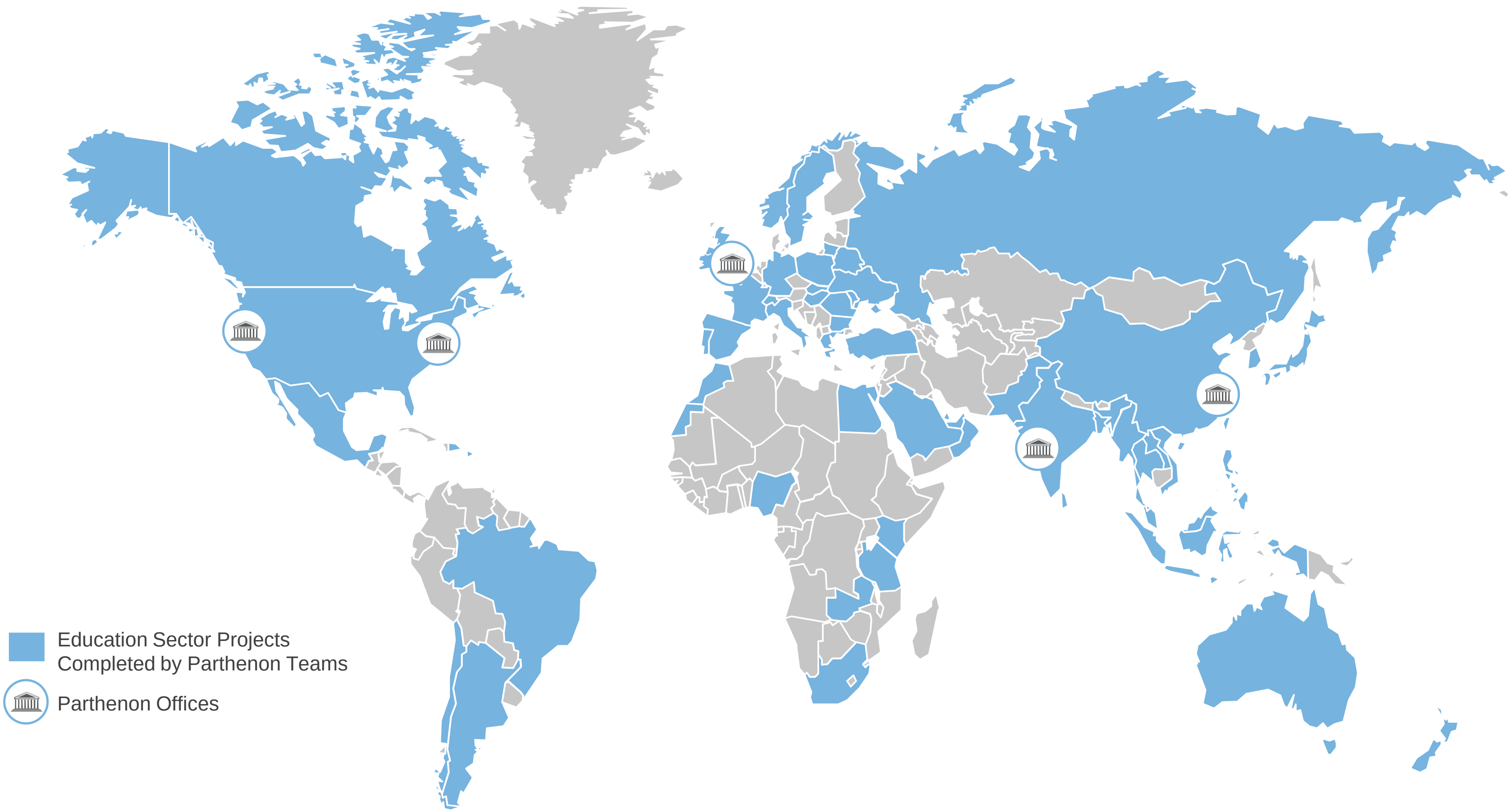
Agenda

What Informs our Perspective?

Parthenon Perspectives on U.S. K-12 Market Trends

The Implications We See for Providers in the Space

The Parthenon Group has completed 400+ education assignments globally



Pre-Kindergarten → K-12 → Career and Professional → University → Vocational and Other

What Informs Our Perspective?
Public and private sector work provides us with a strong sense of what is happening “on the front lines

We advise a number of leading education institutions…	…and work with the private companies trying to meet their needs
• Local educational authorities, states, and governments • Charter schools, private K-12 schools, and other innovative education providers • Global post-secondary institutions • Foundations on the forefront of educational reform	• Educational publishing • Assessments • Tutoring • Intervention/Special Ed • Technology providers • Consumer education products

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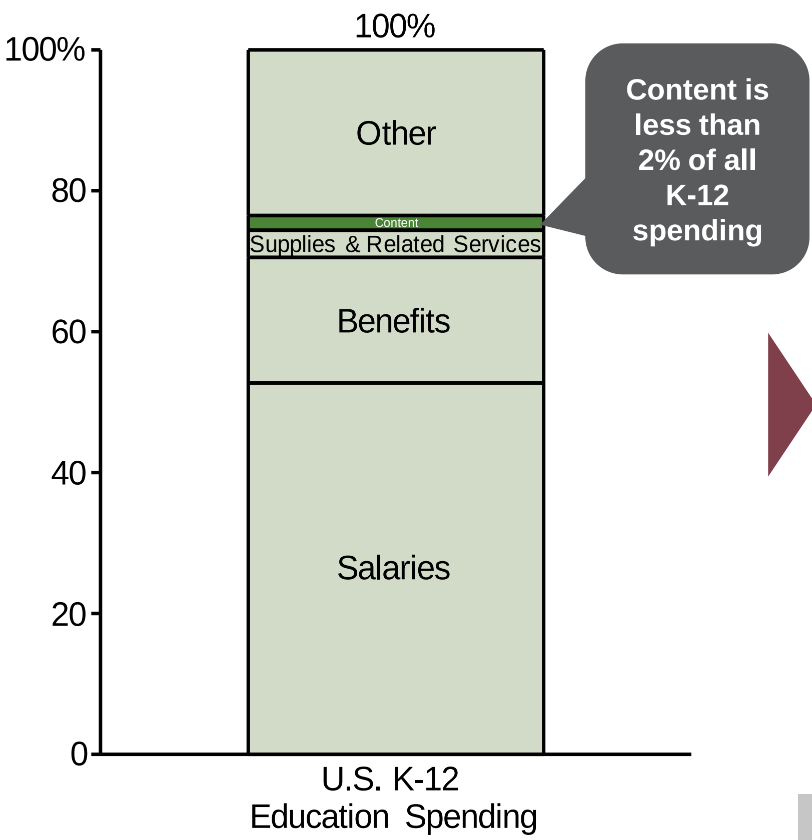
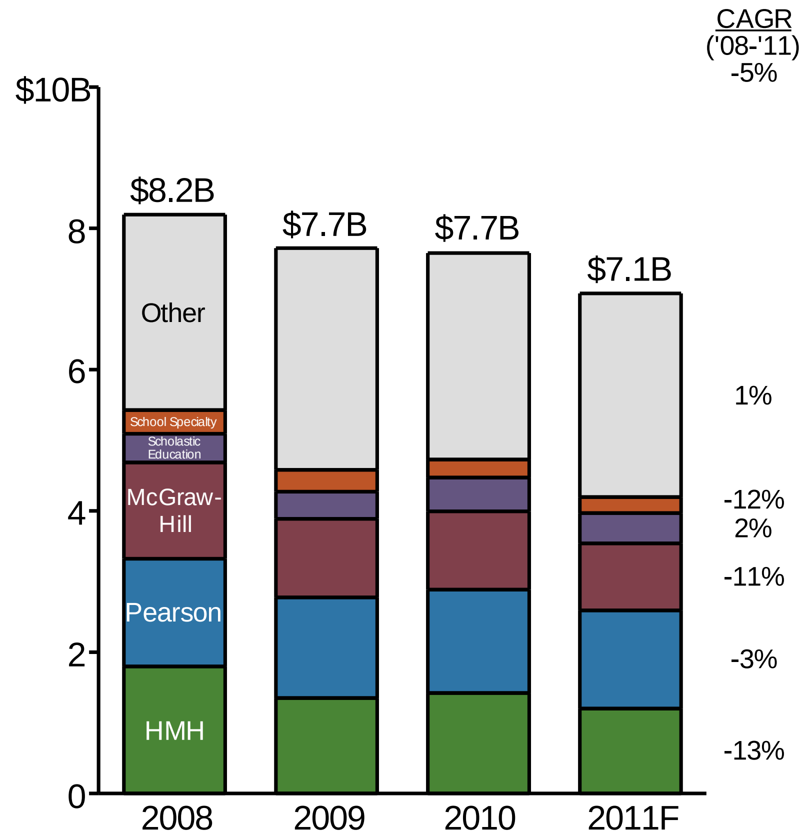
Within K-12 education, content is considered more "discretionary" and has suffered accordingly

Total U.S. Education Market, 2008



K-12 Publishing Market Revenues, 2007-2011



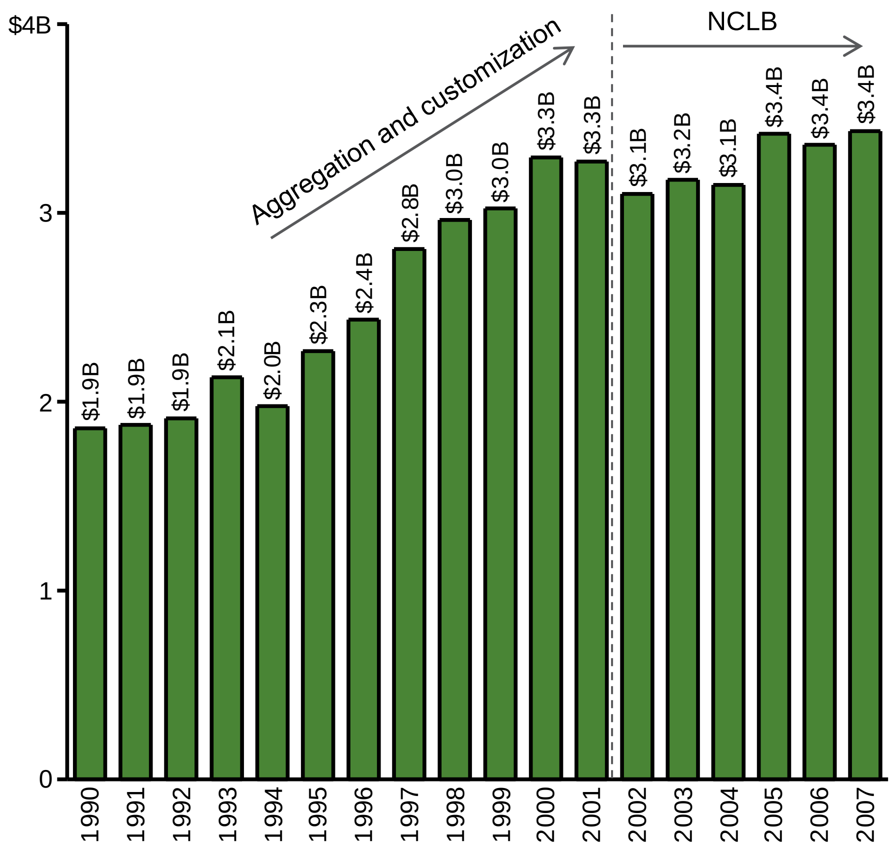
	2008	2009	2010	2011F
Top 3 Share	57%	50%	52%	50%

Note: Figures are from company financials where available; Simba estimates are used for competitors without relevant public data

Source: U.S. Census Bureau; E-Learning Council; National Center for Education Statistics; BMO Capital MarketsSimba; Company Financials; Company Earnings Calls; Analyst Reports; Veronis Suhler Stevenson

NCLB's spotlight on performance spurred spending on intervention and assessment – so, what is next?

U.S. K-12 Basal Market*, 1990-2007



Impact of No Child Left Behind on Instructional Materials Spending

1. Required assessment of student performance and imposed consequences

Demand for intervention and assessment materials increased (assessment market grew at 7% CAGR from '05-'11)

2. Did not impose new requirements related to basal textbooks

Basal spending has been mostly flat since 2000

Note: *Based on AAP respondents only, does not equal full market
Source: Association of American Publishers; Parthenon interviews

The sector is addressing challenges through innovative curriculum, pedagogy, and human capital

Curriculum - *WHAT is being taught*

- Common core standards and assessments
- Balance of cognitive and non-cognitive skills acquisition

Pedagogy - *HOW it is being taught*

- Personalization / Next Generation Models
- Adaptive assessments
- Self-directed, competency-based models

Human Capital - *WHO is teaching*

- Measuring and making decisions on quality
- Developing new roles and pathways
- Personalization of professional development

Advances in Technology

- Realization of potential for true differentiation at scale through online delivery and proliferation of devices
- Leveraging the “I” in “IT” - potential rise of business intelligence

Changing Institutional Landscape – Increasing accountability and competition

- Performance management within K-12 systems
- Post-secondary NCLB-like accountability
- Rise of non-public competitors (for profit and charter schools)

Changing Federal Role – At least for now

- Competitive grant funds (RTTT, i3)
- ESEA Reauthorization

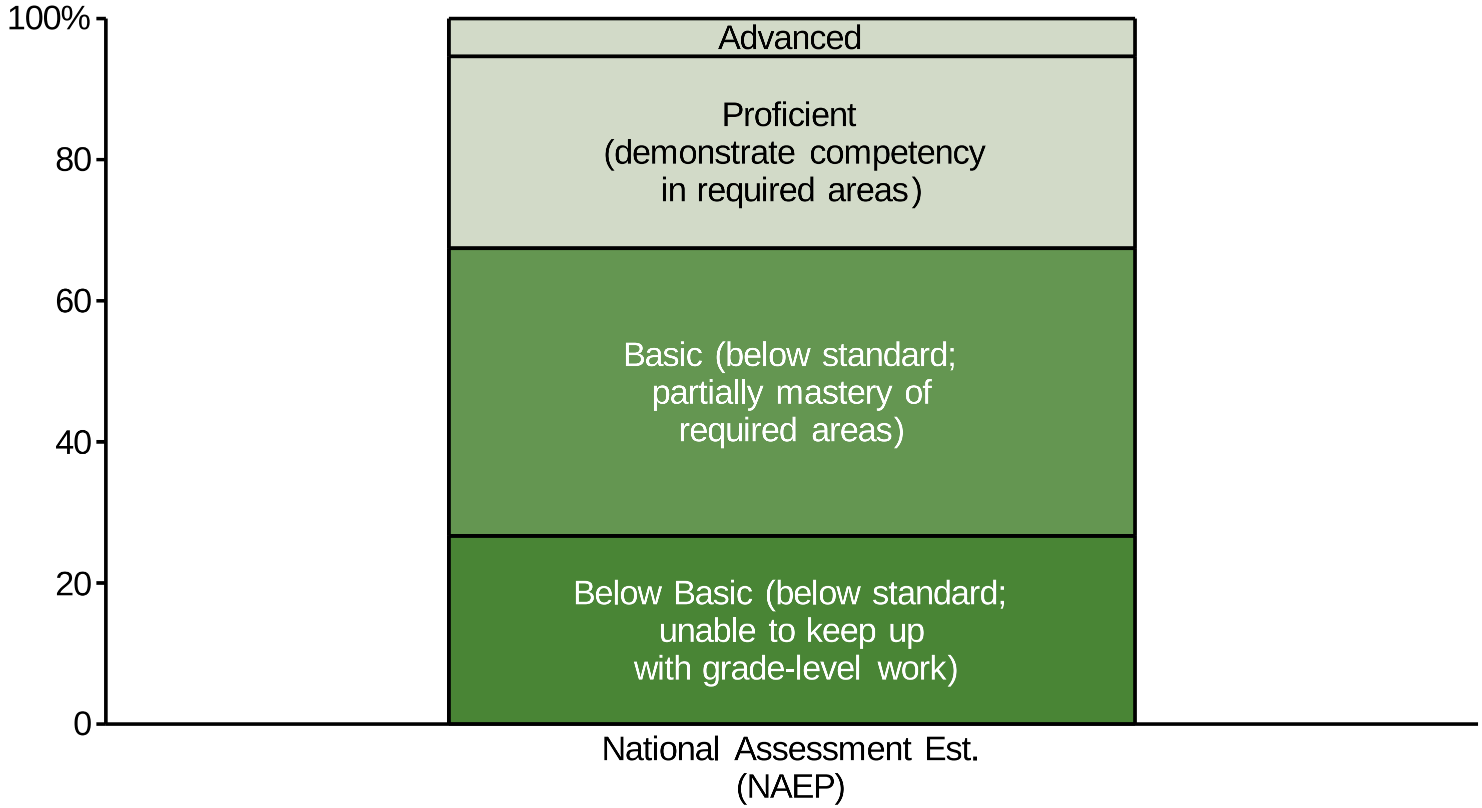
Nearly all successful products and services over the past few years adhere to four broad heuristics

1	**Help Close the Performance Gap**	The performance gap continues and is still front-and-center on Superintendent's agendas
2	**Support Personalization**	Personalization has always been a goal but digital solutions and adaptive technologies make it seem just within reach
3	**Enhance Teaching and Administrative Workflows**	Products and services that fit within, and enhance, established workflows succeed; those that fight them fail
4	**Get Closer to the Point of Instruction**	\$50 to \$150 of instructional materials expenditure vs. \$7,000 to \$12,000 of instructional expenditure

Serving the students receiving accountability scrutiny is a challenge for most districts

1

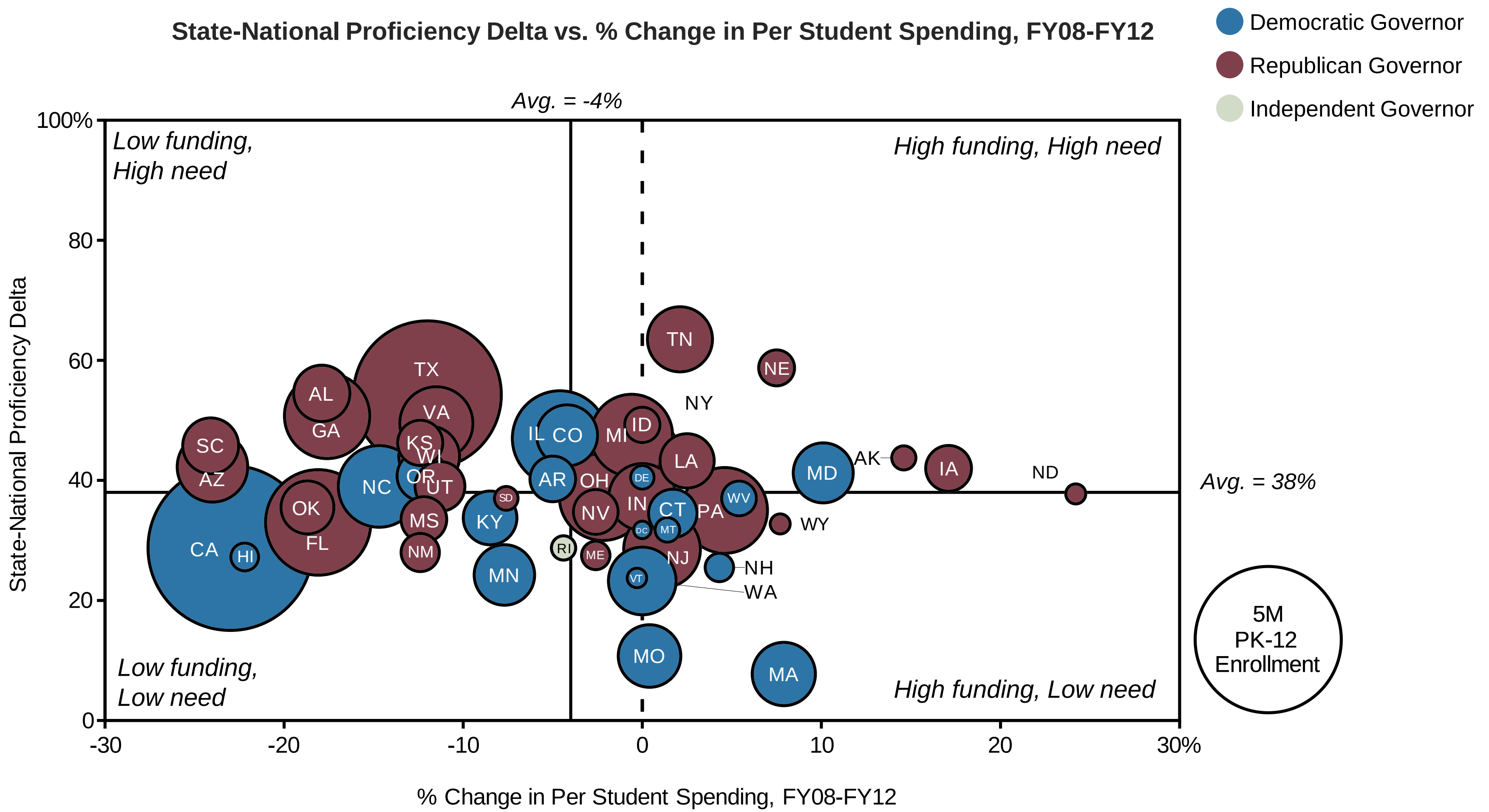
K-12 Variability in Student Performance (2009-10)



Help Close the Performance Gap

If Common Core has teeth, the "Performance Gap" will get a lot bigger!

1



Support Personalization

Technology is putting "Personalization" within the grasp of educators…

2

Increasing Complexity

	Static	Interactive	Individualized	Personalized
Content	• Static digital content (on screen book)	• Supplemental materials over reasonably static content	• Prescriptive options built into program that allow individualized pathways	• Content delivered according to students personal needs
Assessments	• End of chapter • Digitized item banks • Test prep	• Instructor ability to modify/create tests	• Formative with ability to indicate groupings or pathway for instructor through content • "Authentic Evaluations"	• Fully adaptive assessments
Delivery/ Device	• PC in classroom on school network	• PC-based, accessible anywhere		• Multi-platform, wireless • One-to-one

Enhance Teaching and Administrative Workflows

Teaching and Administrative workflows dictate how well your products and services will be adopted

3

Teaching Workflows

One of the largest workforces in the Country, who:

- Tend to work alone;
- Have established classroom rhythms; and are
- Change resistant – for good reasons

Administrative Workflows

Extreme budgetary and performance pressure grappling with:

- Rising standards and persistent performance gaps;
- Increasing statutory compliance complexity;
- Distributed workforce with high turn-over
- Highly politicized constituents (unions, parents, boards, politicians)

Do not fight these workflows – odds are, you do not know better!

Enhance Teaching and Administrative Workflows

Products and services in a digital world also need to fit within established workflow needs

3

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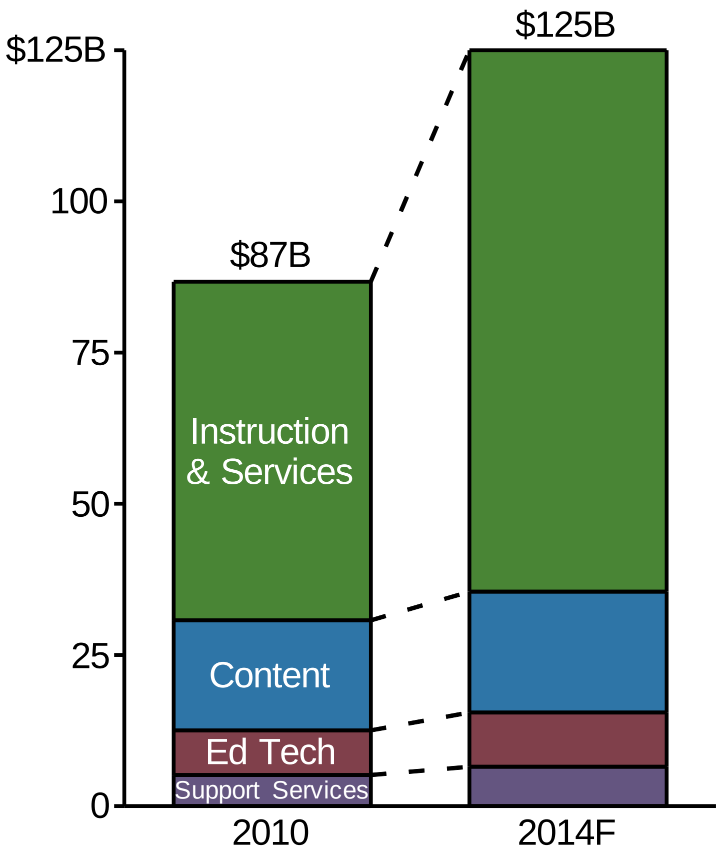
Delivery/ Device	• PC in classroom on school network	• PC-based, accessible anywhere		• Multi-platform, wireless • One-to-one
Teaching Workflows	• Basic Teacher Tools (grade book, calendar)	• Teacher ability to monitor, group and customize (student profiling and grouping, customization of content/assessment, content creation tools)		• Algorithmically drive recommendations for scope, sequence and personalization
Admin Workflows	• Data capture and transfer	• Administrative tools		• Business Intelligence

Get Closer to the Point of Instruction

Being at the point of instruction invites higher growth and higher margins

4

U.S. Commercial Education, 2010-2014F



Higher Growth; Higher Margins

Get Closer to the Point of Instruction

Innovative solutions are accelerating in the K-12 landscape – much as they did in post-secondary

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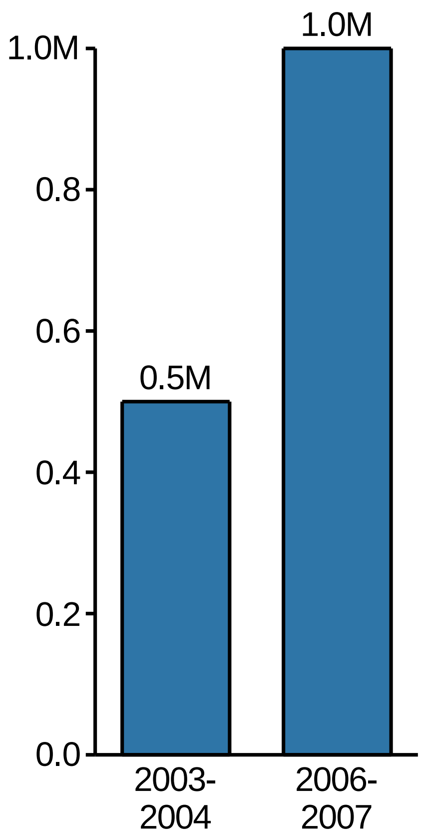
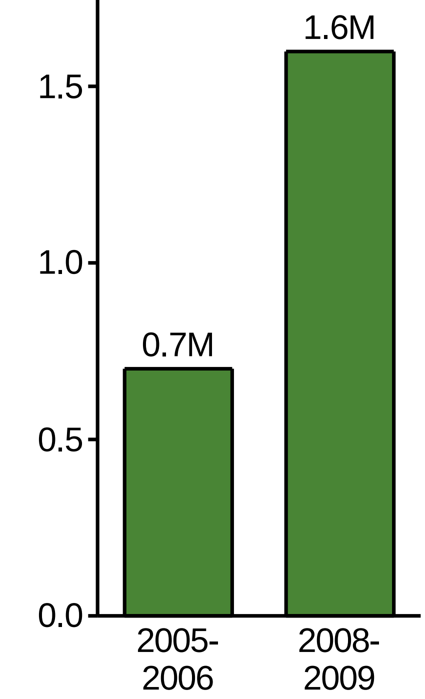
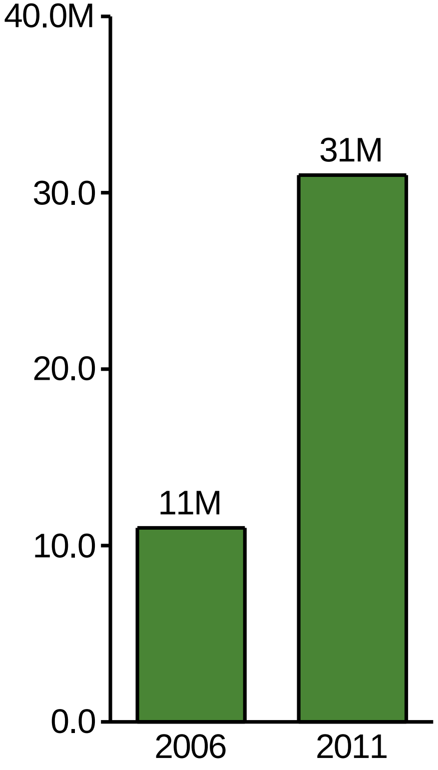
Post-Secondary Online Enrollment, 2003-2006



Online K-12 Public Enrollment, 2005-2008



Online K-12 Course Provider Revenues, 2006-2011



Note: K-12 Public Online enrollment includes students who are enrolled in both hybrid and fully virtual schools
Source: Education Public Interest, Eduventures and BMO Capital Markets; SRI International for the U.S. DOE

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Ultimately, scale positions will matter, as only the strong will survive

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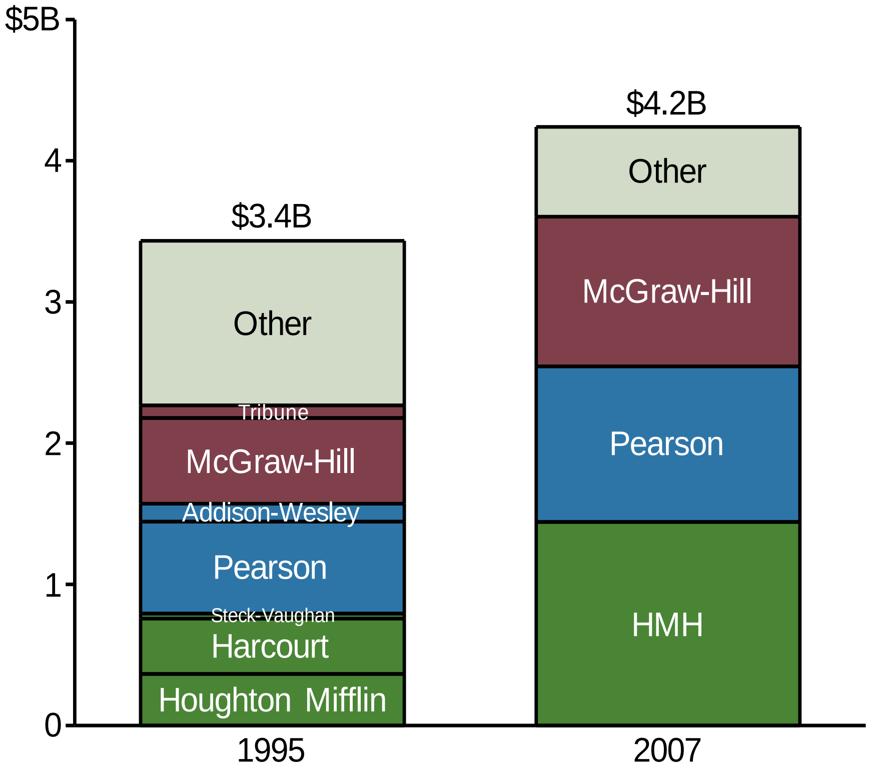
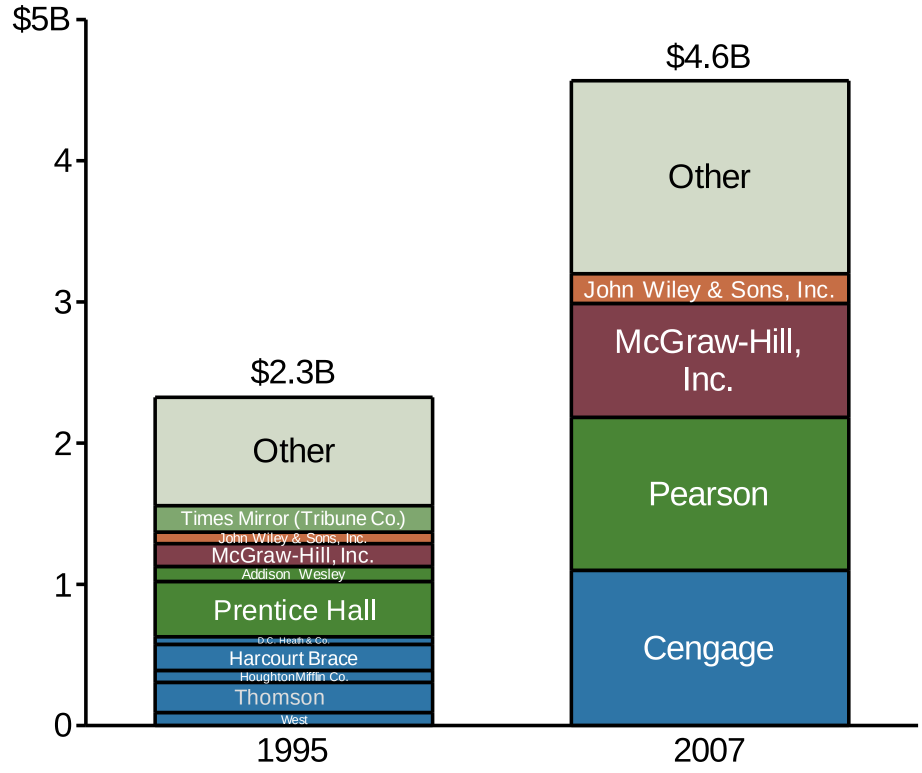


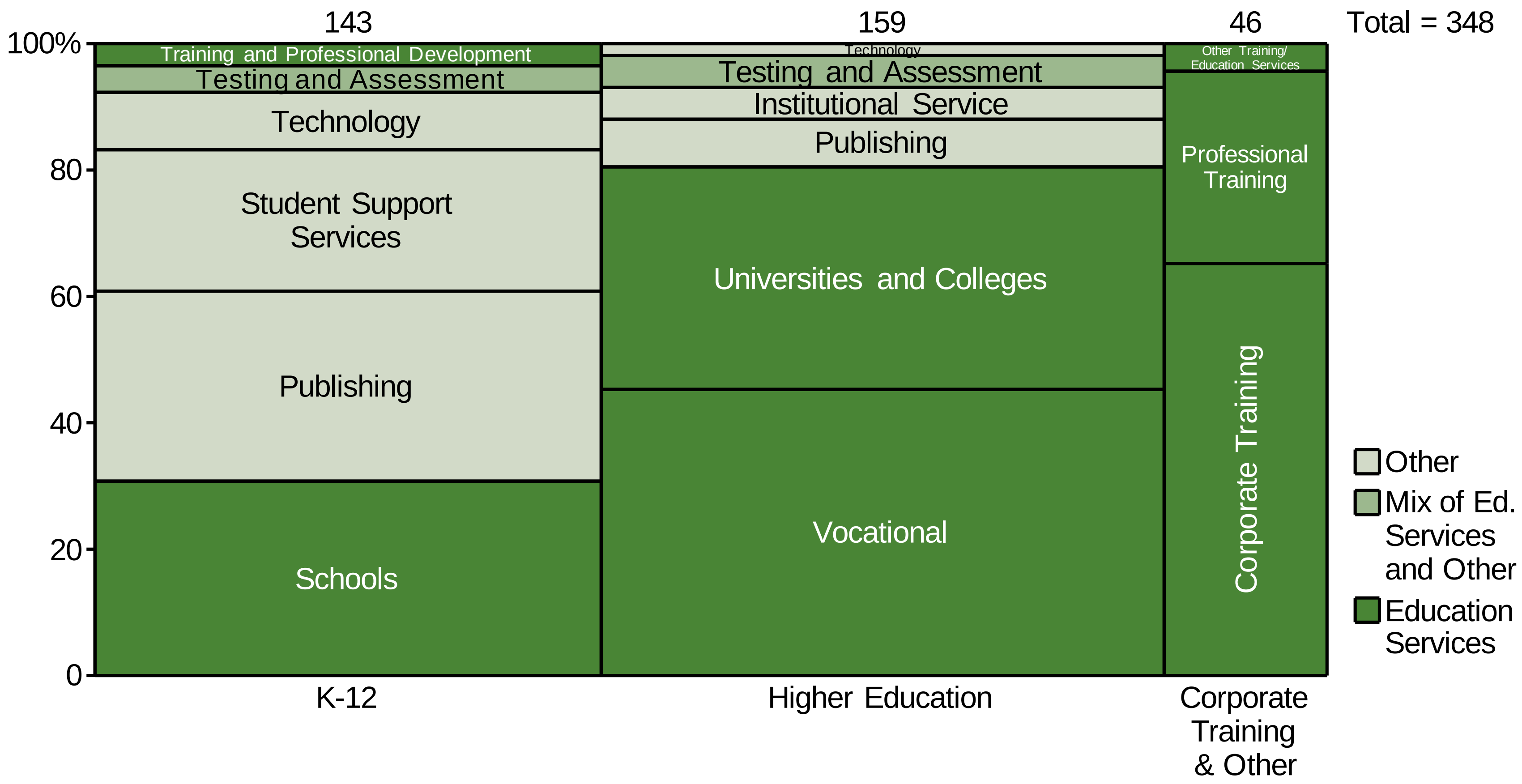
U.S. Higher Ed Publishing, 1995-2007



Source: MIR; AAP; Outsell

Significant capital has been poured into instruction and services

U.S. Education Market Investment Activity: Number of Deals (2005-2010)



Source: Pitchbook, December 2010; Capital IQ Education Industry, December 2010; BMO Education Market Equity Report September 2008; Stifel Nicolas Postsecondary Education Factbook

Parthenon Perspectives: The Caveats

Sorting out winners and losers requires both an educational and business perspective

- **Emerging markets are ill-defined and highly fragmented**
- **Product offerings are relatively undifferentiated (and sometimes downright difficult to understand)**
- **Few companies have a sales force of any real size**
- **District purchasing processes evolve slowly and sporadically**

There will be winners and losers

About The Parthenon Group and our advisory services for investing in education

About The Parthenon Group

The Parthenon Group is a leading advisory firm focused on strategy consulting with offices in Boston, London, Mumbai, San Francisco, and Shanghai. Since its inception in 1991, the firm has embraced a unique approach to strategic advisory services; long-term client relationships, a willingness to share risk with our clients, an entrepreneurial spirit, and customized insights are the hallmarks for which The Parthenon Group has become recognized in the industry. This unique approach has established the firm as the strategic advisor of choice for CEOs and business leaders of Global 1000 corporations, high-potential growth companies, private equity firms, educational institutions, and healthcare organizations.

Advisory Services for Investing in Education

The Parthenon Group advises clients in all stages of investing in education companies, including target identification and screening, strategic due diligence, portfolio company strategy and operational improvement, and sell-side support. The combination of Parthenon's Private Equity Practice, which has advised clients on over 1000 transactions, and our Education Center of Excellence, which has worked across all aspects of for-profit and non-profit education, make The Parthenon Group the preeminent advisor to private equity firms considering investments in the education industry.

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