

Mergers & Acquisitions in Higher Education

Meeting the Challenges and Opportunities in a Turbulent Economy

**2024 Annual Conference and Assembly Meeting
International Accreditation Council for Business Education
Memphis, TN**

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Agenda

- **Environmental scan- Changes in the higher education landscape**
- **Winners & losers in the new competitive environment**
- **The economics of higher education**
 - **Business models**
 - **Valuation methods**
 - **Strategic initiatives**
- **Roles of trustees, accreditors, faculty, && the community**

The Challenges

Post – 2000 Higher Education Growth Factors

- **Millennial “Baby Boom”**
- **Abundant student loan financing**
- **Perceived economic value of a college degree**

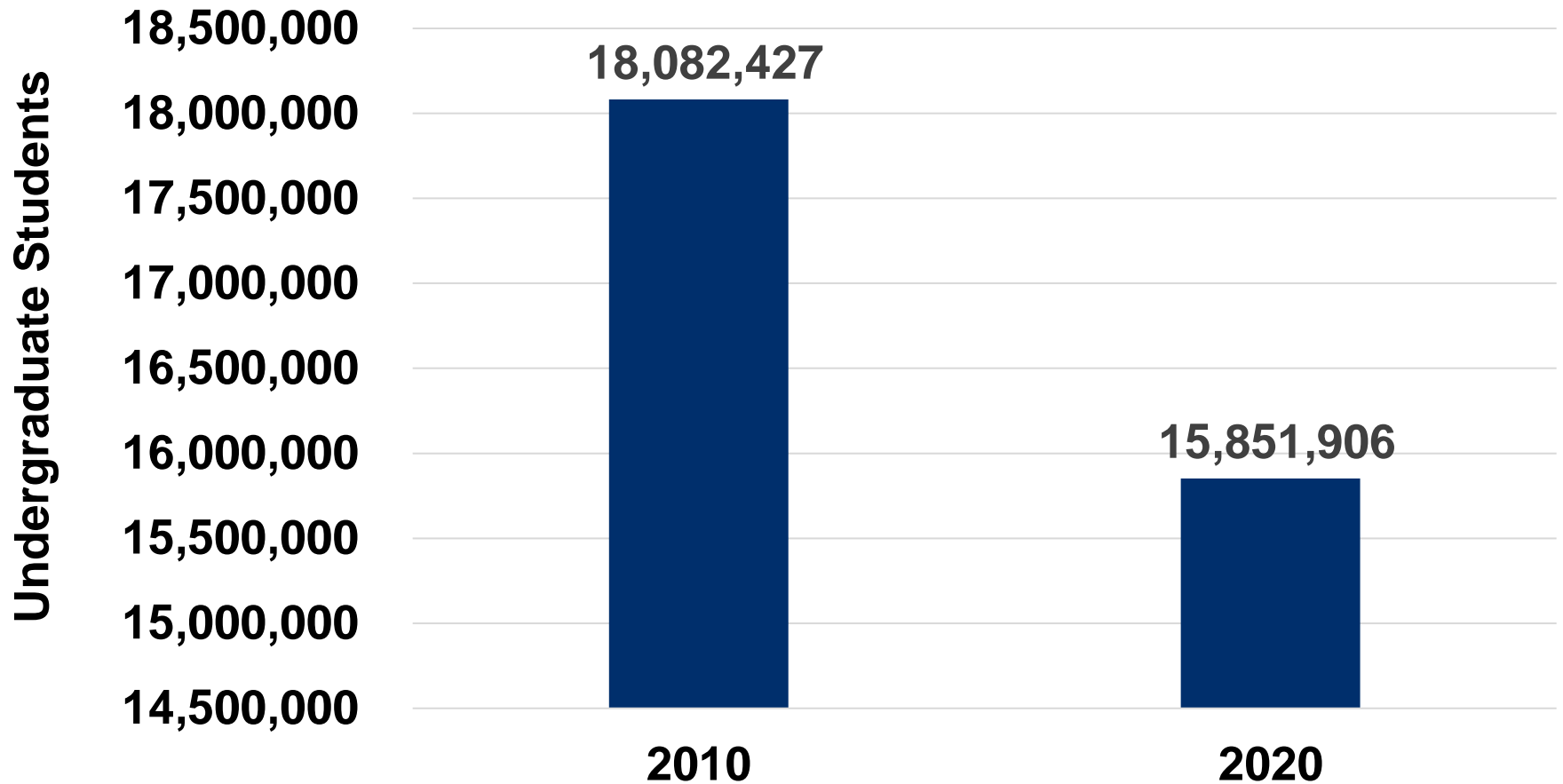
The Challenges

New Realities

- **Generation Z “Baby Bust”**
- **Excessive student loan debt**
- **Non-traditional students have specific interests**
- **Questioning of the college value proposition**
- **Tightening labor markets**
- **Decline in international students**

The Threats

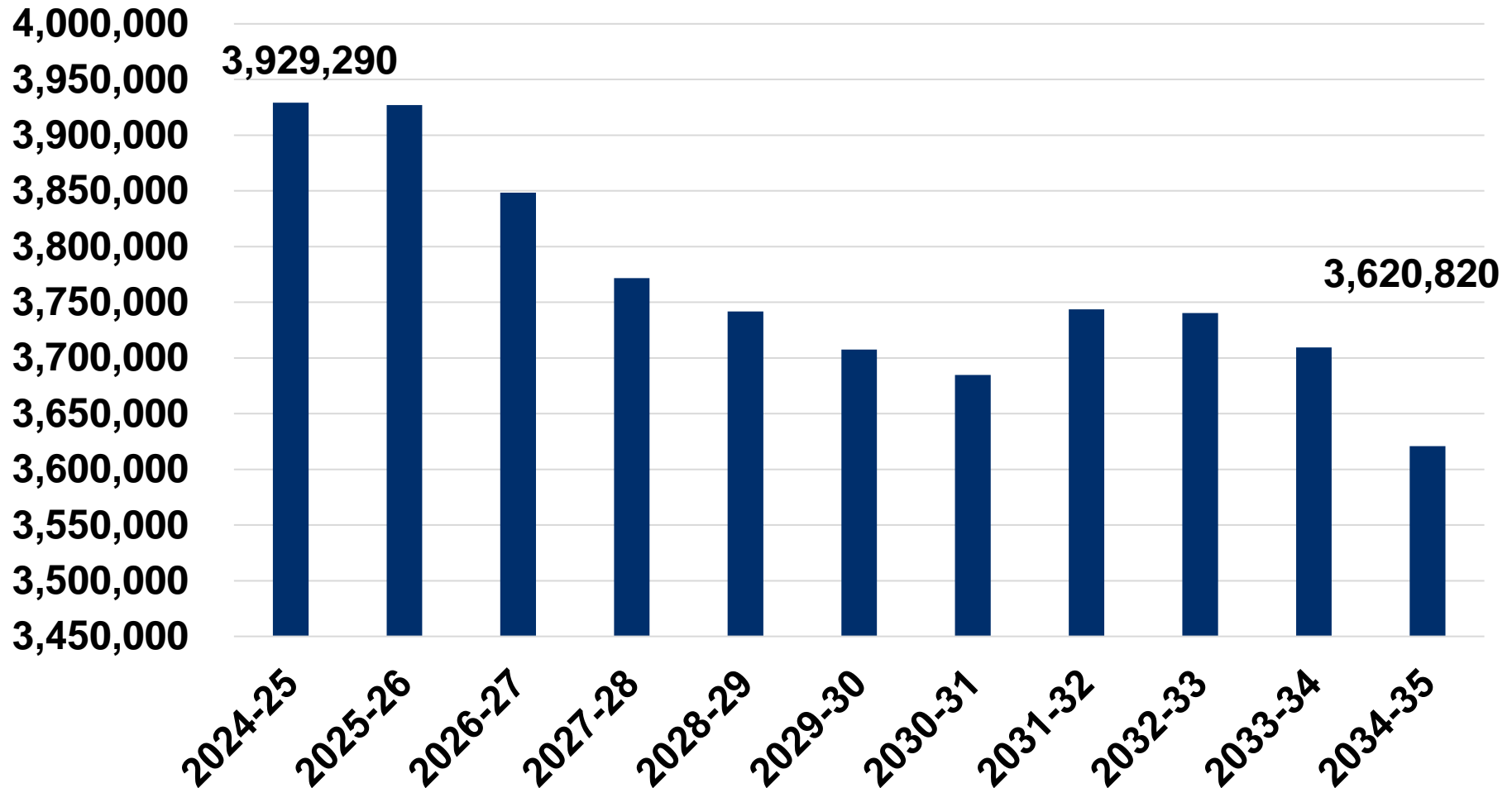
Undergraduate Enrollment



Source: Clark, et al. (2023).

Long-Term Trends

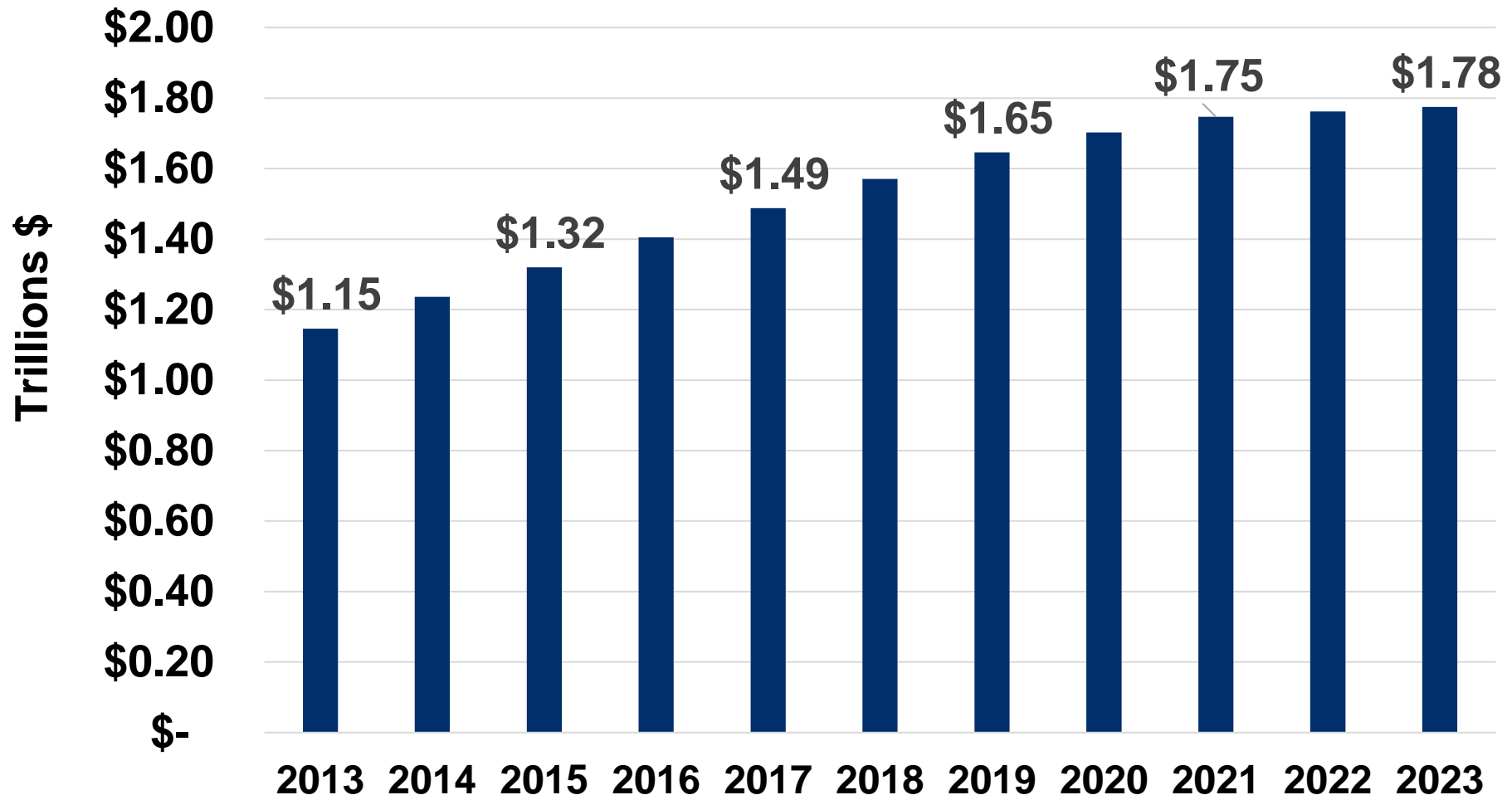
High School Graduates



Source: Clark, et al. (2023).

The Student Debt Crisis

Total Student Debt



Source: The Board of Governors of the Federal Reserve System (2023).

Alternatives to College

“Tear the Paper Ceiling”

- **The invisible barrier that comes at every turn for workers without a bachelor’s degree**
 - **No alumni network**
 - **Biased employer algorithms**
 - **Degree screens**
 - **Stereotypes**
 - **Misconceptions**

Alternatives to College

“Tear the Paper Ceiling”

- **Recommendation:**
 - **Look at qualifications to do the job rather than the perceived value of a college degree**

Alternatives to College “Tear the Paper Ceiling”



Opportunity
@ Work

Source: Opportunity at Work.org (2023).

Alternatives to College

STARs- Skilled through Alternative Routes

- **Reflects nation's cultural diversity**
 - **Black / Hispanic**
 - **Age**
 - **Veteran status**
 - **Rural vs. Urban vs Suburban**

Alternatives to College

coursera



Google
ACADEMY



Alternatives to College

Good Jobs without Degrees

Mike Rowe- Blue Collar Champion

“Jobs without Degrees”



Source: Altus (2023).

BCG Matrix

RELATIVE MARKET SHARE POSITION

INDUSTRY SALES GROWTH RATE %

	High 1.0	Medium .50	Low 0.0
High +20	Stars	Question Marks	
Medium 0	Cash Cows	Dogs	
Low -20			

Source: David & David (2015).

BCG CATEGORIES

Stars

- Ivies
- Seven Sisters
- Top 50
- Distance Learning
Winners: SNHU, ASU, WGU, UM Global

Question Marks

- Advancing remote learning
- Capella
- University of Phoenix
- Liberty University

Cash Cows

- Large universities with strong support from athletic budgets:
- Big Ten, PAC10, SEC, etc.

Dogs

- Small private colleges
- Tuition dependent institutions

Higher Education

National Center for Education Statistics- 2021- 2022

- **3,899 postsecondary, degree granting institutions**
 - **1,582 Public institutions**
 - **1,626 Private nonprofit institutions**
 - **691 For-profit institutions**
- **Financial viability?**
- **Increasing trend in higher education combinations**

Source: NCES (2023).

The Nonprofit Trap

- **Nonprofits are not subject to the same return on investment pressures as institutions in the private sector.**
- **They can muddle through beyond the point of financial viability by:**
 - **Underpaying faculty and staff**
 - **Deferring maintenance**
 - **Dipping into savings and endowment**

The Nonprofit Trap

- **Trustees have ultimate authority but tend to be risk averse; no penalty for putting off decision but high potential for conflict – with alumni, faculty, and the community - when proposing radical change.**
- **Conclusion: Stick with the status quo while tying up resources in non-productive uses**

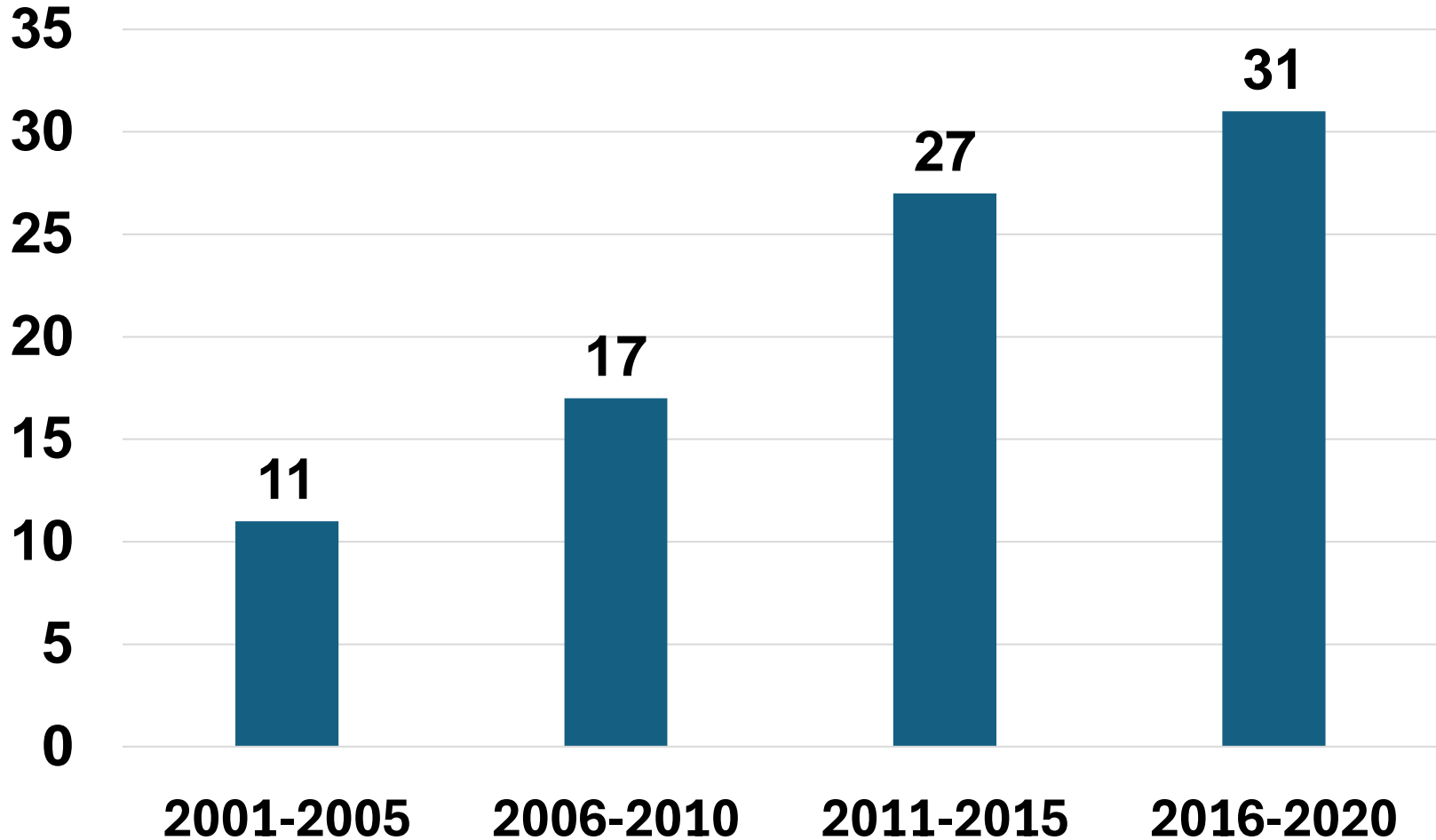
“Death Spiral”

- **Institution never assessed cost of operations**
- **High reliance on L/T 3P's (public-private partnerships)**
- **Cannot estimate when the institution will hit its inflection point**
 - **Cannot cover costs & expenses with liquid assets**
- **LOC dependency in summer**
- **Considering liquidating parts of its endowment**

Closure Risk Factors

- Enrollment < 1,000 students
- No complete online program developed
- Annual tuition increases > 8%
- Tuition discount > 35%
- Tuition dependency > 85%
- Ratio- Endowment to annual expenses < 3:1
- Debt service > 10% of expenses

Mergers & Acquisitions in Higher Education



Source: Bryant & Jefferson (2023).

Higher Education

Closures & Consolidations

- **48 private nonprofit and public institution closures between March 2020 – December 2023**
 - **28 closures**
 - **20 mergers**
- **52.9% of students impacted by sudden closure do not re-enroll**

Source: Castillo & Welding (2024).

Business Combinations

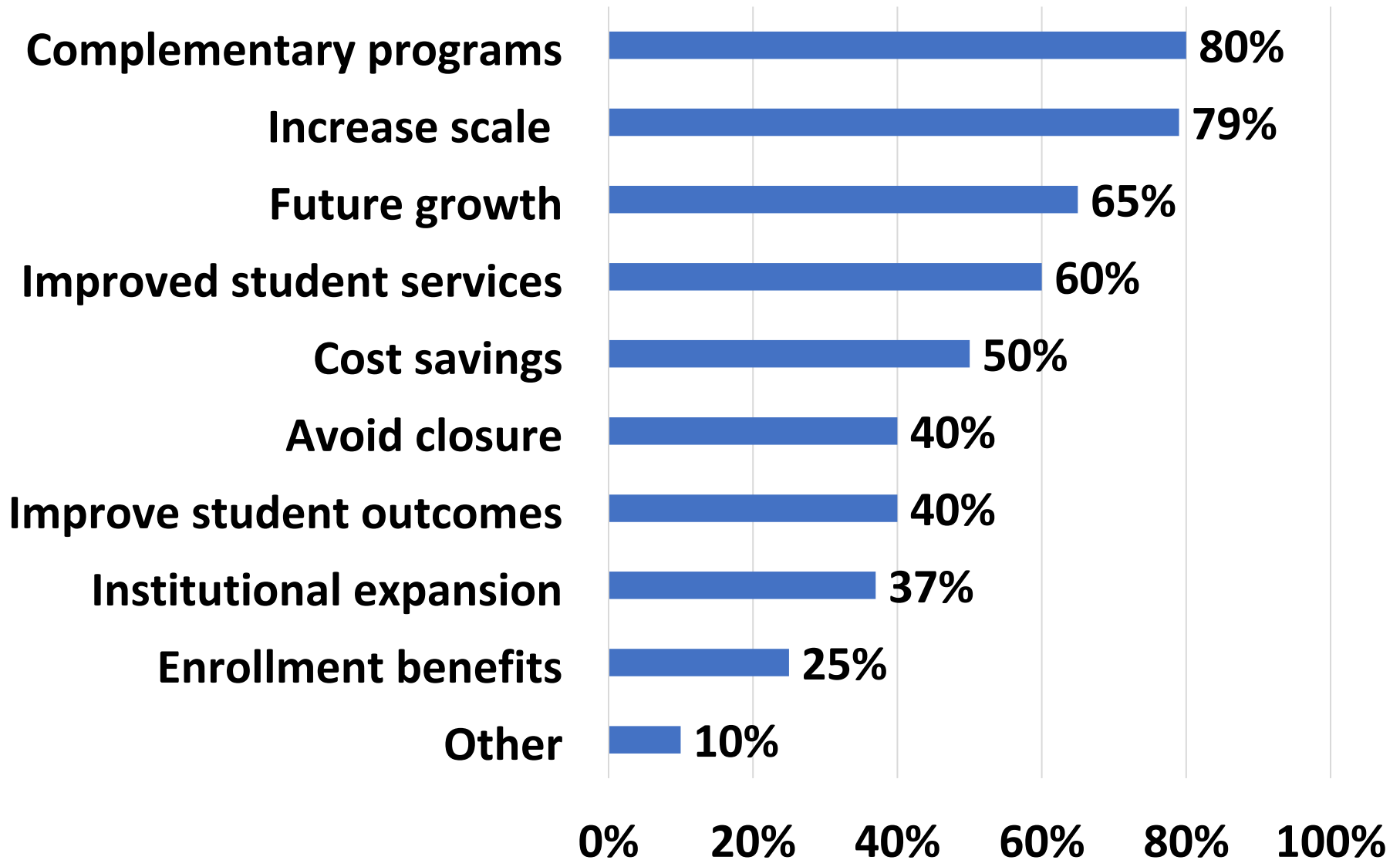
- **Mergers**
- **Acquisitions**
- **Consolidations**
- **Liquidations & Asset Transfer**
- **Joint Ventures**
- **Coalitions**

Mergers

Model Nonprofit Corporation Act

- **Allows mergers of nonprofit organizations**
- **State laws → additional regulation & guidance**
 - **State decision to allow mergers of nonprofit with other nonincorporated nonprofits or entity outside of the state**
 - **Additional regulations if nonprofit merged out of existence into for profit entity**
- **Approvals**
 - **Federal- IRS, DOE**
 - **State- Revenue Department, AG, Secretary of State**
 - **Accreditors**

M&A Strategic Objectives



Valuation Methodology

- **Asset-Based Approach**

- Net asset value

- **Market-Based Approach**

- Compare organization to comparable organizations
- Assess financial performance relative to comparables

- **Income-Based Approach**

- Discounted future projected cashflows
- Potential to generate sustainable revenue & donor support

Valuation Methodology

- **Assets- FMV or Book Value of Specified Assets**
 - **Current Assets**
 - **Endowment**
 - **Grants**
 - **Real Estate**
 - **Plant & Equipment**
 - **Other Fixed Assets**

Valuation Methodology

- **Intangible Assets- Valuation?**
 - **Intellectual Property**
 - **Patents**
 - **Course content in Learning Management System**
 - **Trademarks, Copyrights**
- **Liabilities- Specified Liabilities Assumed**
 - **Current Liabilities**
 - **Long-Term Debt**

Valuation Methodology

Other Valuation Considerations

- **DCF: PV of future cash flows at reasonable risk adjusted discount rate**
- **Growth potential**
- **Market Valuation Multiplier**
- **Economic contribution multiplier**

Valuation Methodology

Other Valuation Considerations

- **Brand and reputation**
- **Alumni networks**
 - **Donor base- Funding Sustainability**
- **Human capital talent**
- **Comparable Institutions → Little available data**

Merger Costs

- **Branding, communications, institutional relations**
- **Human capital needs**
- **Program growth & synergies**
- **Infrastructure**
- **Opportunity costs**
- **Political capital expenditures**

Source: Azziz, et al. (2017).

Merger Costs

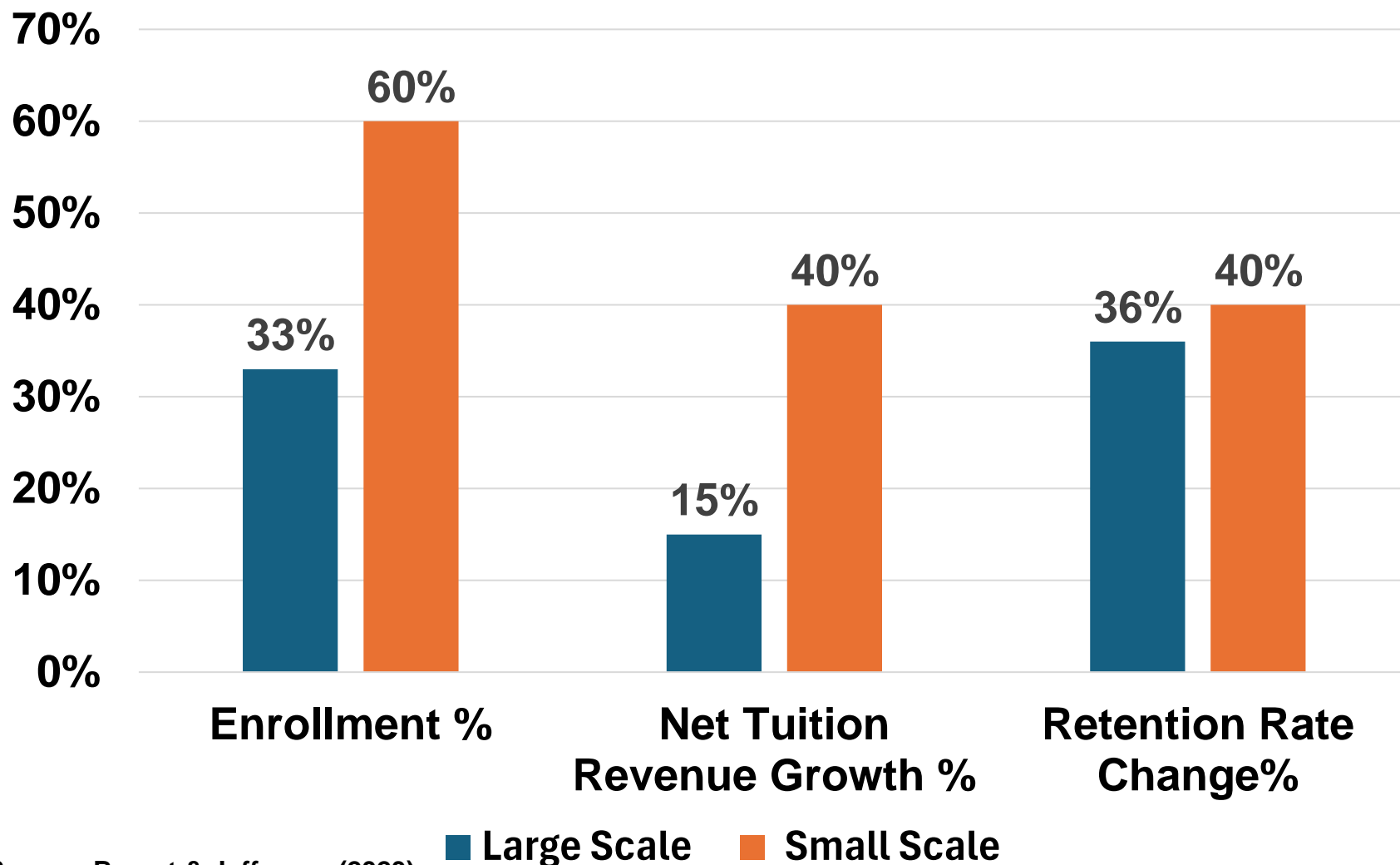
- **Considered as a case of last resort instead of as a proactive strategy→**
 - **Diminished Asset / Resource availability**
- **Tendency to underestimate cost**
- **Tendency to overestimate increased revenues / cost savings**
- **Substantial upfront cost / investment**
- **Gap in timing of returns vs. investments**

Post- Merger Strategies

Unlock residual value trapped in the new market segments

- **Comparable & Complementary programs**
- **Unique programs from each institution**
- **Program expansion**
 - **Online development**
 - **New workforce-related programs**
- **Asset underutilization → Finance expansion**

Merged Institutions Experiencing Post Merger Growth



Source: Bryant & Jefferson (2023).

Merger Examples



- Merged in 2020
- Pine Manor Institute for Success
 - Messina College
 - 2 Year College
 - Middle & high school enrichment program
 - Enhance educational opportunity for under-represented, first-generation students
- BC acquired all assets
- BC- Invest \$100 million in new enrichment programs

Merger Examples



WHEELOCK
COLLEGE

- **Merged 2017**
- **Asset acquisition**
- **Wheelock- Nationally recognized education program**
- **BU-Need to enhance existing education program**
- **Boston University Wheelock College of Education and Human Development**

Merger Examples



- Merged 2017
- Bi-coastal merger
- Mills- Legacy in equity, social justice, and leadership by women
- NU-Diverse and global experiential learning
- Mills College at Northeastern University in Oakland, CA

Merger Examples



Berklee
College of Music



- **Merged 2016**
- **Merger of Equals**
- **Complementary Programs**
- **Berklee College of Music was the surviving entity**
- **Boston Conservatory at Berklee**

Merger Examples



- Merger June 2024
- Asset Acquisition
- Career / Adult / UG & Graduate Programs
- Double enrollment to + 5,000 students
- AWC online growth & shared programs
- Satellite footprint in Eastern MA & Puerto Rico

What if ???



What if ???

- **Comparable & complimentary programs**
- **Tuition dependent**
- **Financially challenged**
- **Competing for the same students in the same geographic markets**
- **Substantial administration costs & human capital costs**

What if ???

**International Universities
Asia, India, Middle East, South America,
Europe, China**



**Nonprofit or
For-Profit Online
Institution**

**Acquisition Target
Outside Investor
or Other Institution**

Final Thoughts

- **Adopt mergers as a proactive strategy**
- **Targeted focus**
- **Substantial investment in time & money**
- **Focus on elements that create strategic value**
- **Valuation & operational challenges**

Thanks for Listening

We would appreciate your help ...

- **Comments**
- **Data Sources**
- **Case Studies**

to

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Questions

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