

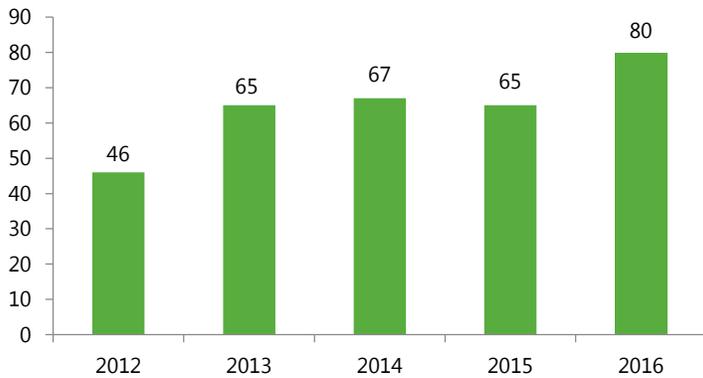


## KEY M&A TAKEAWAYS

- ▶ The global EdTech industry is expected to grow 17% per year to reach \$252 billion by 2020, according to a report from EdTechXGlobal and IBIS Capital. As a result, the industry has seen strong levels of investment in both existing areas, such as K-12 and post-secondary, and historically underserved markets, such as corporate training. The record M&A volume seen in 2016 represents strategic and financial buyers' desire to capitalize on this growth through acquisitions.
- ▶ As the foundation for following students' individual growth, assessment technology is a vital segment of the EdTech industry. Buyers have shown a strong demand for companies in this space as evidenced by the recent acquisitions of Advanced Instructional Systems (September) and Media-X (July).
- ▶ Providing a comprehensive suite of offerings is a major driver of deal volume and led to the largest disclosed acquisition in 2016, PowerSchool's \$850 million acquisition of SunGuard's K-12 business, a provider of enterprise resource planning tools for K-12 administrators.

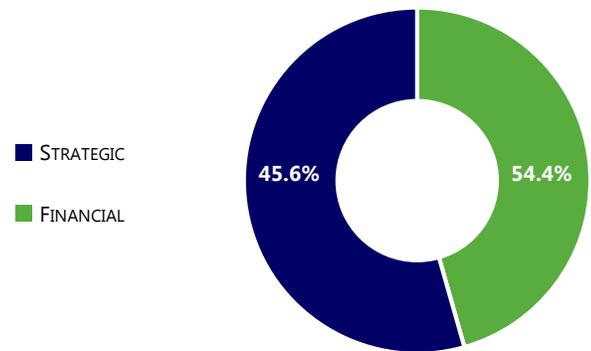
## TRANSACTION VOLUME

- ▶ Transaction volume saw a major uptick in 2016, increasing by 23.1% compared to 2015 levels.
- ▶ Shifts to digital learning, and with it a need to improve outcomes and accountability, have driven significant growth and investment in the industry.



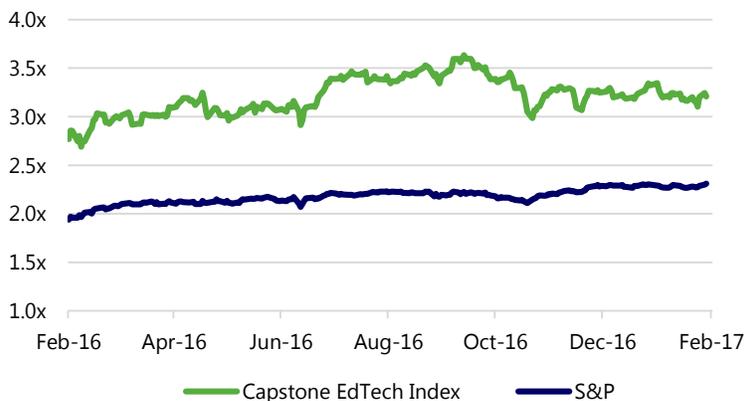
## BUYER BREAKDOWN

- ▶ Financial buyers continue to represent the majority of acquisitions in the industry, although the split between strategic and financial buyers is fairly even. The distribution of deal volume between both strategic and financial buyers remained the same from 2015 to 2016.
- ▶ The majority of financial acquisitions (72.1%) were made by portfolio companies of private equity groups.



## AVERAGE PUBLIC COMPANY REVENUE MULTIPLE

- ▶ Capstone's EdTech index that tracks EV/Revenue reached 3.3x in February, growing by 17.9% over the last twelve months.
- ▶ Valuations for EdTech companies remain at premium levels as educational institutions demand solutions that provide adaptive learning, accountability and increased connectivity.



## ACTIVE BUYER PROFILES

- ▶ **PowerSchool Group**  
After Person sold PowerSchool to Vista Equity Partners in June 2015, PowerSchool made six acquisitions in the EdTech space. Four of those acquisitions came in 2016, making PowerSchool the most active buyer last year. Capstone expects PowerSchool to continue making add-on acquisitions to fuel growth. After the latest acquisition of Chalkable, PowerSchool CEO Hardeep Gulati commented, "We'll continue to remain acquisitive and continue innovating."
- ▶ **Learning Technologies**  
Learning Technologies has made an acquisition every year since 2013 and has continued that trend with the acquisition of Rustici Software for \$37.0 million and an investment in Watershed Systems for \$3.0 million, both in January 2016. The acquisition of Rustici was completed at a robust revenue multiple of 5.5x, the highest disclosed value in 2016.
- ▶ **Imagine Learning**  
Imagine Learning made two acquisitions in 2016 including Think Through Learning and Big Brainz, both developers of educational math software. Imagine Learning is a portfolio company of Weld North, a private equity fund specializing in the education space. Other portfolio companies include Edgenuity, Advancement Courses and The Learning House.