

The Imperative of a Merger, Affiliation, and Partnership (MAP) Strategy in the Consolidation Era

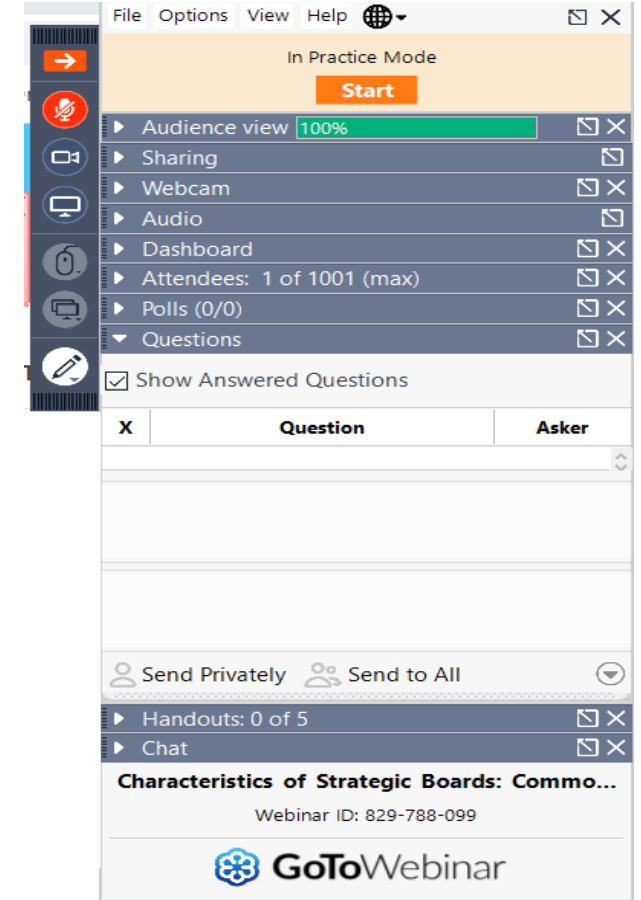
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July 25, 2023

Webinar Overview

- ❑ Webinar recording and slides are emailed to you.
- ❑ Structure:
 - ❑ Conversation & slides
 - ❑ Audience Q&A
- ❑ Interaction: Questions and comments are strongly encouraged. Please use the GTW control panel to send questions to us.

GoToWebinar Control Panel



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Meet Your Panelists



Paul Friga, PhD
**Lead Consultant &
Master of Ceremonies**

AGB Senior Consultant,
Strategy Practice Area Leader

Former Trustee – Saint Francis
University; Former Board Chair at
St. Francis & Claire Church

Professor of Strategy &
Consulting at UNC CH



Mark Heckler, PhD
**Academic & Shared
Services Guru**

AGB Senior Consultant

Former President of the
Valparaiso University

Trustee, Elizabethtown
College



Richard Joseph
**Mergers & Acquisitions
SME**

AGB Senior Consultant

Former President of Babson
Global, Inc.

Author of *Bridging the Gap
between the Abundance of
American Higher Education
Talent and the Immense
Foreign Demand for It*



Larry Ladd, MBA
**The Board
Perspective**

AGB Senior Consultant

Former Director of Budget
and Financial Planning at
Harvard University

Former leader of Grant
Thornton's Higher
Education Practice



Cynthia Shapira, EdD
The Change Agent

AGB Senior Consultant &
AGB Board of Directors

Chairwoman of PA's
Higher Education Board of
Governors

Vice-Chair, Brandeis
University Board of Trustees

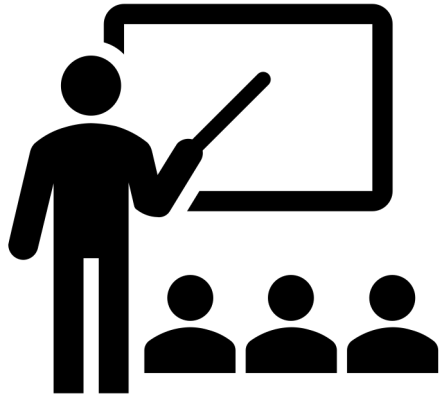


Today's Agenda



1. Macro Trends Driving Consolidation
2. Motivations for Mergers
3. Advice for a Proactive MAP Strategy

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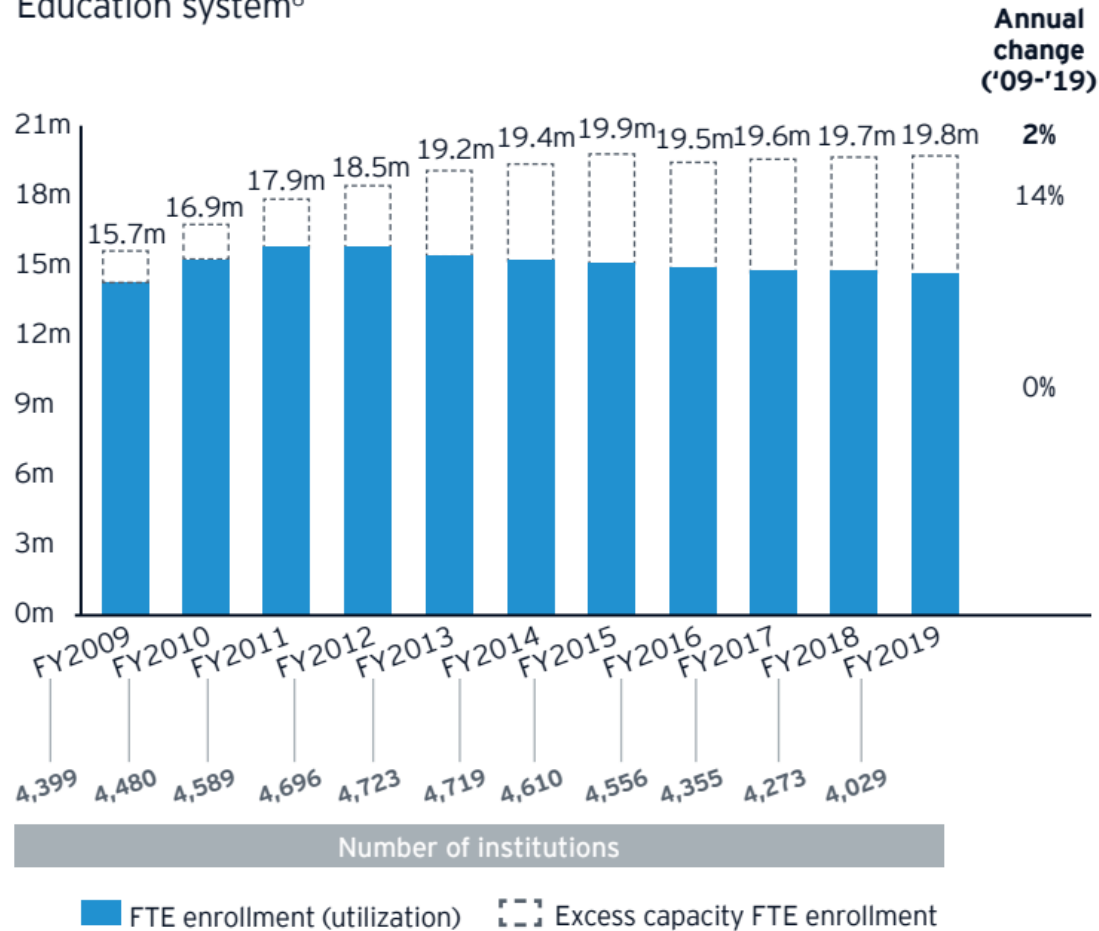
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Over-supply Is Expensive and Can Lead To Consolidation

Figure 2. Excess and utilized capacity in the US Higher Education system⁶



Capacity growth of 26% dwarfs enrollment growth of 3% (FY2009–FY2019)

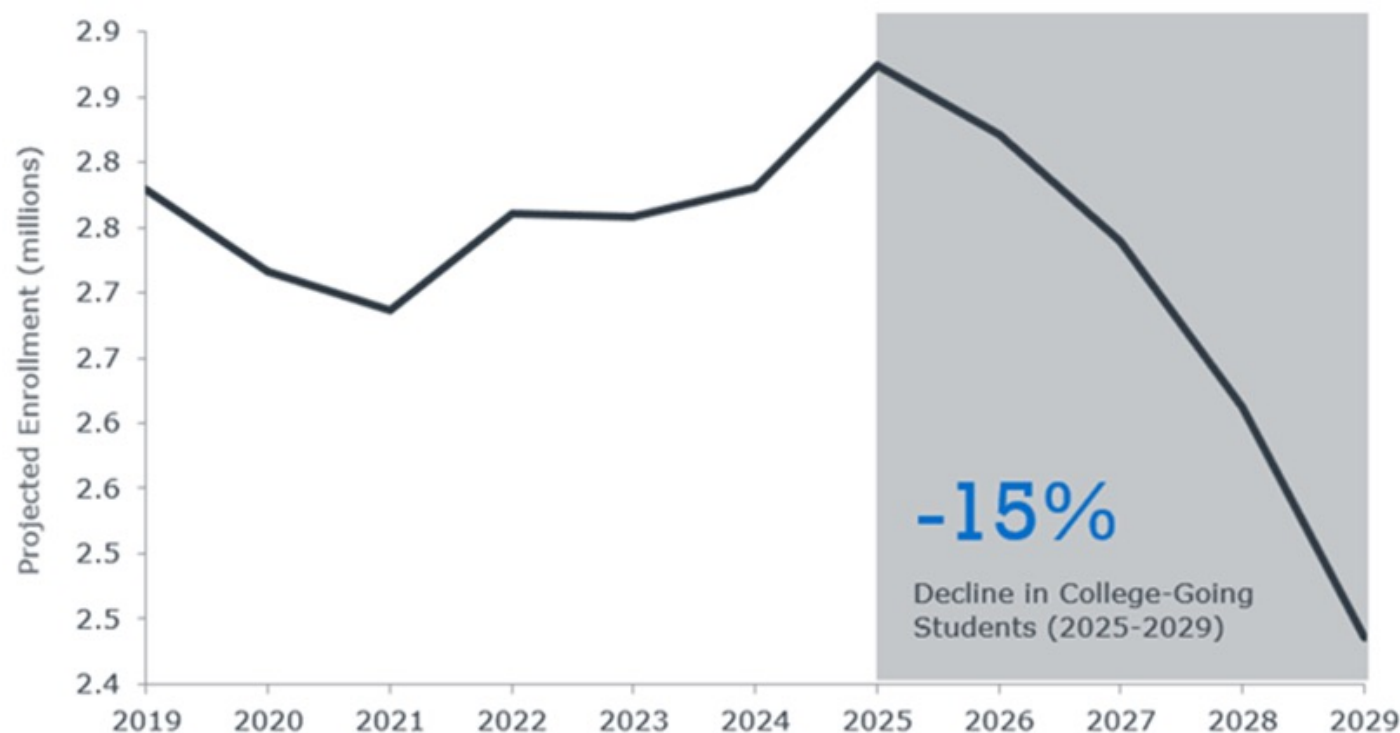
75% usage implies excess capacity of 3 million to 5 million seats

The cost of excess capacity could be as high as \$50 billion annually

Declining #S of High School Graduates and Fighting For Enrollments Are Big Issues

Enrollment Projected to Drop Sharply After 2025

Forecasted Number of College-Going Students in the U.S. (millions), by Year of High School Graduation



Update on Recent Enrollments:

Enrollment has recently declined at all levels, with the steepest declines in the undergraduate sector. Here, enrollments have fallen year-over-year for the past two years, **-4.9% in spring 2021**, **-4.7% in spring 2022**, and another **-0.2% in spring 2023**.

However, graduate-level enrollments have been more resilient throughout the pandemic. They decreased by only -0.1% in spring 2020, grew by 4.6% in spring 2021, declined -0.8% in spring 2022, and declined again by -2.2% in spring 2023.

Expenses Continue to Grow and Now Exceed Revenues On Average

Balance Sheets

Average equity ratios have declined by

8 percentage points

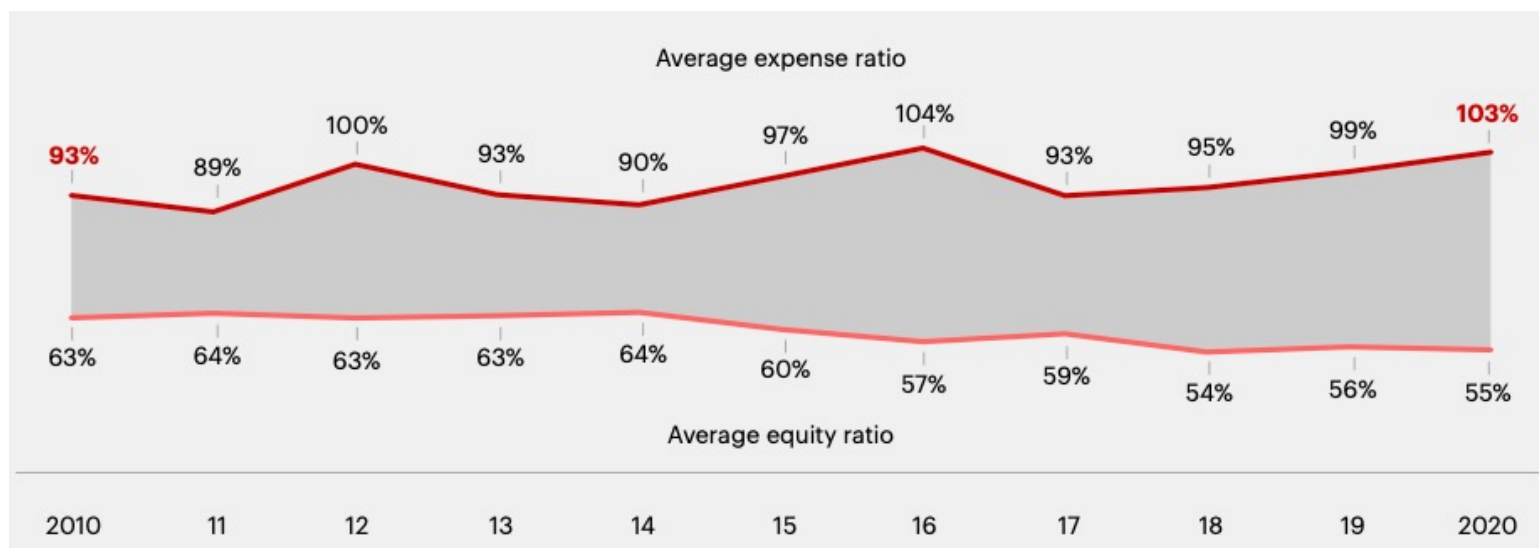
34% of universities saw equity ratios drop more than **5%**

Income Statements

Average expense ratios have increased by

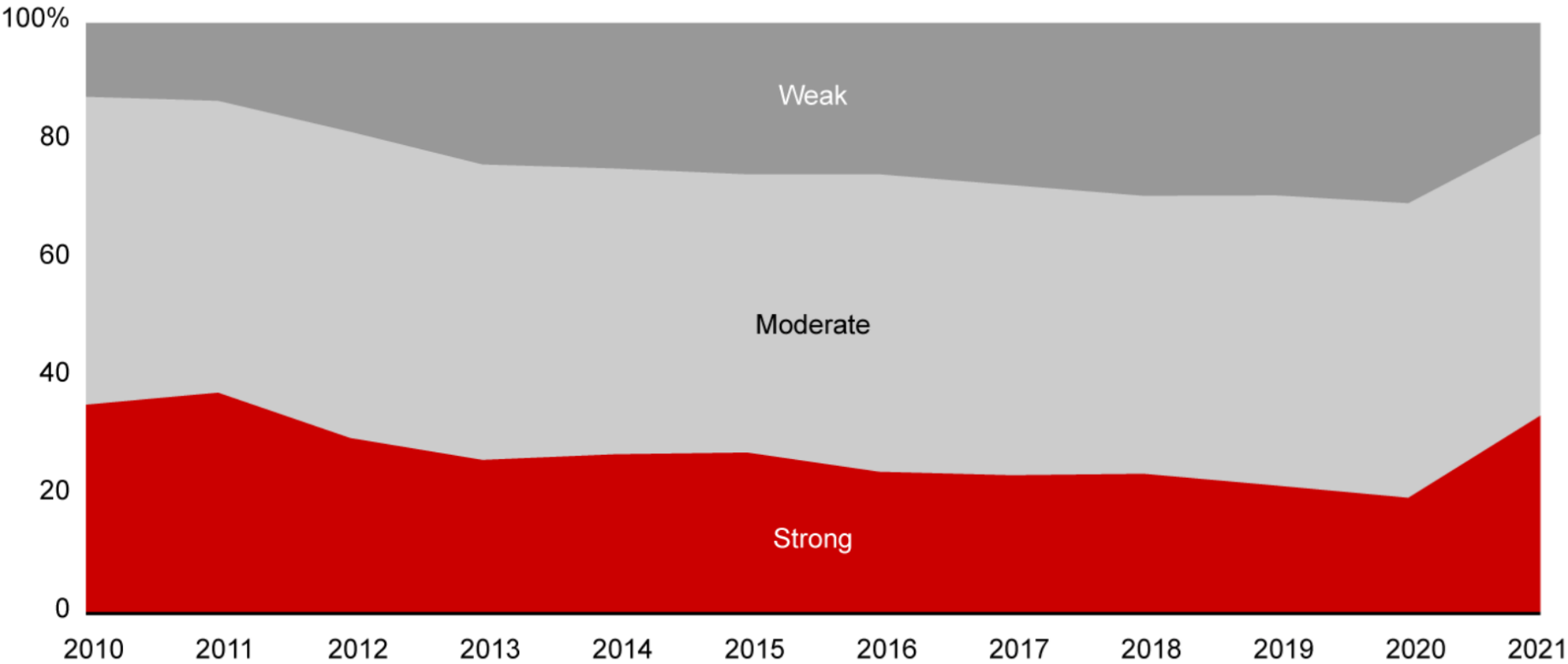
10 percentage points

56% of universities saw expense ratios increase by more than **5%**



The Majority of Universities and Colleges Are in a Weak to Moderate Financial Position

The annual composite score measures a university's resiliency based on three equally weighted metrics: **primary reserve ratio**, **net margin**, and **three-year enrollment growth**

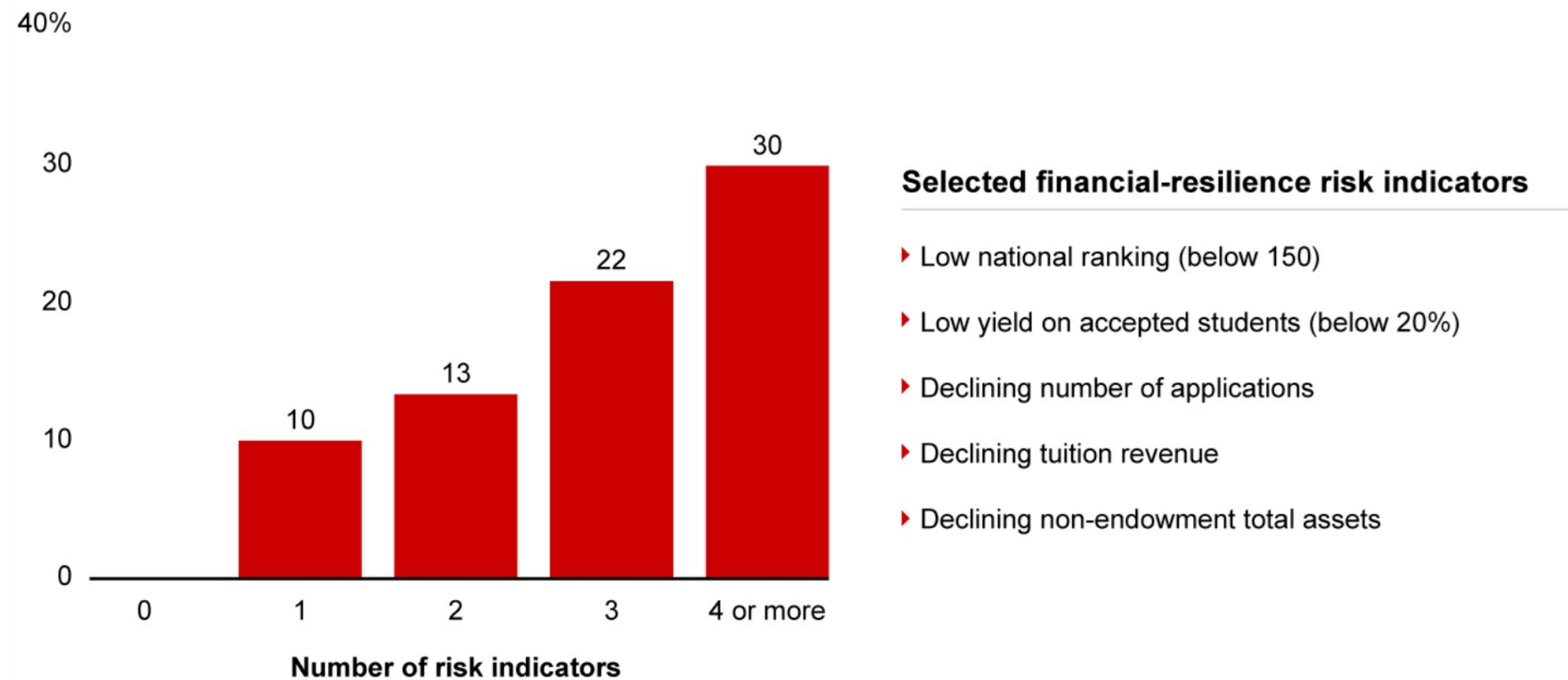


Temporary uptick due to significant federal support and strong endowment returns (not likely to be sustainable).

Note: n=1,504



The More Risk Indicators, The Higher Risk of Challenges With Financial Resiliency

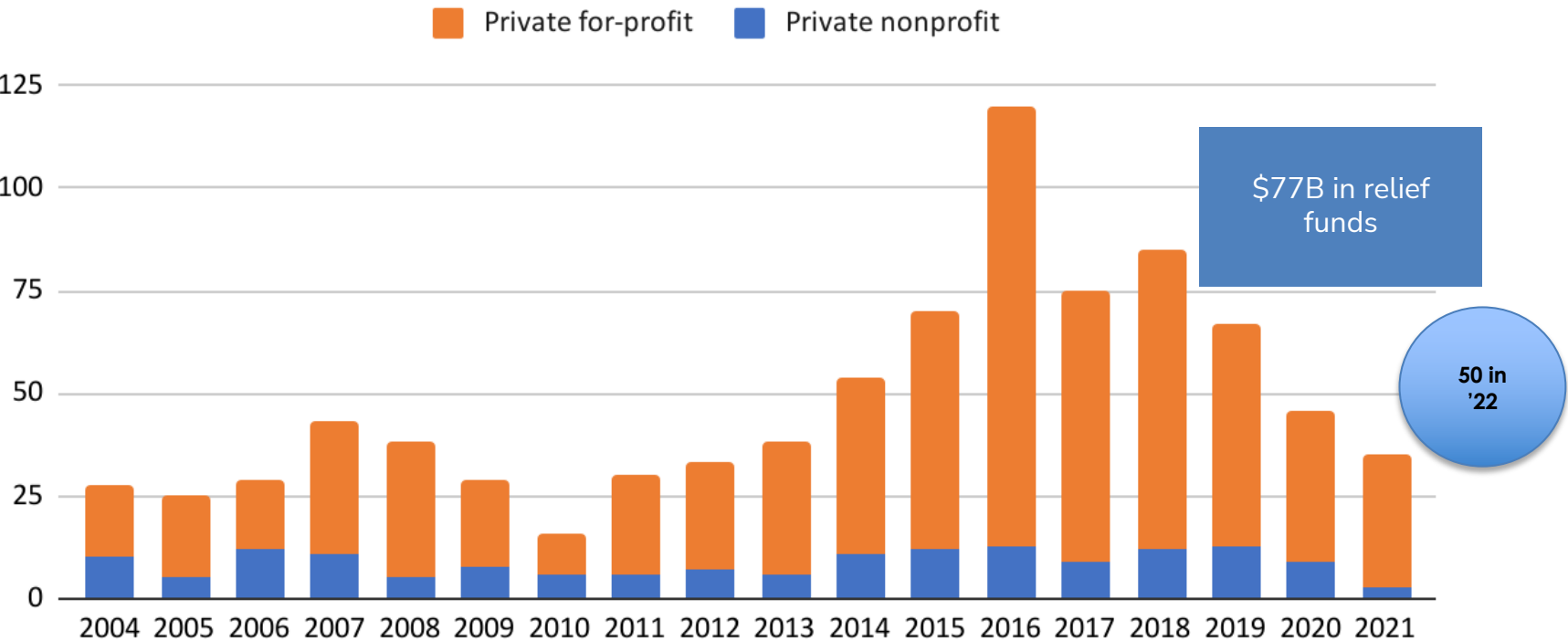


Notes: Scope limited to institutions with data available for all five risk indicators; n=1,214

The Rise in Closures Between 2015 and 2019 May Be on The Decline Due to Federal Relief Funds But Could Rise Subsequently

College closures

861 colleges and universities have ceased operations since 2004



Data source: SHEEO analysis of PEPS database at U.S. Department of Education

- 300 colleges have closed since 2000, according to EY-Parthenon. **80% had fewer than 1000 students.**
- 861 colleges and 9,499 campuses have closed since 2004
- The latest outlook for 2023 from Fitch Ratings indicates “more operating woes” are ahead for U.S. colleges and universities. The agency described the sector outlook for higher education as “deteriorating,” due to rising costs and wages combined with sluggish enrollment.

Cooperation Will Be Key For Survival

- A macro trend is forming that will see multiple institutions join or create Private System Affiliation (PSA) supporting organizations and Course Sharing.
- Private institutions will have an opportunity to access a significant depth of resources to grow their revenue and transition their business model.
- **Clayton Christenson's prediction: "by 2028, a quarter of universities in the US could go bankrupt, merge, restructure or close" – not likely to happen at that pace but still coming**



National
University
System



7rize

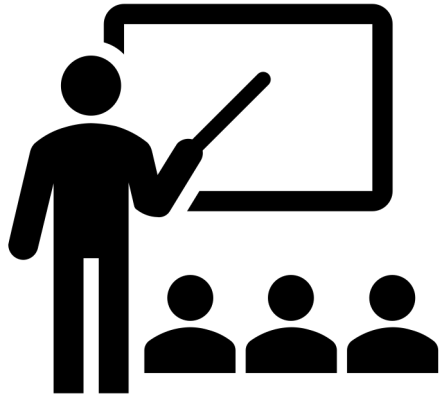


The Council of
Independent Colleges

Over the next five years, private system affiliation models and course sharing will increase.

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2. Motivations for Mergers

3. Advice for a Proactive MAP Strategy

There Are Many Reasons Higher Ed Institutions Should Consider a Merger Strategy

Strategic Motivations

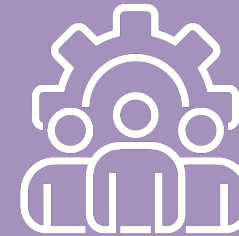


New programs and auxiliary revenue

Additional
locations/infrastructure/global reach

Access/leverage of capital

Operational Motivations



Additional students and fees for
existing programs

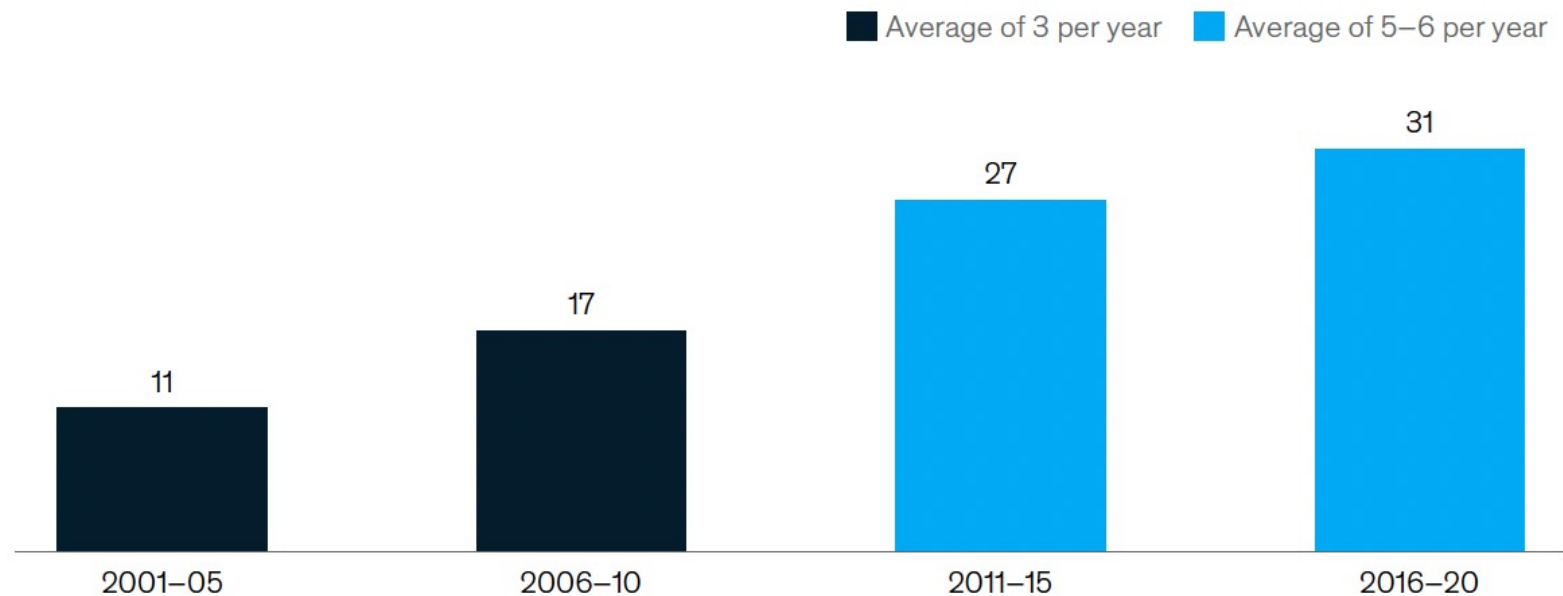
Enhanced competencies

Cost synergies through efficiencies
and economies of scale

Merger Activity is Up Over Time

M&A activity in higher education has almost doubled in recent years.

Number of mergers and acquisitions in higher education¹



¹Includes private and public (both not-for-profit and for-profit) 4-year higher-education institutions in US.

Source: Ricardo Azziz et al., *Strategic Mergers in Higher Education*, Baltimore, MD: Johns Hopkins University Press, 2019; Integrated Postsecondary Education Data System

McKinsey & Company

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There Are Multiple Strategic Options For Mergers and Partnerships

Alternative #1 Stay the Course (Default Position)



- Current initiatives in your strategic plan
- Invest into organic growth to meet or exceed your prosperity gap

Alternative #2 Buy-Side

Build



- Current initiatives in your strategic plan
- Invest into organic growth to meet or exceed your Prosperity Gap.

Buy



- Very selective mergers or acquisitions
- To accelerate growth and financial prosperity

Affiliate



- Create an affiliation strategy
- Transformational financial and strategic opportunity

Alternative #3 Sell-Side



- Merge with larger entity
- Transfer financial obligations and operating risks to the combined entity



- Affiliate with another institution
- Join a Private System organization.
- Continue to focus on strategic plan and organic growth initiatives

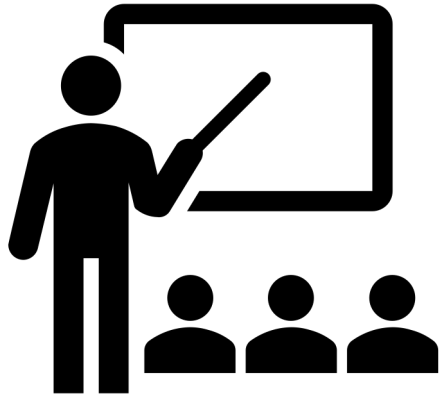
Key Considerations to Keep in Mind For Mergers

1 Only 20-50% are actually successful due to lack of board support, waiting too long, cultural conflict, and other reasons

2 “There are no mergers of equals” - one institution will lead

3 Most institutions lack a true MAP strategy and approach mergers on an ad hoc basis; Significant work must go into truly understanding an institution’s unique value proposition, attributes, and gaps to fill through mergers

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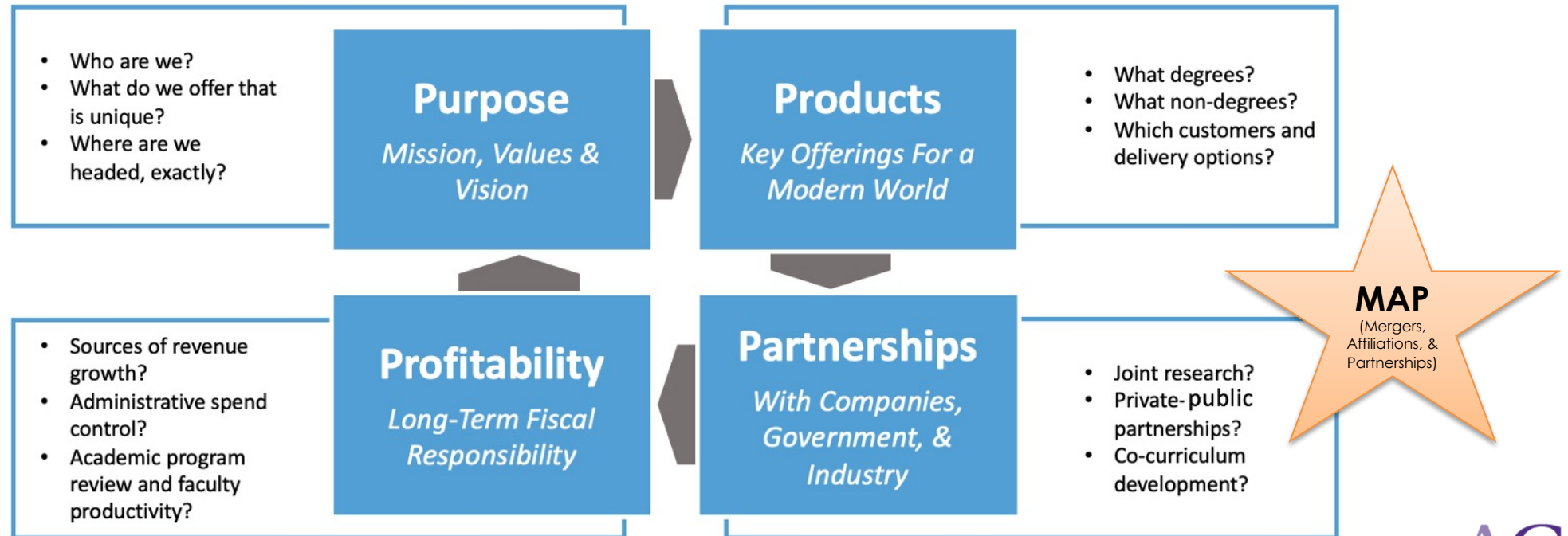
3. Advice for a Proactive MAP Strategy

Merger Strategy Framework

	Assess	Explore	Implement
Strategic Questions	<ul style="list-style-type: none"> What is our long term vision? What is our prosperity gap? Are we in a strong/weak position? 	<ul style="list-style-type: none"> What do we offer? What are our gaps to fill? Who are our potential partners? 	<ul style="list-style-type: none"> What organizational structure? Who leads integration? Revenue and cost synergies?
Key Steps	<ul style="list-style-type: none"> Conduct benchmarking Create 3-year historical and 3-year forecasts (enrollments, operating margin, and cash flow) Calculate key financial ratios 	<ul style="list-style-type: none"> Create a “pitch deck” Develop partnership decision criteria Scan the country for candidates 	<ul style="list-style-type: none"> Establish joint university project management Integrate academic and administrative functions Develop dashboard performance metrics
Role of Board	<ul style="list-style-type: none"> Surface the issue Require a dashboard Read/educate all on merger topic 	<ul style="list-style-type: none"> Support due diligence Approve the deal Sell to key constituents 	<ul style="list-style-type: none"> Support adequate resource needs Support the president Plan for the next deal
Role of President	<ul style="list-style-type: none"> Provide benchmarking results Develop scenario plans Identify strategic option and pros/cons 	<ul style="list-style-type: none"> Deliver final recommendations Connect with prospective partners Sell to campus 	<ul style="list-style-type: none"> Establish team for implementation Educate the community Communicate the early wins and benefits

A Framework For Strategic Priorities Over The Next Decade

Declining Enrollments



The AGB Approach to Forming a MAP Strategy

Phase 1

Strategic Assessment

- Review current overall financial position and forecasted revenues and expenses
- Understand the strategic plan and assist in creation of long-term aspirations and goals
- Calculate financial and other gaps to be filled by Mergers, Affiliations, and Partnerships
- Clarify unique value proposition to offer partner candidates
- Review past acquisition efforts for key takeaways

Phase 2

Decision Matrix and Scan

- Identify the positive attributes of a potential Merger and Affiliations candidate
- Develop a scoring system to allow a disciplined methodology for candidate review
- Scan universities for potential candidates and gather data
- Rank order options based upon the framework with quantitative and qualitative support
- Identify higher level next steps for opportunity seeking and outreach

Key Goal: Identify strategic attributes and prospective partners that, if acquired, would advance the institution toward its future vision

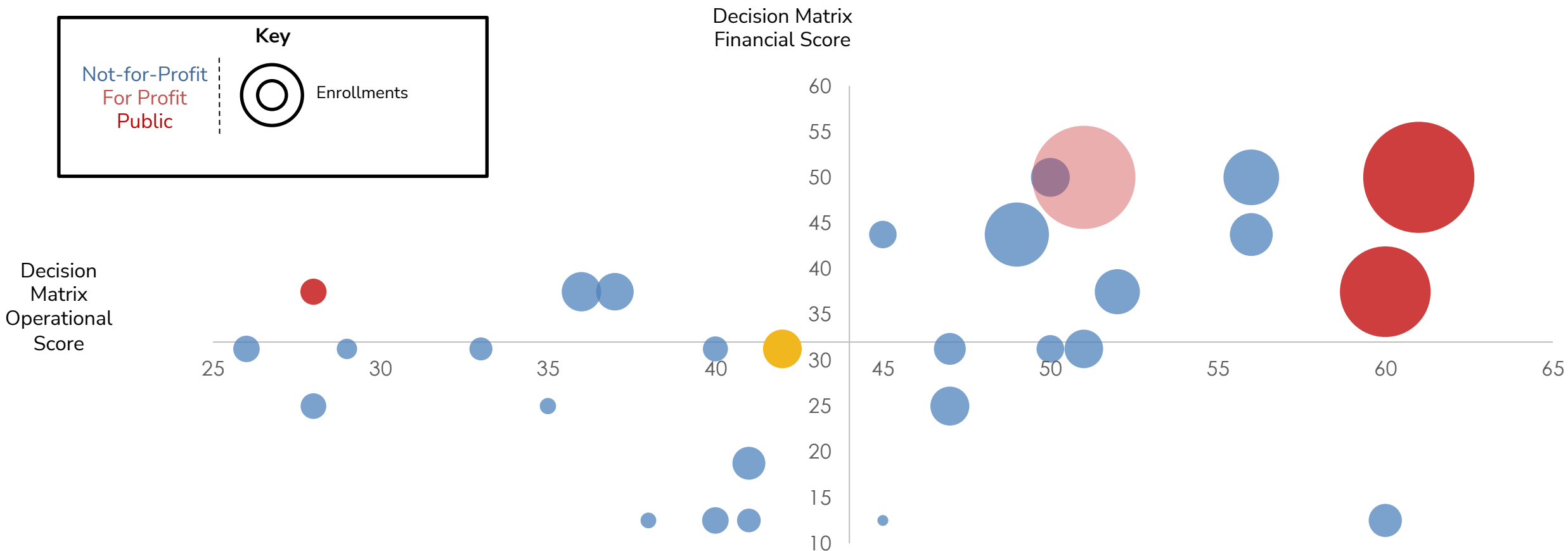
We Also Employ a Filter Approach to Prioritize Opportunities

Illustrative example



We Employ Analytical Visualization Tools to Summarize Our Data and Recommendations

Illustrative example



Sample Recent Merger Transactions

Primary Institution	Secondary Institution	Description	Year
Thomas Jefferson University	Philadelphia University	Thomas Jefferson University merged into Philadelphia University	2017
Piedmont International University	John Wesley University	John Wesley merged into Piedmont International to avoid financial constraints	2018
University of Illinois at Chicago	John Marshall Law School	UIC strategically merges with John Marshall Law School to expand offerings	2019
Boston College	Pine Manor College	Pine Manor merged into Boston College after declining revenues	2020
Emerson College	Marlboro College	Marlboro College merged into Emerson College and closed after the deal	2020
University of Arizona	Ashford University	University of Arizona acquired the fully online Ashford University for 1\$	2021
Delaware State University	Wesley College	Delaware State University acquired Wesley College	2021
Saint Joseph's University	University of the Sciences	With the merger, Saint Joseph's became one of the biggest in the state	2021
Willamette University	Pacific Northwest College of Art	Willamette University performs the merger to generate savings	2021
PennWest University	California, Clarion and Edinboro	The three universities combined leadership, staff and budgets	2021
University of Nevada, Reno	Sierra Nevada University	Sierra Nevada merged into UNR to avoid financial constraints	2022
Northeastern University	Mills College	Mills College merged into Northeastern University after declining enrollments	2022
Commonwealth University of Pennsylvania	Bloomsburg, Mansfield and Lock Haven	The three institutions combined to generate savings and operational efficiencies, but continue to use their individual brands	2022
National University of Natural Medicine	Bastyr University	The institutions partnered to strengthen their mission and business positions	2023

Recent Online Focused Transactions

Buyer	Buyer # of Students	Seller	Seller # of Students (Online and or Hybrid)	Date	Cost	Source
Purdue University	30K	Kaplan University	32K	2017	\$1	Inside Higher Ed
University of Arizona	5K online	Ashford University	35K	2020	\$1	Inside Higher Ed
University of Arkansas	800 online	Grantham University	4K	2021	\$1	Inside Higher Ed
University of Massachusetts	24k*	Brandman University	10K	2021	\$130M	Inside Higher Ed
University of Idaho	11K	University of Phoenix	85K	2023	\$550M	Higher Ed Dive

Discussion With Attendees



Moving Forward

- August Webinar from AGB MAP
 - MAP Strategies for Small Private Colleges and Universities
 - To register, click link [here](#)
- Complimentary MAP Strategy Discussion with AGB
 - One hour discussion of your current strategy and MAP options
 - To learn more and schedule your meeting (typically with the president and board chair as well as others you would like to invite) – contact Paul Friga at pfriga@agb.org