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Investment into Asia Pacific's education sector, at a glance, appears to be a promising play. Key emerging markets' GDPs are on the rise, as are levels of disposable household income and consequently a willingness to invest in education. Many of these same countries are concurrently experiencing a talent shortage where certified professionals are concerned, leading to aggressive social campaigns touting the value of education and the role it plays in meeting both personal goals and raising the bar of their country.

Yet, despite a rash of sector-related transactions made in 2010 across a number of markets, investors are still stumped by the education equation and the route to returns.

This has not deterred regional players from participating, however. In July, Providence Equity Partners finalized its \$570 million acquisition price of CHAMP Private Equity and Petersen Investments' Study Group, choosing the education-services provider as its very first Australian deal - a unique choice for a firm that has been traditionally media-and entertainment-focused. Mekong Capital invested in an international school in Vietnam back in May. In India, Kaizen launched at the beginning of 2010 with a solely education-focused mandate. Milestone Religare Investment Advisors, the private equity JV between local fund house Milestone Capital and financial services group Religare Enterprises, is in the midst of raising \$200 million for its India Build-Out Fund II which is largely slated to support education and healthcare targets, and Ventureast recently picked up a significant minority stake in BPO training company Orion Edutech. That transaction enables Orion to expand its operations in both India and overseas, from 150 centers to 500 in a few years' time. China's Ambrow also made its highly anticipated debut on the New York Stock Exchange, and while its first-day performance fell below expectations (trading at \$9.25 a share instead of its anticipated \$10), the result is attributed to poor timing rather than appetite for education investments.

"As a sector [education] is at the very early stages, and the business models will keep evolving," says Chris Freund, founder and Managing Partner of Mekong Capital, speaking on his experiences of investing in Vietnam. "The addressable market should continue to grow rapidly, but the main challenge will be to develop business models, and management teams, that can scale up education business to capture the growth in the market. In the absence of this, it will just be a very fragmented market."

India's dominating presence

According to Kaizen Managing Director Sandeep Aneja, the key to success is the presence and growth of the sector. "Education is [the management and investment team's] common background and a common interest for all of us. Education also happens to be

the largest market in India. Education also happens to be the largest capitalized market space in the country and one that is growing rapidly and changing for the better in terms of regulatory structure," he says.

The opportunities that have surfaced in India seem to sum up the possibilities. Starting in 2007, PE investment into the market's education sector started rolling in, prompted by an influx of global firms looking to capitalize on India's ballooning economy. The conditions were right: domestic and international firms needed trained workers, whether from the upper echelons of the professional set in medicine, finance or IT, or English speakers sitting in a call center.

Yet, according to IDFC Private Equity's Managing Director Raja Parthasarathy, there may be \$20-40 billion worth of current private equity investment opportunities in the K-12 and the grade-12 plus segments apiece, which pegs education as a \$70-80 billion sector overall. "The reality is that if you add up all the PE figures in the sector, that number is maybe \$400 million overall, and that's a drop in the ocean compared to the overall financing need," he says.

India, as in other markets, has struggled with the conundrum of education's social capacity and the role private, for-profit institutions ought to play in its grand scheme. Because of this, the government has maintained a level of regulatory ambiguity in the area with rules shifting as the game wears on, sources tell *AVCJ*, leading education to be a more viable avenue for domestic players to make a real impact. Parthasarathy suggests the areas of education materials content and school and university management are especially ones to study.

India's role as an outsourcing behemoth has made it a haven for vocational training opportunities, including English-language education centers, business process outsourcing (BPO) training firms and other niche services.

The prominence of these sectors has also made them expensive. And while regulation in emerging markets' changing regulatory landscape has been pegged as a challenge for investors, Kaizen Managing Partner Jetu Lalvani suggests that shifting regulation has, in fact, made people more aware of this sector - "but it also has a downside which is that people include education in their fund and they need to do deals to tick the boxes, so they do deals at crazy valuations."

Adds Parthasarathy, "The mentality has been to get involved in the sector instead of waiting for regulatory certainty to happen because, by the time that happens, you've missed the school bus."

Looking South

But Southeast Asian markets still have opportunities with lower valuations and the same underlying macro factors. So what has been holding investors back? Like India, emerging markets have too few examples of education success stories. Business models are

evolving quickly, so while a strategy may work one day, it may not be scalable down the road. Also like India, governance in these areas is developing, and regulatory risks are very real.

"There have been some failures or near failures, which I believe relate to management and leadership," Freund says. "This is certainly a market in which it is possible to be successful and profitable, and the market offers a lot of growth. So those who can develop management and leadership teams that can capture the growth and concert it to shareholder value will be the winners."

Areas where India may start to be crowded are still open to investors in Southeast Asia, just on a more market-comparable scale. Freund points out that, in Vietnam, the main opportunities are either in kindergarten chains, K-12 chains, English-language schools and to some extent IT schools, while avenues such as test preparation have not yet come on the radar.

Specifically, private schools in Vietnam have emerged as pioneers in raising the standards of curriculum and teaching best practices, and parents have increased their spending to put their children in private schools. "The addressable market is basically families with monthly income of \$2,000 or more, and this market is growing fast," Freund says, adding that Mekong is invested in Vietnam Australia International School, a K-12 school operator which has 16 campuses for the 2010-2011 academic year. That investment is "on track and performing well."

Beyond the classroom

However, the scope of education opportunities is certainly not relegated to schools alone, and this could also pave the way for more profitable investments. "When people talk about education, they think you are investing in schools, but schools is only 25% of the portfolio," says Kaizen's Lalvani. There are far more opportunities in ancillary businesses such as books, stationary and services like security, buses, IT and equipment for colleges and classrooms. "We'll be investing across all of these sectors in education," he adds, noting that they represent the best of both worlds: companies that stand to gain from the growing economy and growing desire for education, as well as opportunities that are easier to improve.

AVCJ data shows that from January to September 2009, there were eight big-name education deals in India, totaling more than \$91.4 (only one deal's valuation was undisclosed). Of these, the largest was US firm's India Equity Partners Advisors Pvt. Ltd. \$30 million investment in IL&FS Education and Technology Services fund. Fast forward to the same time in 2010, there were 10 big-name deals, but these transactions were worth \$165.3 million, with domestic company's Premji Invest leading in value with a \$43 million investment into Manipal Universal Learning. Deals are not only picking up pace, but they are also becoming more than bite-sized investments.

Though there are large opportunities across disciplines in the sector, Parthasarathy says investments have been relatively small, and thus returns have been relatively small. But, in examining IDFC's four-year-old, \$30 million investment into learning-resource group Manipal Universal Learning suggests that there may be a profitable route after all: selecting targets with the ability to diversify. Companies that are able to move from infrastructure to management to higher education to content - which is Manipal's path - could lead to higher scale returns. Pinpointing those targets is, of course, the challenge.