



Archived Information

Commission on the Future of Higher Education

Innovative Financing

Andy Kaplan

QUAD PARTNERS

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Quad Partners Overview

- Quad Partners was founded in 2000 to make value-added private investments in the education industry.
- Today, Quad is the most active investor in privately-owned education companies in the United States.
- Our strategy is to invest in high-quality education businesses with significant potential, then apply the unique operating and financial expertise of our principals to help managers drive company growth.
- Quad manages \$100 million of capital from leading financial institutions, foundations and family groups including Merrill Lynch, Wells Fargo, JPMorgan, Citigroup, Prudential, Wilder Foundation, Wachovia, Washington Mutual and others.

Quad's partners have over 100 years experience in education

- *Lincoln E. Frank*
 - Formerly, Chief Operating Officer of J.P. Morgan & Co.'s global private equity investment group, a Vice President in investment banking at Goldman, Sachs & Co., and a lawyer with Skadden Arps Slate Meagher and Flom.
- *Andrew E. Kaplan*
 - Formerly, Vice President and Publisher of Kaplan, Inc., the education division of The Washington Post, and Director of the Educational Technology Division of Scholastic.
- *Thomas H. Kean*
 - Formerly, Chairman of the 9/11 Commission, President of Drew University and Governor of New Jersey. Chairman of the Robert Wood Johnson Foundation.
- *Daniel P. Neuwirth*
 - Formerly, with Donaldson, Lufkin & Jenrette in the Merchant Banking and Investment Banking groups with a focus on education, and with Goldman, Sachs & Co. in the Principal Investing and Investment Banking groups.
- *Stephen H. Spahn*
 - Chancellor/Headmaster of The Dwight School, a private preK-12 school in New York City, and owner of John Catt Educational Ltd., a publisher. Formerly, owner of The Rhodes Group of postsecondary career schools.

The Education Investment Opportunity for Private Equity

Early Education & Childcare \$54 billion	K-12 Education \$556 billion	Post-Secondary Education \$381 billion	Corporate Training \$53 billion	Consumer Products & Services \$35 billion
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- The education industry is the second largest sector of the U.S. economy
 - \$1.1 trillion is spent annually on preK-12, postsecondary, corporate and consumer education
- Stable spending growth. Generally resistant to economic cycles
- The industry is highly fragmented
- In an increasingly competitive global knowledge economy, education is the key to success
- Spending is increasingly directed to companies delivering measurable results

Postsecondary market - investment strengths and opportunities

Strengths

- High fragmentation: over 2,600¹ for-profit institutions
- Limited job opportunities for high school graduates drive demand
- Business model
 - Predictable, high visibility
 - Title IV and private loans provide crucial funding
 - Limited working capital
 - High fixed costs, low marginal costs

Opportunities/ Barriers to Entry

- Highly regulated
 - Federal, state, accrediting agency
- Many schools run by small operators
 - Don't employ best practices
 - Lack of vision
 - Limited access to capital
- Premium on safe, slow growth
 - Strict educational values
 - Regulatory approval for branches, new programs
 - Limited debt allowed

1) Source: National Center for Education Statistics

Our Schools

- In FY'06, our 33 postsecondary schools will teach over 5,000 new students. Over 75% of graduating students will be placed in jobs in their relevant field
- Over 70% (~3,500 this year) of students served are eligible for government Pell Grants, implying that these students are from low to moderate income families



Blue Cliff College is an expanding group of career schools in the South. Currently, Blue Cliff owns and operates seven schools in Louisiana, Mississippi and Arkansas offering associates degrees and diplomas in allied health, massage therapy, and criminal justice. www.bluecliffcollege.com



B&H Education owns and operates the **Marinello Schools of Beauty** located in California and Nevada. The chain consists of 20 locations offering training for the salon/spa industry, including cosmetology, hair design, esthetics and manicuring. www.marinello.com



The Culinary Academies are career schools offering commercial cooking, baking and hotel and restaurant management programs in two locations in New York City and Long Island. www.culinaryacademy.edu



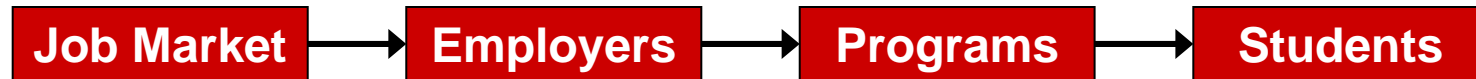
Dorsey Schools are a group of four career schools in the suburban Detroit market offering programs in allied health and business. www.dorsey.edu

Investment Strategy

- Private equity investors require a significant return premium to the public markets
 - illiquidity, long lock up, smaller company risk
- Focus on smaller schools
 - \$5m to \$15m in revenues
 - Clean regulatory history
- Intensive due diligence
- Ability for Quad to drive value
 - Realize on unmet market need
- Adult “non-traditional” students in underserved markets
- We spell “higher education” H-I-R-E

Investment Strategy

- School model:



- Accountability: at least 75% employed in field
- Transition from small business to professional organization
 - Top-quality management team
 - Implement best practices
 - Customer focused
- Grow schools by driving educational outcomes
 - Over 35% of new students are referrals
 - Reinvest profits for innovation and school improvement and enhancement

Barriers to Increased Private Equity Investment

- Regulatory restrictions on investors limit predictability
 - Change of control approval process
 - No “pre-approval” articulation of conditions
 - Growth restrictions, Letter of Credit
 - Successive investment funds with identical principals considered “new” entrants
 - Inflexible capital structure
 - Use of modest leverage for purchase may trigger letter of credit
 - Difficult to invest in schools that serve inner-city populations