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CACUBO Webinar Series on:
College and University Mergers and Acquisitions

August 25, 2022

We will begin shortly. Thanks for joining!

We encourage you to register for the CACUBO Annual Meeting which will be September 25-27 in St. Louis



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- This is the 23rd monthly webinar CACUBO has hosted since the pandemic began. Today, we will discuss the topic of mergers and acquisitions and how two member institutions have accomplished such in the past few years.
- This webinar is eligible for CPE. If you are interested in receiving CPE credit for this webinar, please e-mail me (Marty Mickey) at mmickey@nl.edu now.
- During the webinar, there will be three check in questions for you to answer. **In order to receive CPE, you must answer all three of these questions.**
- The presentation is being recorded and both the recording and a copy of the slides will be added to the CACUBO web site in the next couple of days.
- We will send out a survey afterwards to solicit thoughts and topics for future webinars.
- If you would be willing to present in a future webinar, please e-mail me at mmickey@nl.edu.



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Today's Presenters

Speakers

- Maryellen Skerik, CFO, North Central College
- Marty Mickey, CFO, National Louis University
- Charles Rose, Hogan Marren Babbo & Rose, Ltd.

Agenda

- Higher Education Sector is Under Pressure
- Acquisition Framework
- Discuss NLU's Acquisition of Kendall and North Central's Acquisition of Shimer
- Processes Followed
- Lessons Learned



Higher Education Sector is Under Pressure



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Higher Ed. Sector Will Continue to Be Under Pressure

- Enrollment declines are likely to continue.
 - Birth dearth will hurt enrollment, particularly in the Midwest
 - Inflation and cost increases are taking their toll
 - Societal pressures are making individuals re-think college
 - Recessionary and bear market fears have hit our endowments
 - HEERF stimulus is running out or has already been spent
 - As the revenues at our institutions decline, the ability to cover fixed overheads becomes harder and harder.
-
- **As a result of these pressures, more and more institutions will see pressures impacting their ability to survive leading to more and more acquisitions.**



Higher Ed. Sector Will Continue to Be Under Pressure

- The number of colleges closing in the past 10 years, around 200, quadrupled compared to the prior decade. *
- In the past four years, there have been 95 college mergers compared with 78 in the prior 18 years. *
- About 40% of mergers involve private, nonprofit colleges, the majority with under 5,000 students. *
- In 2019, 51% of Americans considered a college degree to be “very” important, down from 70% in 2013 according to a Gallup Poll
- Enrollment declines have been occurring from 19.6 million students enrolled in 2011 to 17.5 million in 2019 and down to 16.2 million last spring according to the National Student Clearinghouse.
- Statistics from the consulting group EParthenon



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What's behind the decline?

The period between 2010 and 2020 brought the deterioration of both:



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%**

Additionally, the industry overall saw expense ratios go from a surplus (expenses **93%** of revenue) to a deficit (**103%**)



Notes: Average expense ratio is total expenses as a percentage of revenue; average equity ratio is total equity as a percentage of assets

Source: Bain & Company, "The Financially Sustainable University: The Lost Decade"



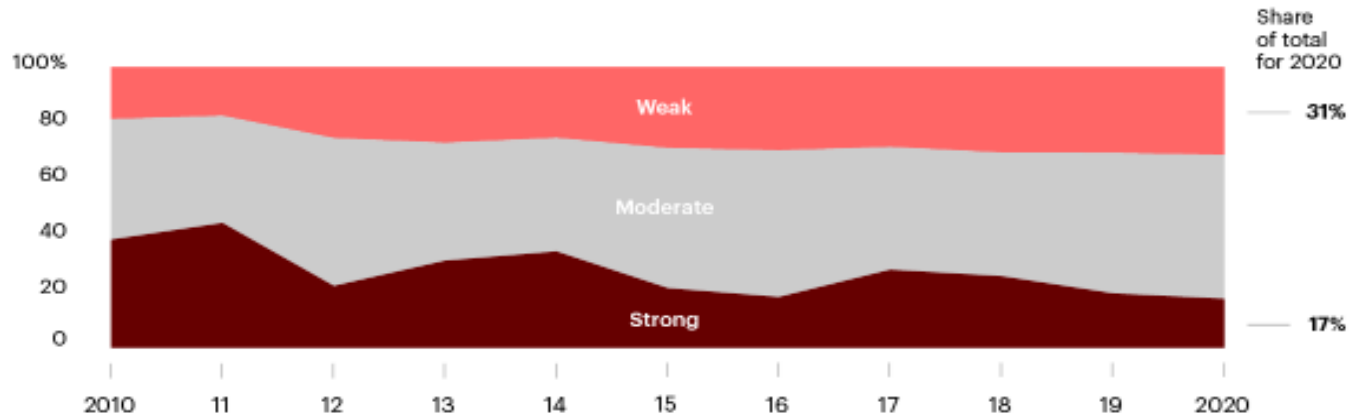
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More universities face a financial crisis

The financial resiliency of **nearly one-third** of universities was weak in 2020, while **fewer than one-fifth** of them were strong, continuing a downward trend even prior to Covid-19



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**



Additionally, around **100 institutions** have been forced to close or merge over that 10-year period

Notes: N=1,594 (2020); data excludes most universities that were closed between 2010 and 2020; net margin=(total revenue-total expenses)/total revenue; primary reserve ratio-net asset coverage of expenses=(assets-liabilities)/total expenses

Source: Bain & Company, "The Financially Sustainable University: The Lost Decade"



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Two Types of Preparedness Has Started to Emerge in Higher Education

- Active Pursuit - Some institutions have already have added specific employees or created departments whose role is to seek out and find potential acquisitions.
- Opportunistic – Some institutions have taken the approach that they will be opportunistic and be prepared to review an acquisition if one comes your way.
- With respect to the acquisitions we are talking about today, they both fit into the mode of being opportunistic. We were not looking for acquisitions but they became available and we were notified of the opportunity and sprang into action.



Acquisition Framework

- Understand Context:
 - Higher education is a highly regulated industry.
- Manage Expectations:
 - Transactions take time; typically, six months to one year (sometimes longer).
 - Identify team.
- Approach in Phases:
 - Phase I: Preliminary discussion of acquisition structure and initial education regulatory diligence.
 - NDA; LOI; Structuring Alternatives; Real Estate; Endowment; Confirm regulatory status.



Acquisition Framework (cont.)

- Approach in Phases (cont.):
 - Phase II: Transaction documentation and comprehensive operational and regulatory diligence.
 - Prepare purchase agreement, disclosure schedules and ancillary documents; Conduct full DD; Compliance audit.
 - Assigned contracts (notices and approvals); IP.
 - Phase III: Required regulatory approvals.
 - USDOE pre-acquisition review; HLC (or other regional accreditor); State Authorizer; SARA; AG (fairness opinion); Programmatic Accreditors; Other Federal Agencies.
 - Phase IV: Transaction closing.
 - Phase V: Post-closing transition and further regulatory approvals.
 - Transition agreement/cooperation.
 - USDOE MCA/TPPPA/PPPA; other notices/approvals.



First Polling Question

Has your institution identified who and how it will respond if a merger/acquisition opportunity comes its way?

1. Yes _____
2. No _____
3. Unsure _____



Background on Two Recent Acquisitions by CACUBO Member Schools



National Louis University (NLU) Acquisition of Assets of Kendall College

NLU (Prior to Acquisition):

- Private nonprofit university based in Chicago
- Originated in 1886
- An urban university focuses on community impact
- 60+ undergraduate, master and doctoral programs
- Over 8,000 students
- Access institution serving a diverse population

Kendall (Prior to Being Acquired):

- Founded in 1934
- Started as a liberal arts college. Today, recognized for culinary and hospitality. Also offered business and early childhood education programs.
- Acquired by Laureate (for profit) in 2009.
- On a steady enrollment decline and was incurring large losses
- Was serving 1,000 students (down from twice that many)
- Was on HLC monitoring



Why Pursue the Acquisition?

For us, the main reasons that this acquisition was attractive were as follows:

- At the right investment level, our modelling showed that the transaction would produce a very robust ROI and the transaction was income accretive
- Kendall provided programs that we didn't have:
 - Culinary
 - Hospitality
 - On-line early childhood education programs
- Ability to take advantage of synergies
- $1 + 1 = 3$
- We believed we could pull this off and operate the new entity effectively



NLU Acquisition of Kendall - Process

Broker reached out to a board member who contacted our president about the opportunity.

- Ultimately, we worked directly with the Kendall College president, not with broker. This made communications direct and easier.

We set forth some immediate parameters for the deal:

- We were only willing to consider a deal that did not put our institution at risk
- We would not acquire any liabilities.
- We were only willing to look at a deal that was financially accretive.



NLU Acquisition of Kendall - Stakeholders

Regulators:

- US Department of Education
- State – ISBE, IBHE, other States
- Regional – Higher Learning Commission
- Programs – American Culinary Federation

NLU: Board, Leadership, Faculty/Staff & Students

Kendall: Stockholders, Laureate corporate, Local Board & Leadership, Faculty/Staff, Students/Families

External: Community leaders

Government: Alderman/Mayor, Industry Leaders



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Deal Structure – Asset Purchase Agreement

- We acquired the assets of Kendall College, but no liabilities.
- We did not assume any pre-existing student liabilities
- Laureate paid all severance for employees
- The University was indemnified for any potential litigation or liabilities that emerged later.
- NLU did not directly take on the Kendall Title IV accounts
- In our case, the Memorandum of Understanding was signed in January 2018 at midnight (so we could make the deadline to be included in the next HLC review docket) and the deal closed in August 2018. The delay allowed time for regulatory approvals and the transition.
- Legacy of the Kendall name.



North Central College Acquisition of Assets of Shimer

North Central College (NC)

- Private nonprofit residential college based in Naperville, IL
- Originated in 1861
- Nearly 3,000 students study across more than 65 undergraduate and graduate programs
- NC is a Division III institution with 27 athletic teams; almost 50% of students participate in athletics

Shimer College

- Established in 1853 in Mt. Carroll, IL, as a residential college
- Shimer moved from its established campus in 1978 before leasing space at the Illinois Institute of Technology in 2006.
- 70 students taught by ten faculty and supported by 12 staff positions.
- Great Books institution that employs a Socratic dialogue pedagogy offering a single major with three tracks in humanities, social sciences and natural sciences.



Why Pursue the Acquisition?

The acquisition represented a differentiator for North Central College with many potential benefits.

- Create a “Shimer Great Books School” within the College’s academic structure, which will attract students who are voracious readers of original texts, not textbooks.
- Provide financial stability to secure a sustainable student population
- Shimer alums, who have deep affiliations with their alma mater, will re-invest in the Shimer Great Books School to support a more stable and opportunity-rich future.



NCC Acquisition of Shimer Assets- Stakeholders

Regulators:

- US Department of Education
- State – ISBE, IBHE
- Regional – Higher Learning Commission

NCC: Board, Leadership, Faculty/Staff & Students

Shimer: Board, Leadership, Faculty/Staff & Students

External: Illinois Institute of Technology



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Deal Structure - Purchase Agreement

- Acquire specifically identified assets, personnel, liabilities, debt, contractual and other obligations subject to a cap;
- Faculty members given a 3-year contract with a path to tenure;
- Staff provided an opportunity to interview for current openings;
- Filed change of control filed with HLC in July 2016 before HLC's August 1, 2016 filing deadline;
- Anticipated change of control in March 2017, change of control postponed until June 1, 2017;
- North Central assumed student accounts receivable balances but not external financial aid;
- Title IV OPEID numbers not merged. Shimer closed out Perkins before the change of control



Second Polling Question

Do you think your department has the bandwidth to integrate an acquisition in addition to accomplishing its normal work?

1. Yes _____
2. No _____
3. Unsure _____



The Business Officer Involvement in the Process and Transition Planning



The Role of the CFO in Performing Due Diligence

- Review and validate the seller's projections and information and model, model and then model some more:
 - Enrollment and revenues
 - Tuition rates
 - Scholarships
 - HR Policies and Procedures
 - Expense Levels and Synergies
 - Costs of integration
 - Accuracy of financial information and projections
- Involvement of our external accounting firm to do a review of the seller's systems and financial aid processing
- Assist in the negotiation of the purchase price
- Review, along with legal, all of the purchase documents



CFO Responsibilities After the Transition

- Train new employees on:
 - Accounting policies
 - Company Culture
 - Systems
- Monitor the success of the transition:
 - Enrollment
 - Financial
 - Against original model
- Collection of receivables in progress
- Working capital adjustment



Transition Teams

- We identified the following major areas that we needed to transition and appointed individuals (from both sides) to be in charge of each of these areas, as follows:
 - Academic – Programs to continue, merge or teach out
 - Facilities – What properties to retain and where to locate operations
 - Student Finance – Student records and transition of accounts
 - Student Services – Student life integration
 - HR – Benefit plans, compensation, training plans, hiring
 - IT – Records management, surviving systems such as HR, LMS, SIS, etc., portals, etc.
 - Marketing – Website, recruitment methodologies
- We also identified one overall integrations manager to help organize all of the individual areas.



Communications

- One of the initial things we had to do a lot of (and I can't emphasize the importance of this area enough) is to communicate, communicate & communicate some more:
 - Impacted students
 - Impacted employees
 - Before, during and after
 - Regular communications are important to address anything that is bubbling up
- With respect to our transition teams in each of the major areas, We had two weekly meetings in the seven months leading up to the acquisition (one for just NLU and one was an overlapping meeting) and we communicated regularly to the community what was being done by the committees.



Retention of Employees

- Identify employees to retain:
 - Utilized recommendations of upper management of acquired institution
 - Conducted interviews
- Make hiring decisions
- Retention bonuses
- Severances
- Important to hire the right folks to retain institutional knowledge and ensure a good transition



Third Polling Question

As a result of this webinar, are you more apt to consider an acquisition?

1. Yes _____
2. No _____
3. Unsure _____



Lessons Learned

- You can never communicate enough
- Be prepared for regulatory obstacles and delays
- Lawyers will try your patience
- Integration of systems is laden with challenges
- You likely have your daily job to handle in addition to trying to plan an acquisition.
- No way to anticipate all of the things that will come up.
- While our deal worked, the best deals are often the ones that you walk away from.



THANK YOU FOR ATTENDING

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