Cover story

# Back to

# school


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*Despite a post-covid dip, private equity's appetite for the education sector is strong, with technology driving the bulk of interest.*
*By Iris Dorbian*

The education sector took a hit early during the covid-19 outbreak as schools shifted from in-person classes to virtual sessions. To compensate for that new reality, a profusion of edtech services was introduced to streamline teacher training and student comfort. The market became hot – and then not so hot.

Lately, dealmakers have become bullish again, with much of that interest being driven by both the sector's recession resiliency and the transformative effects of technology. Also, the market's fragmentation, encompassing subsectors K-12, higher education and corporate training, is another sweet spot.

New pools of capital have been

# Going pro

**After exiting an early childhood education provider and acquiring another one, Avathon Capital makes a foray into professional learning with the purchase of a healthcare education provider, writes Iris Dorbian**

Since launching the strategy in 2016, Avathon Capital has prided itself on being a specialist in the education and workforce markets. For the Chicago-based lower mid-market buyout shop, the sector's prime attractions include its fragmentation, transformative potential and scalability. But it's also about making a positive impact on society.

Shoshana Vernick, Avathon Capital

"Our commitment to the education and workforce markets is not just about financial returns," says Shoshana Vernick, managing partner and co-founder of Avathon Capital. "It's about fostering growth, innovation, and excellence in sectors that are foundational to our economy and society."

Avathon's recent acquisition of Magical Beginnings, a network of early childhood education centers in the greater Boston area, is an example of its investment strategy and approach. The deal represented the PE firm's second foray into the early childhood education space following its sale of portfolio company Big Blue Marble Academy, an early childhood education provider across the Southeast US, to Leeds Equity Partners.

"This experience has strengthened our understanding of the early childhood education market and its unique dynamics," says Vernick.

This past April, Avathon took a detour from this area to home in on the professional learning niche with its acquisition of Summit Professional Education. Headquartered in Franklin, Tennessee, Summit is a provider of in-person and online continuing and professional education courses for physical therapists and assistants, occupational therapists and assistants, and speech language pathologists.

The deal marked Avathon's entry into the healthcare professional education space.

"Summit provides the ideal platform for us to build upon, given its scalable business model, extensive course library, and strong market reputation," explains Vernick. "We see significant opportunities to expand Summit's offerings and enhance its impact on professional development across various fields."

Avathon's goals for Summit are to grow it via add-on acquisitions while improving the company's technological capabilities and content delivery. "Ultimately, our objective is to create a significantly larger, durable organization that brings market-leading, highly relevant professional education to its clients," notes Vernick.

Asked how long the firm plans on holding onto this investment, which was funded by a combination of Avathon's Fund II, which closed on $200 million in 2019, as well as co-investment capital from two LPs, Vernick says they "will evaluate exit opportunities when the company has achieved significant milestones and is well-positioned for continued success."

raised to, in part, invest behind the growth of the edtech segment that PE firms are considering a non-cyclical investment. One of the most notable in recent years was SEMCAP's Seminal Educational lnvestments SPV I, which closed on $954.5 million in October 2021, as per research from affiliate title *Private Equity International*.

LPs appear to be on board with the growing exposure to the strategy. "On the buyout side, some of our clients are invested in SaaS software investors who frequently target the edtech vertical," says Ethan Samson, managing principal of private markets at Meketa Investment Group, an investment consultant and adviser. "Typically, our clients with an interest in edtech are at least partially mission-oriented. Their interest often stems from a desire to achieve both market-rate returns and secondary goals."

In a similar vein, Di Tang, a senior investment director of impact investing at investment consultant Cambridge Associates, notes that as funding from pandemic-era federal legislation dries up and school districts are hit with budget constraints, "the allocation for technology continues to be very important because across the US you're facing teacher shortages. What's going to boost that [and student performance] has to be technology… It's a distinct category but as long as there are disciplined investors in the space, we think we can generate market returns."

### $8 trillion by 2030

Recently, *Buyouts* spoke to several private equity investors whose firms have inked deals in the education sector within the past year to find out their reasons for doing so, as well as their goals. Though none would disclose the financial terms of these transactions, their keen enthusiasm for their respective target companies indicates robust investor appetite.

Yet there are challenges: birth declines are causing a drop in student enrollments and decision-making in school districts can often be a lengthy, bureaucratic process. As a result, PE investing in the sector is not only problematic at times but also a trial of endurance.

*"[There is] a heightened demand for education as private equity firms want to invest in countercyclical assets"*

**JACOB VOORHEES**
**Navagant**

Still, projections are exceedingly upbeat. According to Morgan Stanley research, the global education market is estimated to soar to $8 trillion in value by 2030.

Some industry experts might deem this estimate to be exaggerated; however, evidence suggests that private equity tends to circle this space during times of economic uncertainty.

"Whenever there has been a recessionary fear, that's when I get a call from 30-40 private equity firms that have not invested in this space before," says Jacob Voorhees, managing director of Navagant, a Virginia-based mid-market education-focused investment bank and M&A adviser.

With downturn anxieties subsiding, Voorhees notes there is "a heightened demand for education and training companies as private equity firms want to invest in countercyclical assets that also perform well during the boom times."

The statistics bear this out: dealflow is a constant even if US and global private equity investing in the education space has slipped since the height of the pandemic. Per PitchBook data, global PE deal activity racked up $27.4 billion for 2021, with US snagging $17.1 billion for the same period. For 2023, global PE deal activity dipped to $13.8 billion while the US raked in a total of $6.4 billion. As of late May 2024, the global number is $4.9 billion with US grabbing $1.5 billion.

### Bain does its homework

Despite the lower post-pandemic figures, private equity continues to gravitate toward education. One of the most active investors in this sector is Bain

> *"There's a stickiness [in the education sector] that drives predictable cash flow with reasonable growth"*
>
> **LARRY SHAGRIN**
> **Millpond Equity Partners**

Capital Double Impact. After investing in myriad edtech companies and service providers, which include TeachTown, Penn Foster and Meteor Education, Bain Capital's impact investing strategy recently zeroed in on another edtech firm, Branching Minds.

For Bain Capital Double Impact partner Iain Ware, investing in education is not a passing fad but rather a central part of the firm's investment thesis.

"We strongly believe education and training are critical for economic opportunity," Ware tells *Buyouts* when asked about his firm's affinity for the space. "The challenges facing us as a society are not going away – learning losses continue to worsen – the pandemic contributed to that. The labor market is going through significant dislocation. As investors, now is an interesting time as there will be significant opportunities for high-quality solutions to thrive."

Enter Branching Minds. Based in New York City, Branching Minds' software provides multi-tiered system of supports (MTSS) to school districts and educators when identifying students' strengths and deficiencies across various disciplines. It puts students on a specific academic track as they progress through school while offering intervention plans for those who may be struggling or might need additional guidance.

"We knew the MTSS framework was an important and exciting one in the field," says Ware. "Off the back of that, we were trying to figure out who was helping districts do that work with fidelity and came across Branching Minds as an emerging leader in this space."

Bain Capital reached out to co-founders Maya Gat and David Magier in the summer and fall of 2022.

"They had never done a major institutional fundraising round," recalls Ware, describing Bain Capital's early discussions with Branching Minds. "They were looking to bring on a partner to help them scale the business and take it to the next level. They were looking for a partner that was deep in education, believed in their mission and had the financial resources to invest in the business."

Talks got serious in the fall of 2023, with Gat and Magier agreeing to sell Branching Minds in December; the closing occurred in early 2024.

"Double Impact is about driving student outcomes, especially students who have been underserved one way or another, whether it's academic or having social/behavioral issues," says Ware, explaining how the deal is aligned with the firm's investment strategy. "It really gets to the core of what we're trying to do."

Asked about Bain Capital's goals with Branching Minds, Ware answers that even though add-ons are possible, right now it's about getting the product into more schools and having it be used effectively in the classroom.

Typically, the firm has a five-year hold. However, with Branching Minds, there's no timeline for how long Bain Capital Double Impact will hold onto the investment before the exit.

Bain Capital Double Impact Fund II, which closed in 2020 on $728 million, was deployed to invest in Branching Minds.

## Millpond and Galileo

Like Bain Capital Double Impact, Millpond Equity Partners is another prolific investor in the education space. The market's stability, coupled with the firm's extensive knowledge of it, are key enticements.

"We understand trends in the industry and what's driving the industry," says Larry Shagrin, a partner at the Boca Raton, Florida-based PE firm. "Unlike rapidly changing industries such as software or media, [the education market] has attractive growth at a reasonable, predictable pace. Educators generally are not looking at a major dramatic change. There's a stickiness that drives predictable cash flow with reasonable growth resulting in a positive risk/return dynamic."

Millpond's recent investment in Galileo Education a holding company of education brands, is a case in point.

The deal crystallized when Galileo CEO Mark Claypool, who had also been an industry adviser to Millpond for other investments, had approached the buyout shop.

"[Galileo] had identified a pipeline of schools to acquire and they needed capital to acquire those schools," explains Shagrin, the deal lead. "They needed resources to execute their growth strategy and they were looking for a private equity partner."

Galileo (based in Franklin, Tennessee) hit all the investment criteria for Millpond as the firm usually backs lower mid-market companies with enterprise values below $100 million. And the fact that Galileo was founded by Claypool, a former educator, enhanced the appeal of the target company.

Following a six-month period, the transaction wrapped in early 2024. Backed by Millpond, Galileo closed on several schools, which included The Cyzner Institute (based in Charlotte, North Carolina), a private educational, therapeutic, and biomedical center for children with learning differences or special developmental and behavioral needs; and Safety Harbor Montessori Academy, a school based in Clearwater, Florida.

Millpond's goal for Galileo is to grow it into a large platform, replete with high-quality schools specializing in teaching a certain student type. The geographic focus is on the Southeast as Millpond believes states in that region tend to have a history of being more amenable to private education providers.

Millpond invested in the Galileo deal out of its most recent investment vehicle formed in January 2024. No financial terms were disclosed.

Millpond's average hold period is anywhere from three to seven years. For Galileo, Shagrin


*"The challenges facing us as a society are not going away – learning losses continue to worsen"*

**IAIN WARE**
**Bain Capital**

noted that Millpond is a lot more flexible as the firm is looking to create the most value for investors, so the hold could extend beyond the usual timeline.

**GVC, the new kid in class**

Unlike Bain Capital Double Impact and Millpond, Golden Vision Capital Americas is more of a newbie when it comes to investing in the education and edtech market. (The leadership team did have experience investing in a professional training firm but that predated the formation of GVC Americas.) The September 2023 recapitalization of Hawkes Learning, a math-focused educational software company based in South Carolina, marked the PE firm's initial foray into the higher education subsector.

GVC Americas, which normally invests in business services and healthcare services companies, learned about Hawkes via Navagant's Voorhees.

"We've known each other for years," says Eli Boufis, head of private equity at GVC Americas. "[Voorhees] knew that we only invest in what we call accomplished owner/operators or founder-led businesses. He knew that we were flexible, and I was always drawn to companies that were different and very customer oriented. So what drew us to Hawkes is that this was a company where the customer developed the products."

Founded by former physics professor James Hawkes, the target company had plateaued in its growth trajectory when GVC Americas entered the scene.

"Hawkes could only take the company so far," continues Boufis. "He needed someone who could take their passion and purpose and elevate it to the next level."

Assessing the strengths and weaknesses of Hawkes Learning, GVC determined the business needed seasoned professionals to help run it. Also, on the must-do list were expanding the

software platform and adding new courses to the catalog.

Through GVC's network, the firm identified Scott Virkler, who had held senior executive roles at such companies as Illuminate Education and McGraw Hill Education, to help lead Hawkes' next chapter.

Ironically, Boufis' preliminary conversation with Virkler revealed a pleasant twist.

"I get on the phone with Scott and he says, 'I've been trying to figure out how to buy Hawkes for years,'" relates Boufis.

The deal took over a year from start to finish to complete. As part of the transaction, Virkler became CEO and business veteran Brad Johnson was tapped for the chief financial role. Both had also participated in the investment.

Unfortunately, a significant hurdle remained.

"Like any founder of a business, this company is part of Dr Hawkes identity," says Boufis. "I needed a fair price and to prove to him I wasn't going to damage his legacy. Scott Virkler and I are in the process of proving that."

*"There is a technological transformation that's taking place in higher ed"*

**ELI BOUFIS**
**GVC Americas**

Dr Hawkes has a minority ownership stake in his eponymous company while GVC has majority control. "[There was] very little to no debt because we're very focused on reinvesting cashflow," adds Boufis.

GVC Americas Growth Fund I, which closed in 2022, at over $100 million, was deployed for the Hawkes investment. Although GVC's typical hold is four to six years before the exit, the PE firm has a five-year plan for Hawkes. "The opportunity was ripe," says Boufis. "There is a technological transformation that's taking place in higher ed and Hawkes has an incredible product. It just needs a megaphone. And that's GVC's job."

### 'Hitting on all cylinders'

In addition to technology, another boon for the education sector is the change in perception private equity harbors toward it. According to Voorhees, dealmakers are now more inclined to perceive it as a for-profit industry in contrast to the past, when it was considered by many as non-profit.

"When it comes down to it, most education assets are not cyclical," says Voorhees. "They're either status quo, performing well, or people are using a depressed market to hide from the job economy to go back to school. Right now, it's hitting on all cylinders with some folks. Having countercyclical assets in your portfolio can be really helpful in risk mitigation." ■