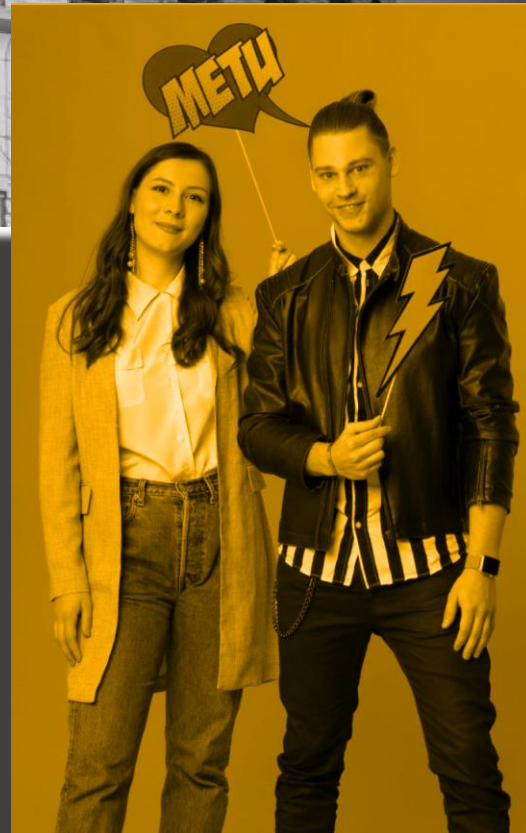




Lasanoz Finance Case Study | Higher Education M&A

CEE-China Fund sells Budapest Metropolitan University (METU) for USD 50 million

Warsaw, July 2021



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Outline of the Presentation

- 1. Key Transaction Parameters**
- 2. METU Revisited**
- 3. Sale Process – Swift Execution Under Challenging Circumstances**
- 4. Lessons Learned**

Key Transaction Parameters

Disposal of the Largest Private Higher Education Institution in Hungary



Target

- I. Budapest Metropolitan University (METU) – the largest private university in Hungary, with over 6,700 students, including more than 800 foreign students.
- II. No. 1 in private (No. 4 overall) in Business/Communication/Tourism (BCT) programs; No. 1 overall among Art programs.
- III. Track record of profitable growth at EBITDA margins in excess of 20%
- IV. Debt-free, strong cash generation, paying 10%-15% of revenue in perennial dividends.
- V. Own main campus; strong base of leased campus facilities and dormitoria.
- VI. Strong, local management team, located in Budapest, with a mix of academic, corporate and entrepreneurial background.

Price

- I. Enterprise Value of **USD 50 million**
- II. Approx. **10.7x** EBITDA 2020

Parties

- I. Seller: China-CEE Fund I, managed by CEE Equity Partners, and minority shareholders
- II. Buyer: Optima Investments Ltd
- III. M&A Advisor to the Seller and Management: **Lasanoz Finance**
- IV. Legal Advisor to the Seller and Management: CMS (Budapest)



Dedicated LF Advisory Team

Senior Team With Relevant M&A Experience

Familiar With Hungarian Education Market Since 2018

LF Team
Member



Alexander Neuber
Managing Director

- Senior relationships with client and financial institutions
- Negotiation Lead
- Quality Assurance



Project Role



Karol Depczyński
Deal Leader

- Project Lead
- Negotiations
- Workshops with Management, Equity story
- Due Diligence Coordination



Selected
Experience



Kamil Bork
Manager

- Negotiation support
- Project deliverables
- Research



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- LF's first mandate to advise on the sale of METU was in 2018/19, in response to an unsolicited bid by one of the global higher education groups.
- METU had by then been successfully redirected in its growth trajectory by the Fund, having acquired it in 2014. The company generated solid albeit stable results and was looking for expansion opportunities through M&A in the CEE region, with limited success. The lack of clear growth drivers and regulatory uncertainties led to suspension of that first sale process.
- When the LF team returned to Budapest in January 2021, in the midst of a pandemic lockdown, questions abounded. Demonstrating a solid strategy and growth prospects in the midst of the COVID pandemic seemed an even more challenging task than in 2018. However, we were impressed by what management had accomplished.
- Under a new CEO and a strengthened management team, METU was in great condition – operationally as well as financially, and -- most importantly -- full of vigor and optimism, hardened by the difficulties of the COVID lockdowns, through which management had successfully navigated. METU's strategy had been refocused on organic growth fuelled by commitment to high quality teaching and student service, as demonstrated by fast rising NPS scores. Despite COVID, student numbers were on the rise, including enrollment of foreign students, and so were profits.
- The company was well placed to generate good returns on those efforts to its investors. LF's role was to set up a competitive process, sharpen the message and communicate it broadly and professionally to the market with a view to both maximising deal value and handing over trusteeship of this important educational institution to a new safe pair of hands.

- A series of workshops and follow-up Q&A with METU's management led to the identification of key strengths of the company, as well as the challenges it faced.
- An analysis of the Hungarian macroeconomic outlook, the education market and the regulatory developments was performed by LF and the legal advisors. The storyline was centered around the points from the following excerpt from the Management Presentation:

Quality	<p>I. Largest private university in Hungary, with over 6,700 students, and long track record of profitable growth with EBITDA margin in excess of 20%.</p> <p>II. COVID has accelerated move into online, quality improvements, customer focus, and METU has emerged strengthened from the pandemic with excellent KPIs (NPS, Churn) and a clear vision for further growth.</p> <p>III. Budapest is ranked #1 in global QS Top Universities affordability ranking, opening an attractive value-for-money middle-segment for prospective international students, complementary to current offering of major global providers of higher education.</p>
Value	<p>IV. Successful execution of internationalization of student body (paying twice the level of domestic fees).</p> <p>V. Excellent value investment, paying on average an annual cash dividend of HUF [confidential]m (approx. EUR [confidential]m) in the years 2017-20.</p> <p>VI. Strong management team; an excellent mix of educators, marketers, FMCG-focused executives and an academic rector with strong cohesion, battle-hardened from COVID, and with a compelling vision and USP to support further growth in quality and scale.</p> <p>VII. Zero debt, significant owned real estate with optional value-enhancing sale/leaseback operation worth an estimated EUR [confidential]m.</p>
Prospects	<p>VIII. Strategic platform that could serve as basis for consolidation both in Hungarian market and across the CEE region; significant synergy potential for strategic bidders.</p> <p>IX. Strong transparency and accountability thanks to seven years of disciplined PE ownership (audits, governance, controls, budget, business planning, strategic initiatives, etc.).</p> <p>X. Management's medium-term business plan (2021-2025) showcases potential for approximately [confidential]% growth in student numbers, approximately [confidential]% growth in revenues, and [confidential]% growth in EBITDA.</p>

METU Revisited

Strong Asset in a Challenging Environment

- Notwithstanding the intrinsic strengths of the the asset, the ability to attract buyers also depended on the current economic, political, and -- in this day and age – the pandemic environment. And there were valid concerns about the market appetite for a modestly-sized asset, in Hungary (not a darling of the EU), in an education sector afflicted by the pandemic.
- The LF team acknowledged these challenges but dedicated good time and effort to explaining the impact of COVID, the Hungarian government’s higher education policy, and to demonstrating the outstanding performance of METU. An excerpt from the Management Presentation, discussing higher education trends during COVID times, is presented below as an example.



McKinsey
& Company

- **On the demand side:**
 - Economic downturn will lead to rising unemployment, which in turn will positively impact enrollments to universities, as people invest their time and money in acquiring new/supplementary skills and diplomas.
 - Rising demand from „non-traditional” students – working adults looking to upskill or re-skill throughout their careers.
 - For as long as lockdowns or travel limitations last, globally lower intake of new international students, deferrals by existing ones (which METU largely managed to avoid).
 - Tuition fees reductions for courses which move to online, as students perceive lower quality compared to in-class studies.
 - **NB: Motions from students to reduce fees were also discussed at METU and no discounts were granted. Management made a significant effort to make rich online learning content available and organized additional supplementary classes in the summer to maintain quality of education. Certain practical ART classes were allowed under strict safety measures.**
- **On the supply side:**
 - Permanent shift to blended methods that integrate in-person and online experience, shift towards digital learning tools.
 - Unbundling of degrees – remote digital courses will enable offering individual courses, modules, effectively dismantling traditional degrees into stackable modules – this shall provide new monetization opportunities for investment in e-learning.
 - Scaling of EdTech companies with improved methodologies and large data collected during the COVID lockdowns.
 - Further market consolidation possible, due to the reach of e-learning and the necessary investment to be made in digital learning infrastructure.

Source: McKinsey „Higher education enrollment: Inevitable decline or online opportunity?”, November 2020

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Sale Process – Swift Execution Under Difficult Circumstances

LF Attracted a Strong Mix of Local and Foreign Investors, Both Industry Players and Financial Institutions

- Wary of the unsuccessful sale attempt in 2018/19, LF advised the Client to maintain competitiveness throughout the process.
- Despite the Fund having received several enquiries about METU, we launched a standard, open process and contacted a long list of potential investors.
- The distributed teaser and a number of conference calls resulted in seven entities signing NDAs and receiving the Investment Memorandum. Not a large number, but sufficiently competitive under the circumstances, with an interesting mix of Hungarian and foreign, financial and industry investors.
- When analysing initial non-binding offers, we focused both on financial terms and the ability of the respective buyer to perform due diligence and close the deal on an ambitious timeline, given that:
 - Pandemic travel restrictions made it difficult to conduct an on-site visit and meet management in person.
 - For the same reason, due diligence could mainly be performed online and over a longer time than usual. Readiness to rely on local advisors differed between various bidders.
 - There were several question marks with regard to the regulatory environment and the domestic political agenda towards higher education in Hungary. Investors familiar with the situation or able to catch up quickly were more likely to close the deal in reasonable time, and were favoured, *ceteris paribus*.

Sale Process – Swift Execution Under Difficult Circumstances

Not Intimidated by Regulatory Attempts to Hamstring the Process, We Accelerated to a Successful Closing

- Unsurprisingly, one of the local investors, offering attractive price terms, took pole position as preferred bidder.
- Throughout the due diligence and negotiation process LF made sure that investor was „kept honest” by setting very tight deadlines and offering short windows of exclusivity, while keeping all other options open. We appreciated that this investor and its respective advisors were committed and exhibited quick decision making. It all looked reasonably good, until we were surprised by an impromptu regulatory change ...

... „Lex METU”* ...

- ...as we nicknamed the sudden change in law, requiring government consent for any foreign buyer seeking to acquire an entity in the the Hungarian higher education sector (to be precise, a special „COVID” law requiring such governmental consent to „protect” the local market had existed before, but the list of industries to which it pertained was surprisingly extended to higher education). Needless to say, METU was the only university which was subject to any potential transaction at the time.
- As our preferred bidder was a Hungarian entity, our best option was to continue running fast, while trying to verify the reasons and intentions behind the change in law. A few days of intense negotiations brought the deal to signing, securing out client’s objectives.

* https://www.wolftheiss.com/fileadmin//content/6_news/shiftinvest/Status_Report_FDI_regimes.pdf (Page 6)

Sale Process – Swift Execution Under Difficult Circumstances

Valuation Confirms Strength of Investor Sentiment in Higher Education

- At the start of the sale process our valuation guidance for the Client was based on a number of benchmarks:
 - Market valuations of listed peers in China/Brazil/USA/Europe, adjusted for the difference in size of the assets (METU is smaller by an order of magnitude);
 - Comparable transactions, mostly by PE-funded consolidators, such as Laureate or Global Education Systems.
 - Our own DCF valuation.
- Accounting for the relatively modest scale of the asset, the pandemic environment and the regulatory/political risks, we held that a double-digit EBITDA multiple was achievable, given the market leadership position of the asset and its strong financials.
- Key to achieving these kinds of terms was highlighting the strengths of the asset and its management, creating competitive tension, and correctly reading the respective motivations of the bidders, in order to position the asset appropriately.
- The final purchase price was agreed at USD 50 million (EV) or 10.7x EBITDA (2020), as disclosed by the Buyer in public documents (www.globallegalchronicle.com/optima-investments-50-million-acquisition-of-budapest-metropolitan-university/).

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- Timing of sale is of paramount importance – it was the right decision by the Client to delay the transaction by two years in early 2019 and to use the time to efficiently prepare the company for sale.
- Clear strategy and a strong management with successful track record are key qualities. The team put together by the new CEO fit the bill.
- An improved financial performance was obviously welcome as well, and to add credibility to the future growth prospects, potential investors needed to see a convincing story, traction, track record, and a committed management team that had been ‘tested by fire’ through their 2020 pandemic experience in adjusting processes and teaching to the new challenge – which they did.
- „*The best is the enemy of good*” – we might have extended the process further, inviting additional bidding rounds in an attempt to give foreign investors more time and to enhance exit terms. However, „Lex METU” clearly made that more challenging and reminded us of the perils of the regulatory environment. Thus, having built trust and a good working relationship with the preferred bidder and its advisers, we were able to accelerate the process and conclude on very satisfactory terms for our Client.
- All is well that ends well 😊



- Back-up Slides

Warsaw, July 2021



Executive Summary | Budapest, a Perfect Launching Pad

The Hungarian Capital Combines Educational Pedigree with Urban Beauty and Affordability

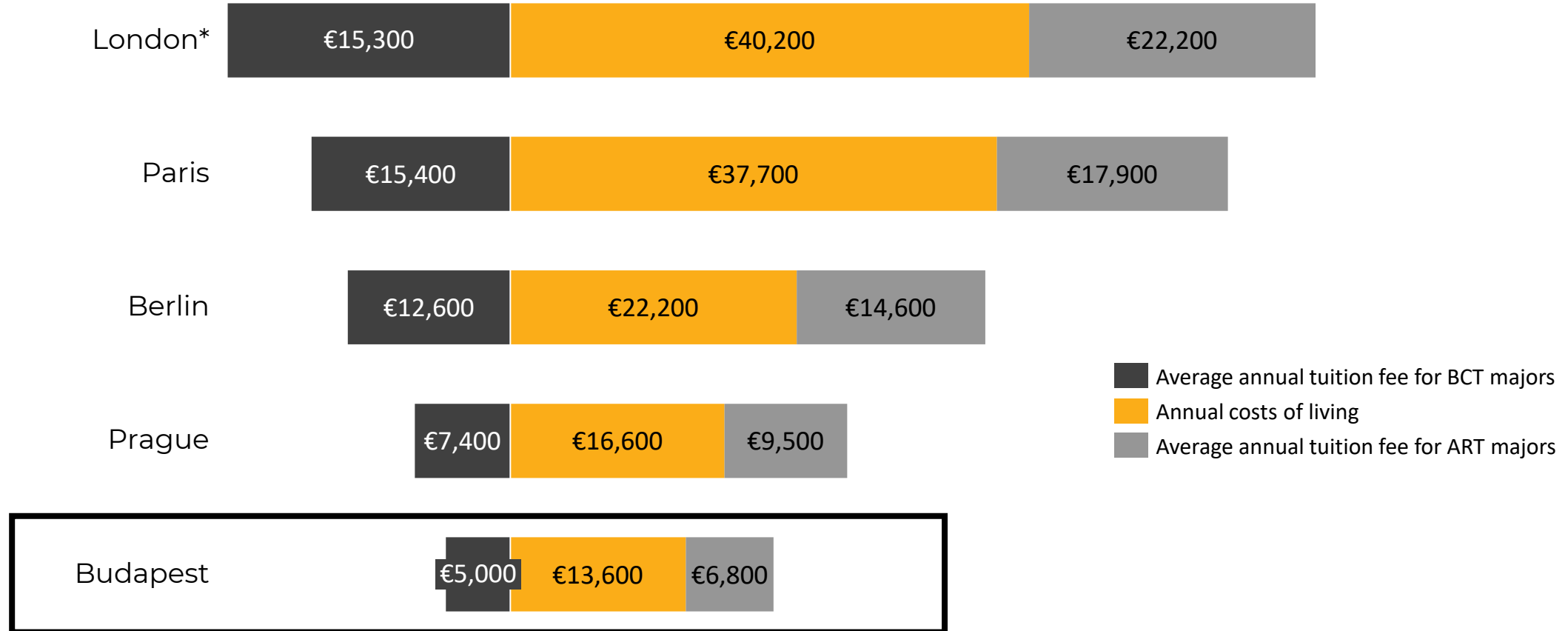
- The first university was founded in Budapest in 1395 (University of Óbuda). The city hosts over 35 universities and more than 160,000 students. All of CEE has been recognised for centuries as a historic and cultural area rich in educational achievements and ambitions.
- Budapest is rated #1 globally in terms of affordability in the global university town ranking of QS (source: www.topuniversities.com) and is recognized for good availability of teacher talent pool.
- New HE institutions are eyeing Budapest as their CEE/European hub; a recent example is Fudan University, which announced its Budapest campus to be ready by 2024; focusing on high-end segment of the market, but potentially further raising interest of Chinese students.
- METU's fees for foreign students, at an average of EUR 4k per academic year, compare well in terms of affordability to an estimated average for the likes of Galileo, Global University Systems and Laureate of above EUR 7k-9k.
- This value-for-money offer of METU allows any new global HE platform owner of METU to target complementary segments of international students keen on a quality European education and degree, widening its addressable market.
- Any student at METU, who holds a valid Hungarian visa, has full travel access to the entire European Schengen area – something highly valued by METU's international students.
- Budapest is ranked highly by several international studies in terms of tourist attractiveness, architectural beauty, and connectedness to the EU and Western Europe (Vienna is 244 km or a 2.5-hour car drive away).
- Budapest benefits from a young population, a vibrant nightlife, and a very safe environment.
- Budapest possesses an excellent central airport and ample hotel and tourist facilities, with many languages spoken (English, German, Russian and French).



Executive Summary | Budapest, a Perfect Launching Pad

Studying in Budapest Is Much More Affordable in Comparison With Other Major European Cities

Studying at METU in Budapest costs approx. 50% of Berlin, and 30% of Paris and London*



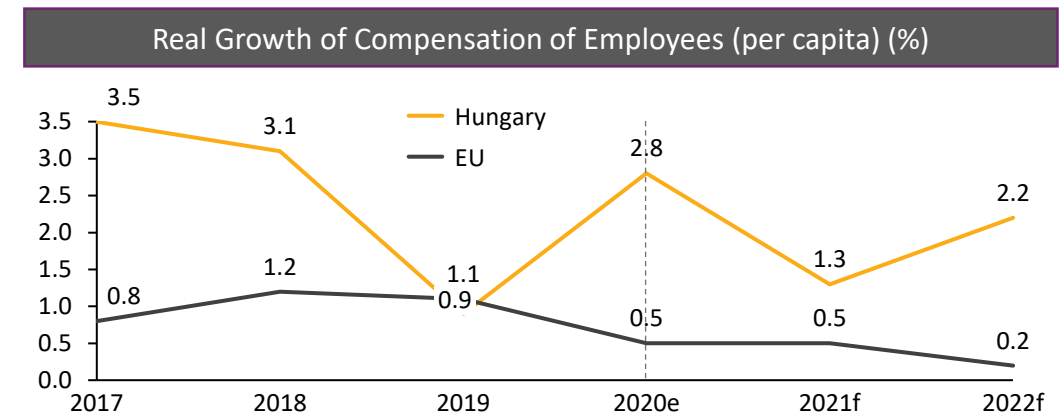
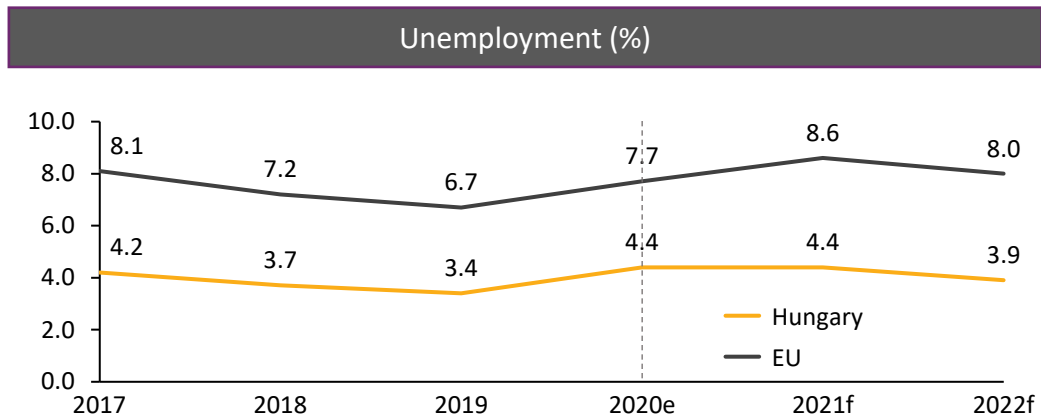
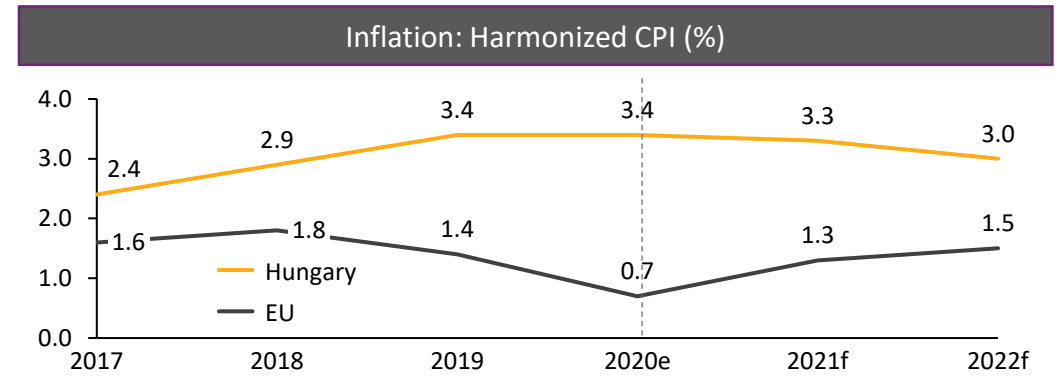
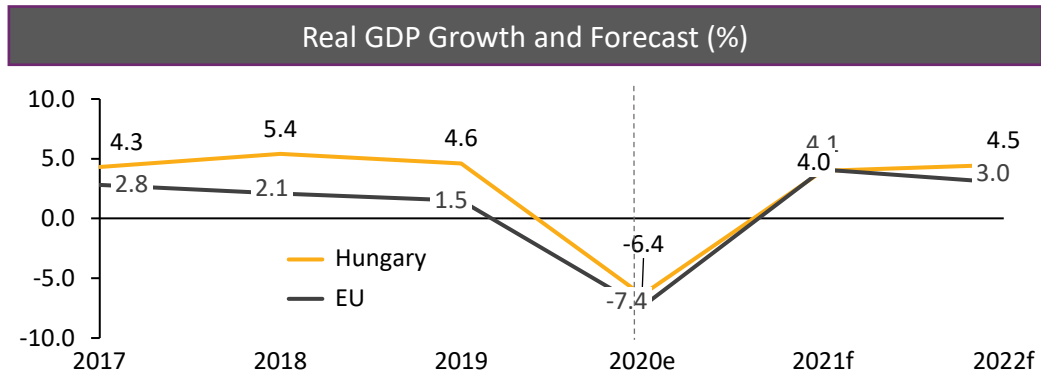
Source: LF/METU research based on selected universities (www.mastersportal.com; www.findamasters.com). Costs of living after www.expatistan.com Note that this research is not exhaustive – it merely illustrates how economically attractive studies in Budapest are on a relative basis.

* After Brexit, higher education services will become significantly more expensive also for the students from EU countries

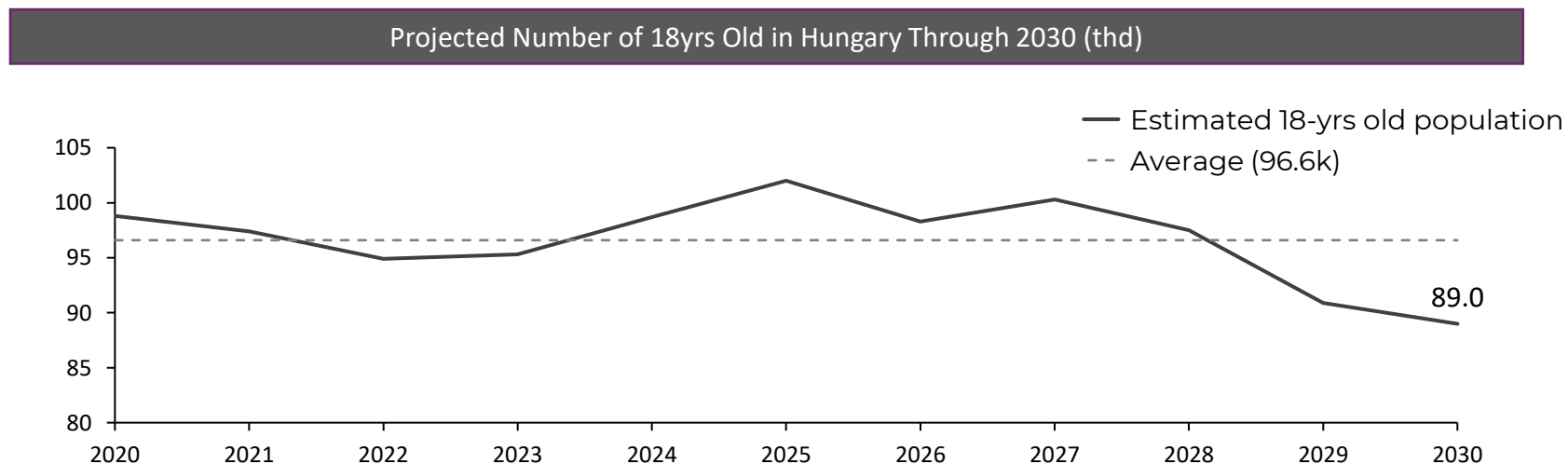
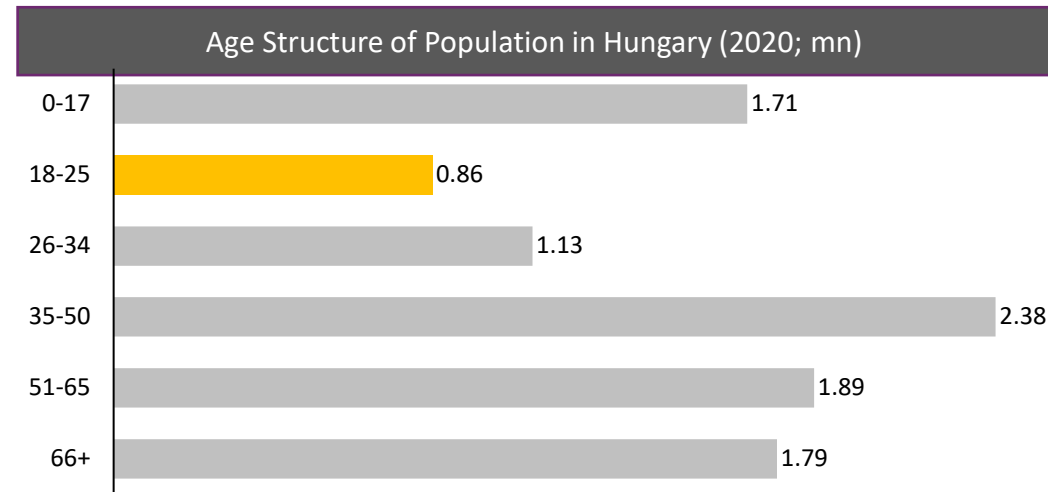
Our Market | Hungary's Economy

Sound Economy With Positive Growth Outlook, Modest Inflation and Unemployment

- Hungary exhibits enviable macroeconomic KPIs, testimony to its good integration into EU markets.
- Sustained GDP growth and tight labour markets make for excellent job prospects for METU's graduates.
- Lower GDP drop in 2020 than average in EU: 6.4% vs 7.4%; sharp 4% rebound expected in 2021
- Very attractive taxation regime, with PIT of 15%, CIT of 9% and social security contributions of 15.5%.



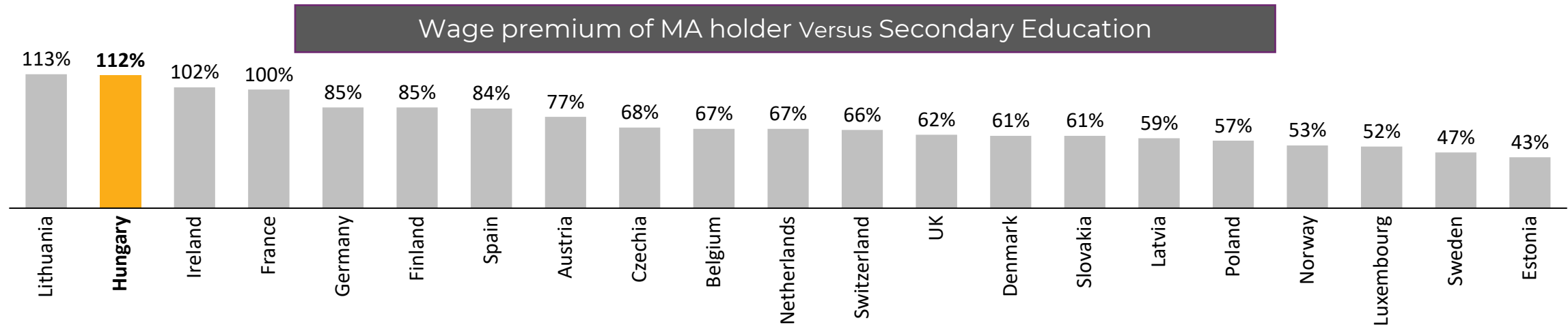
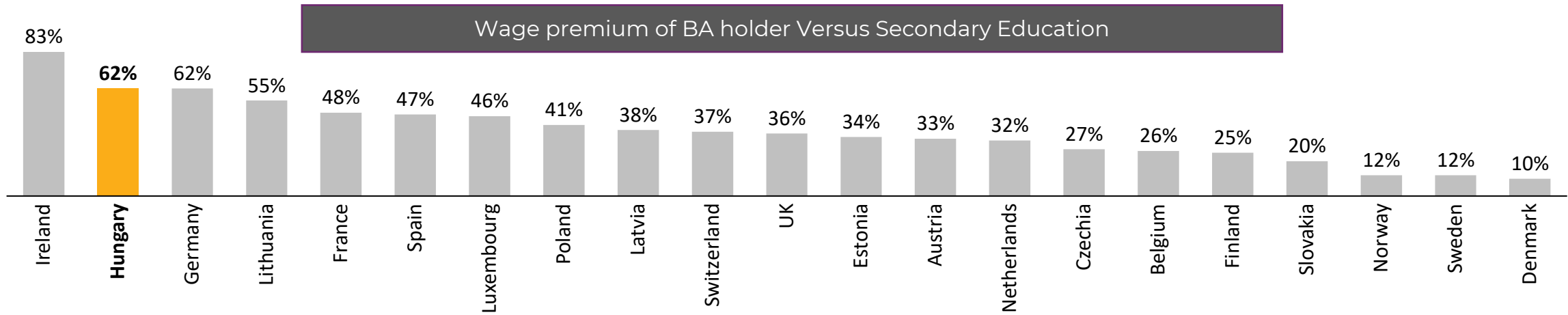
- Hungarian population is around 9.8 million.
- Demographic trends are comparable with other CEE countries, stable decrease of population is expected due to low fertility rate.
- Average number of 18-year-olds is expected at around 96.6k p.a. over the next decade.



Our Market | METU's Addressable Markets (Domestic, ctd.)

Payoffs to Higher Education Are High, and Highest in Hungary

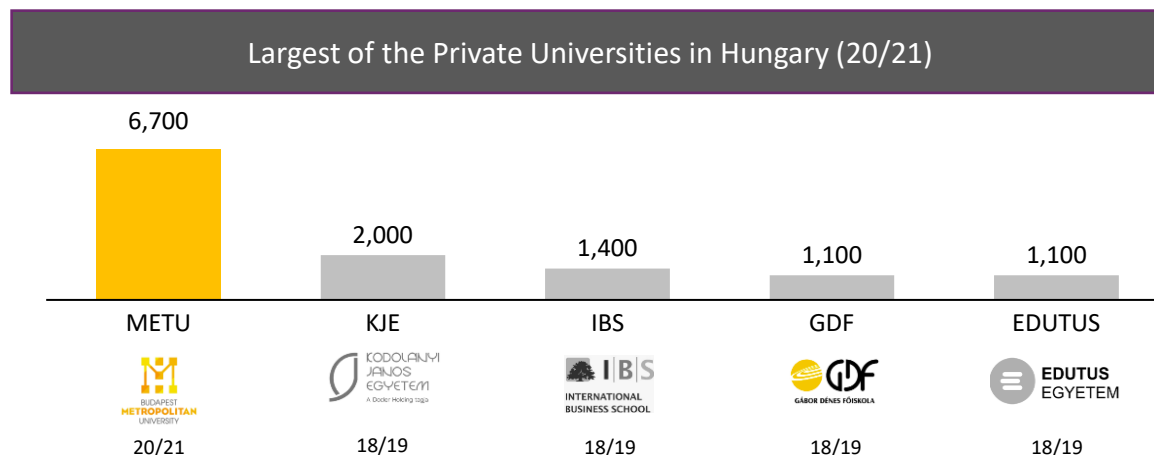
- Investment in self-financed higher education exhibits strong returns in Hungary, boosting METU's economics.
- Economic turmoil and job uncertainty in the wake of the pandemic reinforces the propensity to invest in Higher Education.



Our Market | METU, The Leader Among Hungarian Private Universities

Clear Leader Benefiting from the Stable Environment for Private Universities

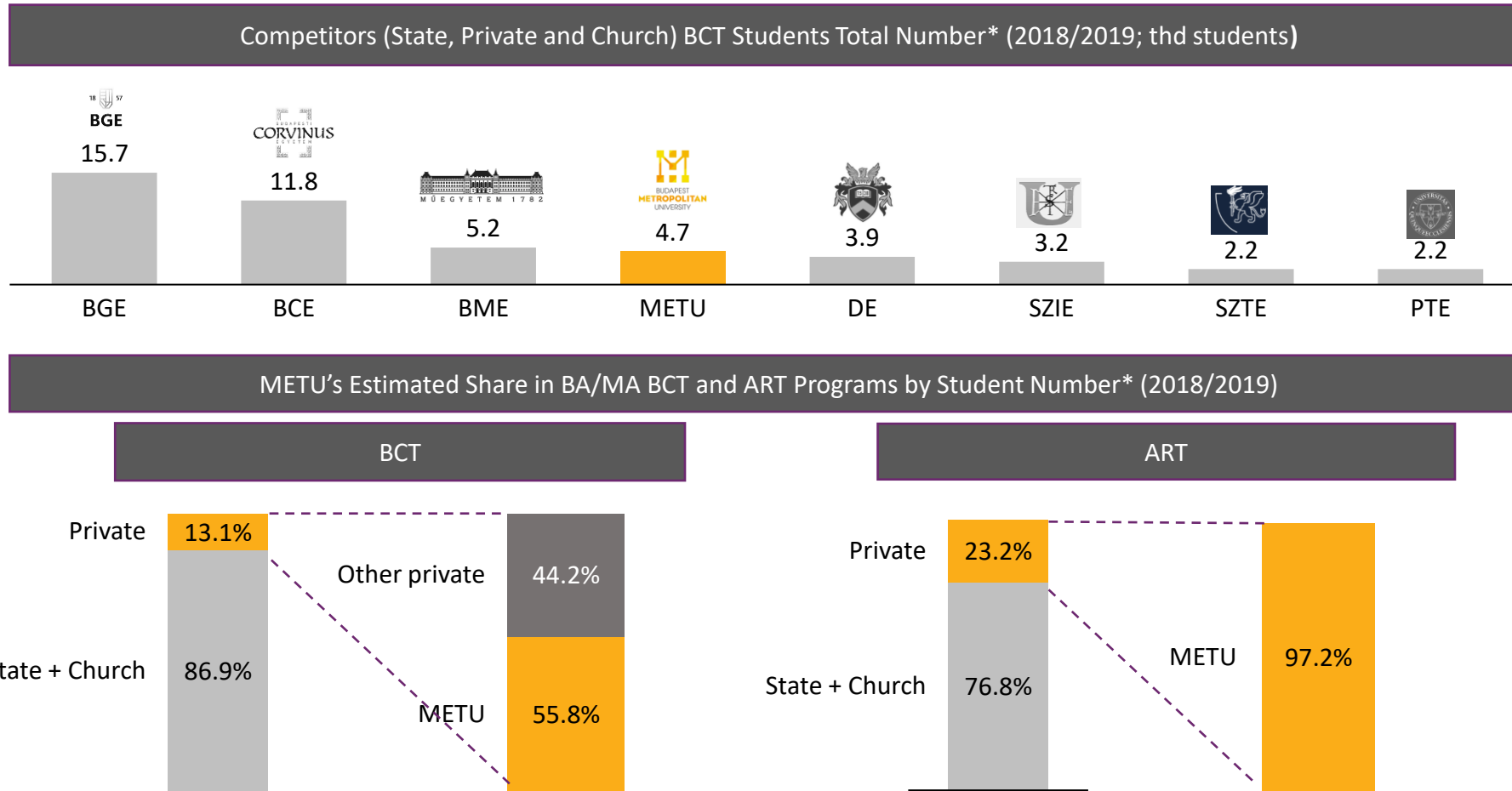
- There are 63 private and public universities in Hungary.
- There are two complementary sources of financing:
 - MA programs are state-funded on equal terms at both public and private schools;
 - BA programs are state-funded only at public schools; however in practice many students pay tuition fees.
- During the pandemic, the state expanded its offer of 0% student loans, available to both public and private students.
- Current government policy leans towards privatization of select state-owned universities.
 - This strengthens and stabilizes the favourable environment for the private education segment;
 - Largest universities in BCT (BGE, BCE) and ART (MOME) already transformed to non-profit foundations
 - The government's ambition is to reinforce their status of elite universities with international reach.



Our Market | METU, Overall Position in BCT and ART

In Its Chosen Faculties, METU is the Clear Market Leader Among Private Universities

- METU competes successfully with the most-renowned universities in the country.



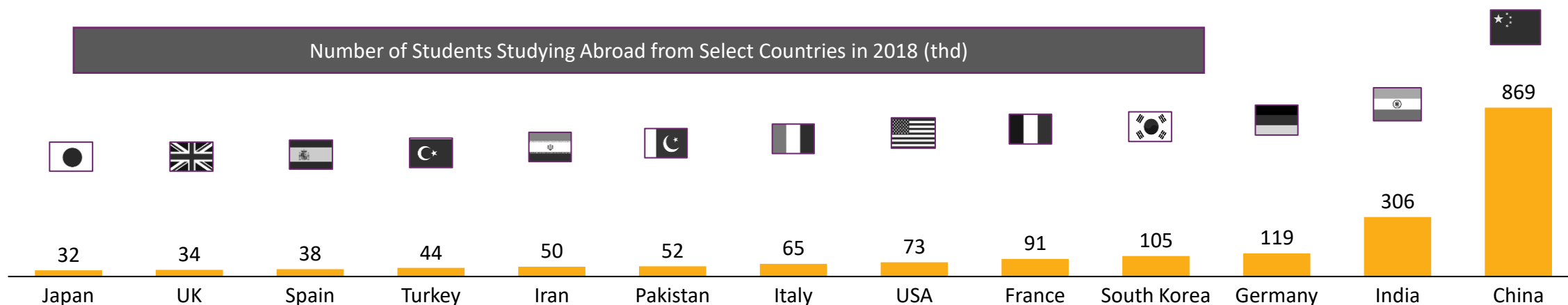
*LF calculation based on oktatas.hu (with METU numbers for 2020/2021)

BGE – Budapest Business School, BCE – Corvinus University of Budapest, BME – Budapest University of Technology and Economics, DE – University of Debrecen, SZIE – Szent Istvan University (Gödöllő, Budapest), SZE – University of Szeged, PTE – University of Pécs

Our Market | METU's Addressable Markets (International)

Global Middle Classes Attracted by European Quality Education and Degrees

- Growing middle classes in developing economies are seeking EU degrees and professional opportunities.
- Despite the COVID pandemic, we see long-term trends of improving mobility, as cheap flights, available accommodation and internet availability lower barriers to move, supporting prospects for CEE universities such as METU.
- Cost-conscious groups may not be able to afford studying in Germany, France or Switzerland, but may consider booming 'new' EU members, like Hungary, with value-for-money educational offering and proximity to the labour markets of 'old Europe'.
- Central Europe is becoming increasingly attractive for students and investors from China due to, inter alia, the Chinese Silk Road Initiative. The announced opening of the Fudan University campus in Budapest (in 2024) is a tangible effect of that.
- Brexit and the ensuing increase of tuition fees for EU students in UK also opens up opportunities for METU.



Thank you for your attention!

