


Accelerate Your Strategic Priorities via M&A

Higher Education Webinar

September 3, 2020



© 2020 Huron Consulting Group Inc. and affiliates.



This summer, 21% of CBOs indicated that their institution should *“use this period to invest and grow”* and 47% said they should *“use this period to make difficult but transformative changes in its core structure and operations”*

[Inside Higher Ed, August 2020]



Panelists:

- **Barbara Brittingham, Ph.D.**
President (Retired) of New England Commission of Higher Education [NECHE]
- **David J. Chard, Ph.D.**
Dean ad interim and Professor, BU Wheelock College of Education and Human Development
- **Louis Soares**
Chief Learning & Innovation Officer, American Council on Education [ACE]
- **Laura Marcero**
Managing Director, Huron
- **Peter Stokes, Ph.D.**
Managing Director, Huron

Financial Realities Point to Consolidation

Higher Education's Financial Realities in 2020

Declining revenue streams and escalating cost structures
Moody's, S&P, and Fitch Ratings Sector Outlooks: "Negative"

5-20%

student enrollment declines
expected for many colleges
in fall 2020

5-13%

expected declines in net tuition
and auxiliary revenue
per student in fiscal 2021

650+

institutions with enrollment declines
of 5% or more in the five years
prior to the pandemic

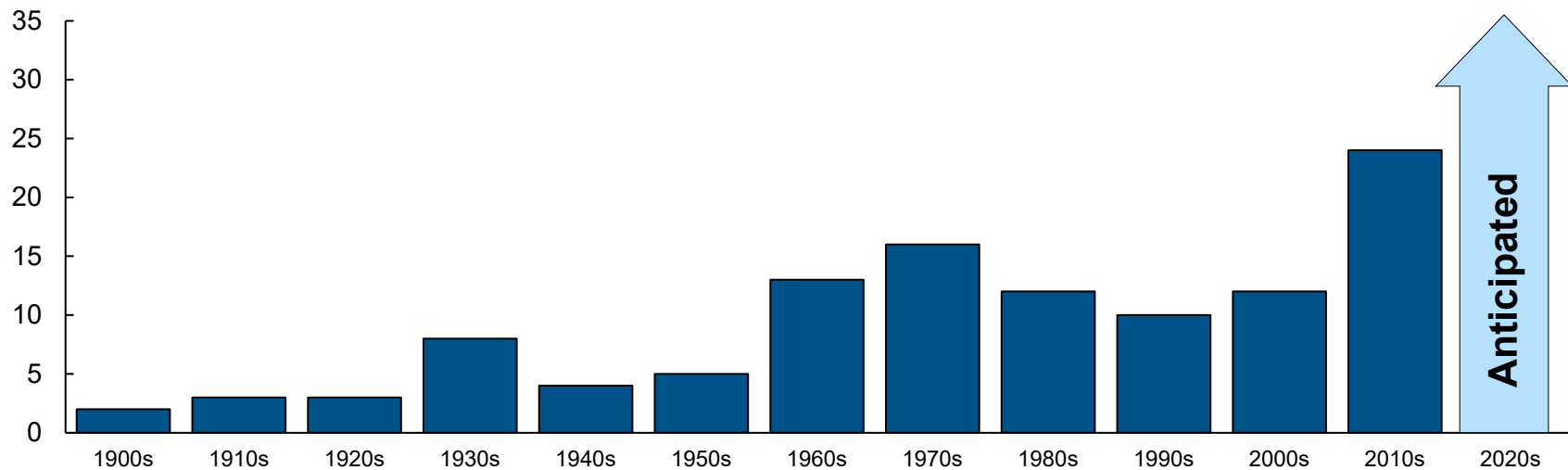
11

institutions announced plans to
close or declared exigency
between mid-March and mid-July

*U.S. higher ed enrollments declined for an 8th consecutive year
last year as the number of high school graduates has stagnated—
and more declines are expected, especially after 2024.*

Restructuring Activity in Higher Education

Higher Ed Mergers by Decade



Source: 2017 TIAA *Mergers in Higher Education* (Higher Education Mergers Blog; Parthenon-EY Analysis)

Financial and Enrollment Pressures Leading to Anticipated Closures, Mergers, and Consolidation

- Heightened fiscal and enrollment uncertainty **exacerbated by the coronavirus**
- **Demographic declines** in high school graduates and traditional higher ed enrollments
- Shifts to **non-traditional approaches** (e.g., certificate programs, Big Ten Academic Alliance)
- **Waning public support** for long-standing higher education models

Drivers and Obstacles to Consolidation

Drivers

- Need for **new student pipelines**
- **Demographic declines** and waning public support for traditional higher ed models
- **Market demand** for new academic pathways
- **Assets available** (e.g., facilities and endowment funds)

Drivers
for
Consolidation

Higher Education M&A, Partnerships, and Other Consolidation

Obstacles
to
Consolidation

Obstacles

- **Entrenchment** in existing models
- **Shared governance**
- **Accreditation & Title IV** requirements
- **Culture** and social contracts
- Ability to **stretch operating deficits**
- **Complex fund flows** and operations
- **Lender relationships**
- Board members and other **constituency groups**

Poll Question – Assess Readiness

Does your college or university have a current position with regards to its approach to M&A?

- a) Yes, we are looking for growth through M&A**
- b) Yes, we need to partner with a healthier institution**
- c) We are committed to moving forward without M&A**
- d) TBD or other**
- e) N/A (e.g., I am not with a college or university)**

Poll Results – Assess Readiness

Opportunity Criteria Framework

In considering a strategic venture, institutions should identify and prioritize strategic and operational criteria to evaluate the feasibility of prospective opportunities.



Example Strategic Criteria

- Brand Enhancement
- Stakeholder Landscape
- Governance
- Quality of Education
- Geographic Reach
- Academic Programs
- Faculty Flexibility
- Student Enrollment

Example Operational Criteria

- Material Resources
- Financial Resources
- Financial Position
- Financial Forecast
- Debt Burden
- Intangible Assets
- Technology Infrastructure
- Contingent Liabilities

Methodical Approach to M&A

Phase I	
 <p>Institutional Assessment and Scenario Development</p>	<ul style="list-style-type: none"> Establish institutional goals and <u>assess readiness</u> Define <u>strategic and operational criteria</u> for identifying and assessing opportunities Develop and evaluate <u>potential scenarios</u> using the strategic and operational criteria
Phase II	
 <p>Opportunity Analysis and Roadmap Selection</p>	<ul style="list-style-type: none"> Identify and analyze <u>specific partners or targets</u> Build leadership consensus for <u>key decisions</u> and confirm roadmap (e.g., term sheet and due diligence) Prepare a detailed <u>plan design</u> (e.g., contractual details) and develop a communication plan <u>Implement</u> the strategic venture

External Roles

- *Accreditors*
- *Capital and debt advisors*
- *External counsel*
- *Government regulators*
- *Operational integration experts*
- *State and municipal officials*
- *Strategy and due diligence advisors*
- *Other advisors*

A photograph of a man and a woman sitting together, looking at a smartphone. The man is on the left, wearing glasses and a dark shirt, pointing at the screen. The woman is on the right, smiling and looking at the phone. The entire image is covered with a semi-transparent blue filter. The word "Discussion" is written in large, white, sans-serif font across the center of the image.

Discussion



As context for our M&A discussions, the most pressing issues for presidents today are:

- * Enrollment numbers
- * Fall term plans
- * Long-term viability of the institution
- * Furloughing or reducing salaries
- * Short-term financial viability
- * Laying off faculty and/or staff
- * Mental health of students

[ACE Survey of University Presidents, May 2020]

Lessons Learned

Accreditation perspectives

Questions for Barbara Brittingham:

- How would you describe the roles of Board members and other key constituencies for the acquiror and acquiree in a merger or acquisition?
- When contemplating a consolidation with another institution, how should leaders think about what's important to preserve?

Illustrative Case

Wheelock-BU merger

Questions for David Chard:

- What were the drivers for Wheelock to explore an M&A arrangement?
- What do you see as notable obstacles to a merger; and how did Wheelock overcome those obstacles?



Questions for Discussion

THANK YOU to today's panelists:

- **Barbara Brittingham, Ph.D.**

President (Retired) of NECHE

- **David J. Chard, Ph.D.**

*Dean ad interim and Professor, BU Wheelock
College of Education and Human Development*

- **Louis Soares**

Chief Learning & Innovation Officer, ACE

Huron Contacts:

- **Laura Marcero**

*Managing Director, Huron
lmarcero@huronconsultinggroup.com*

- **Peter Stokes, Ph.D.**

*Managing Director, Huron
pstokes@huronconsultinggroup.com*

