

INDUSTRY SNAPSHOT

Technical and Vocational Education

A snapshot of the key statistics and current industry performance in the technical and vocational education sector.

April 2016

KEY STATISTICS

 Revenue **\$8.9b**

 Profit **\$569.5m**

 Profit margin **6.4%**

 Annual growth
(2011–2016) **3.0%**

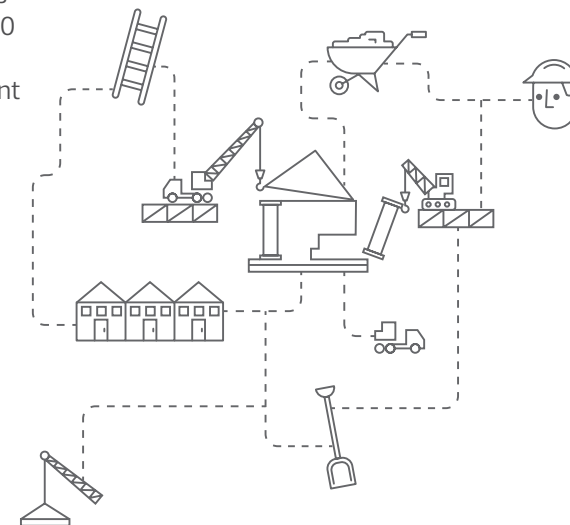
 Projected growth
(2016–2021) **2.2%**

INDUSTRY SNAPSHOT: TECHNICAL AND VOCATIONAL EDUCATION

Government bodies continue to closely monitor the sector for compliance with accreditation and RTO requirements. Government action is being taken to increase protection for students and strengthen regulations.

Latest industry developments

- The Standards for Registered Training Organisations 2015 replaced the Standards for NVR Registered Training Organisations 2012 as regulatory standards for training providers and regulators in 2015. The Standards are aimed to ensure nationally consistent, high-quality training and assessment across Australia's vocational education and training (VET) system. The Australian Skills Quality Authority is also using the Standards to protect the interests of all students in the VET system.
- The Higher Education Support Act 2003 was amended by the Higher Education Support Amendment Act 2015 with new measures enacted commencing 1 January 2016. The amendments will strengthen the assessment criteria for, and ongoing scrutiny of, all training providers, and establish increased protections for students.
- Evocca College recently announced it will shut 17 of its 44 campuses and will terminate 220 of its existing 770 employees. Evocca's CEO Craig White stated the restructuring was necessary due to the more stringent requirements imposed by government bodies.
- Vocation Limited was placed into liquidation on 4 January 2016. Vocation, once with a market capitalisation in excess of \$750 million is the first listed training provider to be placed into external administration.
- Australian Careers Network Limited (ACNL) entered into voluntary administration on 22 March 2016 after losing its claim against the government for \$40 million in outstanding VET payments, which adversely impacted ACNL's ability to continue as a going concern.

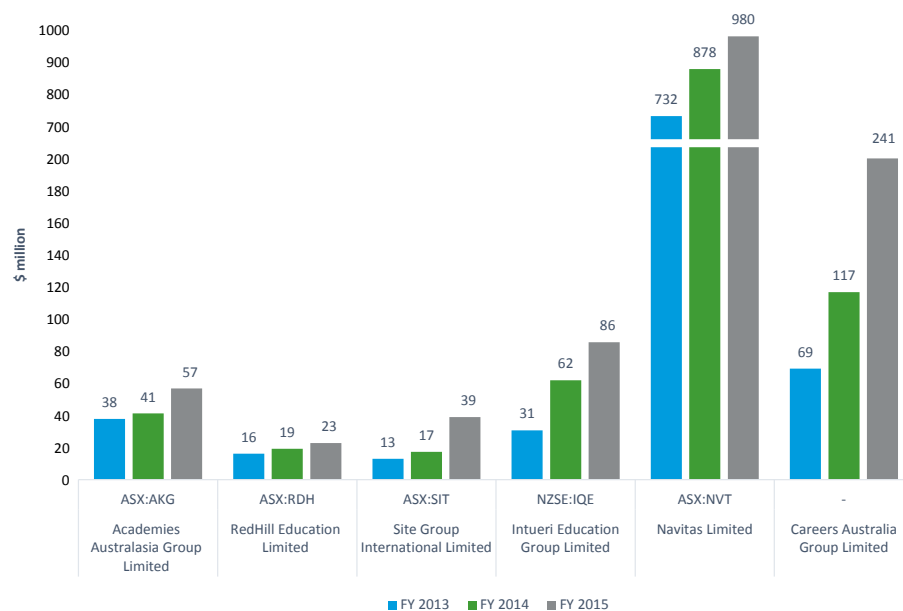


Key player analysis

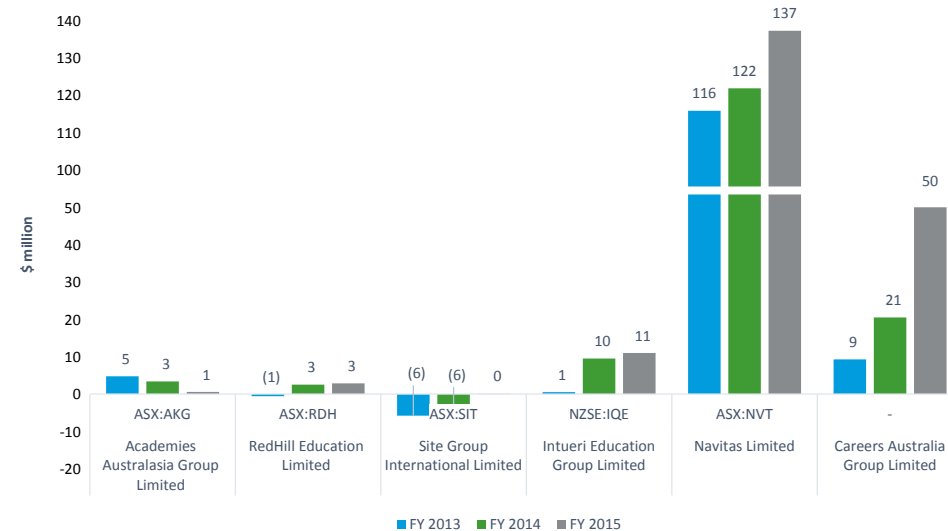
Financial snapshot (LTM)	Academies Australasia Group Limited	Red Hill Education Limited	Site Group International Limited	Careers Australia Group Limited	Navitas Limited	Intueri Education Group Limited
Revenue (\$m)	57	24	54	241	1,019	82
NPAT %	(4%)	4%	10%	14%	8%	(53%)
EBITDA %	(2%)	11%	10%	23%	17%	24%
EBIT %	(4%)	7%	6%	21%	14%	12%
ROCE %	(3%)	9%	5%	36%	26%	9%
Debt/Capital %	33%	1%	10%	35%	35%	113%
Market capitalisation (\$m)	14.7	24.2	120.0	N/A	1,862.1	36.9
Market capitalisation / NTA	(3)	4	11	N/A	(10)	(1)
Market capitalisation / NA	1	2	3	N/A	8	(7)

Source: Capital IQ

Sector revenue



Sector EBIT



Listed industry players have achieved revenue growth in recent years. However, profitability has been mixed. Future revenue growth will need to be achieved while adjusting to a stricter regulatory environment and intensifying competition from higher education providers.

CURRENT INDUSTRY PERFORMANCE

- Industry profitability remains volatile due to fluctuations in demand and changes in government policies and public funding.
- Revenue growth has been constrained by policy changes which had the effect of intensifying competition from universities and other higher education providers. E.g. the uncapping of university places and amendments to student visa arrangements have shifted students towards universities.
- Government funding increased over the past five years, however at a slower rate than historical levels.
- A shift to a demand driven funding system led to an increase in the number of private providers in the industry.
- The decline in the Australian dollar has contributed to increased levels of international students accessing vocational courses.
- Governments remain committed to VET reforms, taking stricter measures aimed at increasing training quality and the industry's efficiency and transparency.



KEY DRIVERS

- Government policies
- Public funding
- Regulation
- Number of students/enrolments
- Labour market
- The Australian Dollar (AUD)

INDUSTRY OUTLOOK

- Performance over the next five years will be heavily dependent on changes in government policies, regulations and funding policies.
- Public funding is expected to continue growing in line with domestic enrolments.
- Governments' commitment to industry reforms is anticipated to improve performance and conduct of providers which will help increase student numbers.
- Intensifying competition in the job market among job seekers and stricter work qualification requirements are expected to underpin forecast growth in enrolments across the sector.
- However, achievement of revenue growth for many individual providers will likely be difficult due to continuing competition from universities and other higher education providers.
- Government investigations, legal proceedings and stricter regulations are expected to result in providers exiting the industry as a result of non-compliance. Increased regulatory burden is also likely to drive industry consolidation.
- Profit levels across the industry are expected to come under pressure over the next five years, as providers adjust to the increased costs associated with the tougher regulatory environment.
- Internal competition among VET providers is highly likely to increase. To maintain or increase competitiveness, providers will have to be flexible in meeting the changing market needs and be able to provide students a variety of high quality study options and facilities.
- Opportunities exist for VET providers who are able to form strategic alliances either among themselves or with universities.

TRANSACTIONS

- There has been significant consolidation in the sector over the last few years, with entities embarking on roll up strategies prior to and after listing.
- The average EV/EBIT multiple paid in recent transactions was 3.9x (excluding Online Courses Australia Group Pty Ltd).
- M&A activity continued to be a feature of the sector in 2015 despite some high profile difficulties experienced by some industry players.

Acquisitions

Announcement date	Target	Acquirer	Stake acquired %	Implied EV \$m	EV/EBITDA	EV/EBIT
19-Aug-15	Celtic Training & Consultancy Pty Ltd	iCollege Limited	100%	2.3	NA	3.1x
15-May-15	University of Canberra College Pty Ltd	Navitas Limited	51%	9.6	NA	NA
29-Apr-15	Wizard Corporate Training Pty Ltd	Australian Careers Network Limited	100%	0.9	2.3x	NA
19-Mar-15	Endeavour Learning Group	Study Group Pty Ltd	100%	75.0	NA	NA
16-Mar-15	The Australian College of Applied Education and Australian School of Management	Careers Australia Group Limited	100%	15.0	NA	NA
13-Jan-15	Phoenix Institute of Australia	Australian Careers Network Limited	100%	2.3	3.9x	NA
04-Dec-14	Academy Group NZ Limited	Intueri Education Group Limited	100%	4.6	4.0x	NA
20-Nov-14	Transformations - Pathways to Competence and Developing Excellence Pty Ltd	Academies Australasia Group Limited	100%	1.3	1.3x	NA
27-Jun-14	Spectra Training	Academies Australasia Group Limited	100%	15.8	NA	3.8x
06-Jun-14	Endeavour Learning Group	Vocation Limited	100%	84.0	NA	6.5x
21-May-14	Real Institute	Vocation Limited	100%	54.0	NA	5.0x
07-May-14	Captain Cook College	Site Group International	100%	9.8	NA	3.0x
26-Mar-14	Online Courses Australia Group Pty Ltd	Intueri Education Group Limited	100%	6.3	NA	15.6x
26-Mar-14	Competent Project Management Pty Ltd	Site Group International	100%	4.3	NA	2.0x
Average (ex. Online Courses Australia Group Pty Ltd)				20.4	2.9x	3.9x
Median (ex. Online Courses Australia Group Pty Ltd)				7.9	3.1x	3.8x

Source: Capital IQ

IPO ACTIVITY

Recent vocational education IPOs listed at an average EV/EBITDA multiple of 9.2x. However, since listing, Intueri has experienced a share price decline of 81%, Vocation Limited has been placed into liquidation and Australian Careers Network Limited entered into voluntary administration.

Recent IPO activity

Company	Listing date	Proceeds raised \$m	Market cap at listing \$m	EV at listing \$m	EV/EBITDA at listing	EV/EBITDA current	Offer price \$	Current price \$	Share price movement since listing
Australian Careers Network Limited	11-Dec-14	54.4	142.3	130.6	5.1x	N/A*	1.70	N/A*	N/A*
Intueri Education Group Limited	22-May-14	57.5	202.2	218.9	12.0x	4.4x	2.18	0.37	(83%)
Vocation Limited	09-Dec-13	253.3	378.0	366.5	10.5x	N/A**	1.89	N/A**	N/A**
Average		121.7	240.8	238.7	9.2x	4.4x			(83%)
Median		57.5	202.2	218.9	10.5x	4.4x			(83%)

* Company is currently in voluntary administration

** Company is currently in liquidation

Source: Capital IQ

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