Partners in time: Private equity, ISP and playing the long game

How and why Partners Group has defied buyout industry norms with its protracted ownership of global schooling giant ISP

Private equity, depending on who you ask, has a coloured reputation in the context of education. The industry-standard investment horizon of three-to-five years is deemed by many as ill-suited to the commercial needs of education companies, especially those of a certain scale. Large school groups are often cited as a case in point. "It takes a long time to grow already mature K12 businesses and reap the returns, especially if you're building schools, not just buying them," says one veteran advisor in the field. "Private equity often thinks it can get in and get out in under five years. The reality is, it's more like a seven-to-10-year play – minimum," the person adds, their words reminiscent of a line from Warren Buffet: "If you aren't willing to own a stock for 10 years, don't even think about owning it for 10 minutes."

There are exceptions to the private equity rule book, though, one of which backs a prominent consolidator in the K12 sector. Partners Group is a Swiss buyout firm managing more than $100 billion of assets. In 2013, Partners formed International Schools Partnership (ISP) through a £200 million investment. What was a mere seven years ago a start-up with no assets is now, it claims, the world's fifth-largest for-profit school operator (by measure of enrolments) and employer of 7,000 staff, who work at its 50 institutions in 15 countries. This year, ISP achieved a valuation just shy of €2 billion.

Having built a global education empire worth billions of euros in a relatively short space of time, many buyout groups would happily sell the company, take the cash off the table and move onto the next deal. So it was somewhat unsurprising that, in February, *EducationInvestor Global*'s exclusive report revealing that Partners was seeking a minority investor for ISP was met with curiosity among market observers. Many had assumed that, after seven years of ownership, an outright sale would be pursued. (*EducationInvestor Global* revealed last September that this was under consideration by Partners at one point.)

Without the assistance of bankers, Partners secured a minority investor: OMERS Private Equity, the investment arm of the eponymous Canadian pension fund. OMERS bought a 25% stake in ISP, fending off competition from underbidders that included French investment firm Wendel Group and ICG Infrastructure, sources said. ISP's management owns 2% of its equity. Partners, meanwhile, retained 73% ownership

Andrew Deakin, Partners Group

through its private equity funds. By the time Partners exits ISP, which it says it won't for five-to-seven years, it will have held the company for at least 12 years.

"We're a long-term investor," says Andrew Deakin, managing director of private equity services at Partners Group, who also sits on ISP's board. "Given the sector [in which ISP operates], you need to be patient if you're going to be transformational.

"There are thousands of schools out there in need of capital. I think we can triple the size of the group to 150 schools throughout our next holding period."

ISP became more than just a holding company in 2014 following its acquisition of Colegios Laude, a cluster of seven schools in Spain that served as the foundations on which the organisation has been built. From there, the company acquired schools in the United Arab Emirates

This article was first published online on 09 September 2021
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Credit: International Schools Partnership

and Mexico, before moving onto other markets including the UK, US, Malaysia and Qatar. Its most recent acquisitions were of schools in Switzerland and Italy. In total, the group has purchased 46 schools in 25 separate transactions and built four, under what are known as greenfield developments. ISP targets "good schools that we think can be improved", says Deakin, "that are bigger in size as this ultimately enables you to invest more in teaching, infrastructure and pupil experiences". ISP has deployed "more than €200 million" on capital expenditure – excluding M&A-related costs – under Partners' ownership, though Deakin declines to specify how much of this figure is debt.

Another reason private equity has earned a bad rap in some corners is over its habit of loading up target companies with debt to fund its purchases of equity; this mechanism gave rise to the term 'leveraged buyout'. Instead of recording debt on their own balance sheets, private equity houses 'lever up' targets, whose responsibility, once acquired, it is to pay off loans made by banks and private debt funds. This structure can quickly turn sour if the portfolio company, for whatever reason, cannot meet repayments and breaches its 'covenants' with creditors.

Deakin is guarded over ISP's finances, including leverage, saying such information is "confidential". Public filings offer insights, however. For the year ending 31 August 2020, ISP recorded turnover of €277 million – €9.6 million of which was generated by UK operations – and adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) of €49.3 million. Borrowings totalled €1.2 billion. This figure encompassed bank loans totalling €569.3 million; an acquisition facility of €260 million, repayable in 2024 with interest of €2 million; and €146.8 million of bonds listed on Guernsey's stock exchange, among other items. Interest rates on bank loans and bonds range from 2.25% to 6.5%. Deakin, who prior to Partners spent nearly 12 years with mid-market buyout group Phoenix Equity, points out that ISP "never had any debt for the first three-to-four years". In its early days, ISP's acquisitions were financed "purely with Partners funds", he adds. Partners is unable to disclose the providers of ISP's debt.

Companies House records also show how much ISP spent on schools, as well as the extent to which their finances have improved. In November 2019, ISP paid €11 million for Inversiones La Colina, an institution in Columbia, whose revenue grew to €3 million from €1.8 million over the 12 months to 31 August 2020. St George's College, Peru was purchased the following month for €65.6 million; its revenue jumped to €12 million from €6.7 million, and its profit to €3 million from €1.1 million. In February 2020, ISP acquired Colegio Internacional Aravaca in Spain, for €7.5 million; its revenue swelled to €3.8 million from €1.4 million and it reported profit totalling €331,000, up from a loss of €61,000. Filings show that, in November 2020, €27.5 million was drawn from an acquisition facility to fund ISP's takeovers in Canada. ISP majority-owns all of its schools, except those in the United Arab Emirates, of which it controls 49% due to domestic regulations around foreign investment.

Deakin is keen to move on from financials – always a sensitive subject in this sector – and discuss others ways in which ISP has grown, aside from debt-funded deals. "We've grown the capacity of every school we've bought," he says. "Even throughout Covid, we've grown enrolments. This year, we expect to grow enrolments by 6-8%." Organic enrolment expansion underpins annual profit growth of 12-17%, says Deakin, a rate which, in turn, "drives a strong enterprise valuation". Sources said that, when Partners marketed ISP earlier this year, it put the firm's run-rate EBITDA at €100 million; its enterprise value was €1.9 billion, or 19-times this figure.

To be sure, M&A – not organic development – has been the driving force behind ISP's growth. Partners tapped into a highly fragmented global market and pursued a relatively aggressive buy-and-build strategy, rolling up schools under one umbrella to exploit economies of scale and unlock synergies. As is always the case with private equity, the end game is to create a business worth more than the sum of its parts. (Despite being asked several times, Deakin declines to offer a range of price-to-earnings multiples at which ISP has acquired schools: "We've paid a very broad range; we don't have a rule of thumb.") ▶

Credit: International Schools Partnership

ISP is not unique in its approach. Its main rivals – Cognita, GEMS Education, Inspired, Nord Anglia and US-based Spring Education Group – all have private equity funding at their disposal to hoover up individual schools, small groups and larger chains. ISP is, however, one of the fastest-growing international school groups, surpassed only by Inspired, which since launching the same year, 2013, has bought more than 70 schools worldwide. Spring Education Group, founded in 2012, operates more than 55 schools. Cognita, GEMS and Nord Anglia each control more schools than ISP, but all have been in operation for well over a decade.

Generally speaking, ISP targets the mid-market in terms of price point, offering what Deakin describes as "premium quality at an affordable price". "Very few" of ISP's schools cater to students of ex-pat families, he adds, noting that 80-85% of students are locals.

ISP was launched with five industry heavyweights who had deep experience in developing private school groups. Ryan Robson, who founded mid-market private equity house Sovereign Capital and led World Class Learning prior to its sale to Nord Anglia, was ISP's founding chief executive. Its original chairman Paul Brett once led Alpha Plus Group. Former operations director Anita Gleave – who is now chief executive of Synova Capital-backed Chatsworth Schools – also worked for Alpha Plus and World Class Learning. Charles Robinson, ISP's first director of business development, used to be Cognita's strategic development director.

ISP is now led by chief executive Steve Brown, another former employee of World Class Learning, where he was chief financial officer. Brown oversees nine corporate development staff worldwide, whose job it is to identify deals in dozens of countries. So far, "the vast majority" of transactions, says Deakin, have been executed off-market, meaning ISP has been able to avoid competitive auction processes run by corporate financiers and the inflated valuations they often entail. Still, ISP has participated in competitive advisor-led processes. According to sources, ISP earlier this year tabled a bid for Eaton House, a cluster of premium preparatory schools in London owned by Sovereign Capital (the investment house Robson founded), but lost out to buyer Dukes Education, a UK-based operator.

Since the Covid-19 pandemic upended global economies, ISP has been "seeing a higher number of opportunities" amid distress to acquire institutions and capture additional market share in localities in which schools have closed down. Pricing is just one metric Partners takes into consideration when examining targets in collaboration with ISP's corporate development staff. "What's equally important is whether the school is growing, what its catchment area is like and whether it can be developed into a 'school of choice'," says Deakin. "We are looking for schools which fit our ethos of providing high-quality bilingual education to a broad range of pupils. There are lots of opportunities for us given this is what many parents want."

Partners is not the only private equity group playing the long game in the global K12 sector. Baring Private Equity Asia has majority-owned Nord Anglia, one of the world's largest international school operators, since 2008. Cognita's majority shareholder, Jacobs Holding, is a Swiss family office; its chief investment officer told *EducationInvestor Global* in a 2018 interview that it plans to remain invested for at least a decade. Inspired Education was most recently capitalised last April, when Singaporean sovereign wealth fund GIC acquired a minority stake that it plans to hold for at least seven years.

Partners opted to bring OMERS, which controls one seat on ISP's board, into the fold "for a number of reasons", says Deakin. "They share Partners' ethos, we like the way they invest, and they share the strategic view for ISP", which Partners will continue to spearhead, he says. "They've provided long-term capital." This will be used to fund further acquisitions, of which there are several in the pipeline, says Deakin, in addition to "another three or four" greenfield developments. (OMERS was an underbidder for French early years giant Babilou, as revealed by *EducationInvestor Global* last year, which was acquired by infrastructure-focused buyout group Antin.)

Partners and OMERS have crossed paths prior to ISP. In 2017, Partners bought business software and outsourcing giant Civica from OMERS for more than £1 billion. (MergerMarket recently reported that Partners had abandoned an attempt to sell its stake in Civica, which has an education division, after prospective bidders "baulked" at the asking price of £2.7-£3 billion.)

When the time comes for Partners to exit ISP, "given the quality of the business, I feel we will have a broad range of options", says Deakin. These could include a sale to a private equity or institutional investor, such as a pension, sovereign wealth or infrastructure fund. Partners could opt to float the business, as Baring did with Nord Anglia in 2014, before taking it private again alongside minority investor CPPIB, another Canadian pension fund, just three years later. (Inspired Education is weighing an initial public offering, as revealed by *EducationInvestor Global* in May.) Or, it could join forces with a rival. *EducationInvestor Global* last year reported that Partners had held discussions with Cognita and its shareholders about a potential mega-merger – something Deakin will not be drawn on.

"I think all three options will be open," says Deakin. "There's still a lot of value creation to come. ■