

GLOBAL SERVICES IN EDUCATION

SHOULD YOU BUY THAT SCHOOL?



The appetite for investment in schools worldwide seems unabated. But should you buy that school?

There are **five** key elements that should be used to gauge the viability of a school purchase.

1. FINANCIAL POSITION
2. EDUCATION MANAGEMENT
3. MARKET GROWTH POTENTIAL
4. FACILITIES
5. VALUATION



FINANCIAL POSITION

The strength of a school's balance sheet can be evaluated by three investment-quality measurements.

- Working Capital or Short Term Liquidity
- Asset Performance
- Capitalisation Structure

Schools can be evaluated the same way. In particular, if a school has substantial positive working capital, then it should have the potential to invest and grow. When a school has low working capital it likely indicates a risk of distress.

There is a wide range of data and information that can be reviewed to determine the operational and financial health of a school. Should you buy that school? We recommend investigation into the the following key areas:

Operating Budget

Is the current or most recent operating budget on track? Were there any deviations from the existing budget and spending plan? Where will the school end up financially at the end of the current year? Will the board need to create a new budget, or is the current budget sound?

Operating Cash Flow

What is the anticipated cash flow for the school over the next 12-18 months? What will be the general direction and trajectory of the current cash position? Will the school require additional investments of cash, and for how long?

Admissions

What does the admissions pipeline look like? What are the trends and what does data tell you about enrolment acceptances as well as the yield/return from each enrolment? Is the income stream from enrolments sustainable? Are there any positive or negative levers caused by current or new marketing initiatives? What are the sales conversion rates? What is the marketing cost per enrolment and what do trends tell you over time?

Debt

How much debt exists and how much should the school take on? In what ways does debt help the school, and in what ways does it create constraints? What is the capacity of the school to repay debt? How might the school tolerate a sharp decline in income or required increase in expenditure.

FINANCIAL POSITION



Facilities & Physical Assets

Does the school set aside funds annually for depreciation and maintenance of the school facility? Are the funds enough and does the plan consider minor and major capital replacement? Does the school have a strategic plan that considers the changing nature of technology, teaching methodology, trends and new initiatives? Does the plan match the quality and nature of the facilities and assets?

Attrition, Student Turnover & Projections

How much attrition is there at different grade levels throughout the school? What do these trends tell you and how is this data used to determine decisions for extra, or reduced, classes each year. Is the enrolment projection valid and based on sound data, research and analysis? Is it defensible by data rather than subjective opinion.

Financial Support, Scholarships & Aid

What percentage of revenue is affected by non-fee paying or reduced-fee paying students? What is the net cost of each student? Does this match the school mission and is it balanced in terms of the budget planning process?

Tuition

How does the tuition fee structure compare to other schools and does it increase at a fair market rate annually? Does the tuition model match the demographics and socioeconomic characteristics of the enrolment catchment? What is the net cost of each student as well as break even point? Are there any factors that may change or influence this demographic including the capacity for parents to pay more, or a need to pay less?

Faculty

What are the salary package inclusions plus other expenses allocated to staff compensation, support and welfare. How does the salary package and inclusions compare to other schools? What is the age range and profile of staff? What retirements are projected in the short to medium term? What are the staff retention and turnover rates. What causes good/bad staff retention year by year.

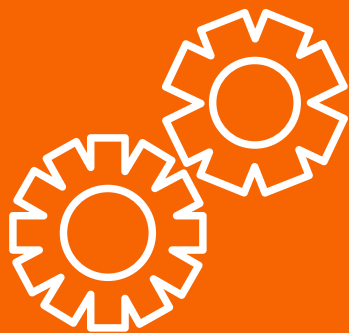
Staffing

What are the trends of teacher ratios and FTE (full time equivalent) in comparison to similar schools? What is balance between staff holding different roles including instruction, management and specialist support? What is the take up and expenditure on annual training?

Decision Making Processes (Financial)

Decisions about salaries, expenses, tuition, enrolment, and facility plans are generally put in place by a board however it is important to know how these mechanisms work. Is all information considered? Are the stakeholders relevant including both academic and business side. Politics? Yes, there will be politics in any organisation but are decisions made based on data, are they strategic and are they made beyond personality and ego. What is the history of key decision making in the past? If wrong decisions were made, what happened next?





EDUCATION MANAGEMENT

There are countless studies and research that can be reviewed about what makes a school effective. Although the debates are wide and varied the focus always ends around teacher quality and management quality. We would argue that education management quality is the number one factor that determines success because it is this team that will harness the skills and talents of great teachers and truly make a difference. Excellent management finds great teachers and keeps them. They manage the work environment and all other aspects of school operations. Should you buy that school based on **education management**?

The quality and effectiveness of school management is best determined by a comprehensive school audit or review but in summary we believe the following 8 essentials are valuable criteria:

Clear & Shared Focus/Mission

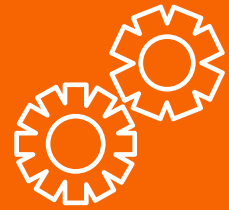
The vision and mission espoused by the school should reflect the same values reflected by operational behaviours. Schools, through marketing brochures, artefacts and decoration will claim similar values such as being “international-minded”, “holistic”, “caring”, “innovative” etc but the trick for you as an outsider is to cut through the spin and find out if they truly do that. What is it? Do they understand it? Do they do it? The key is to listen clearly to every answer and determine whether the behaviours of all stakeholders are underpinned by such values. We like to frame decision making processes by guided questions such as “will this new initiative, idea or project help us achieve a goal of being more innovative.” Or, when we approach operational challenges are we approaching this problem, and the solution, in ways that demonstrate our ability to be “innovative.” Ask specific questions but try to get a “sense” that behaviours, tone and climate reflect the values claimed by the school.

High Standards & Expectations For All Teachers & Students

Education pathways should be focussed on “distance travelled.” It should be clear that no student is anonymous and that there is a commitment to helping ALL children gradually improve. High standards don’t only reflect elite excellence. Moving a child from a “C” to a “B” is just as important as a “B” to an “A.” Similarly school is not only about grades. All behaviours should reflect high standards including both students AND staff in and out



EDUCATION MANAGEMENT



of the classroom. A tyrant Principal might claim to demand high standards but clearly demonstrate poor interpersonal behaviours and standards of decorum that are marginal. Authenticity is important. Standards of achieving that, including integrity, honesty and truthfulness are also important.

Effective School Leadership

Great leadership is about executing the schools vision and setting the tone and the culture for the school in ways that are inspiring, principled and effective.

Leadership should be as much about influence as it is about doing things well. The leader is charged with influencing a large group of people to become aligned to high standards of behaviour as well as outcomes. That takes many and varied skills. Effective leadership shines not only when things are going well, but even more so when the school, or people, are facing challenges. They're respected and not feared. They motivate people to work harder and make significant contributions to the whole community.

You will sense this in your first meeting but confirm it in your 3rd or 4th. You will also confirm it during your interactions with members of the school community in how they describe leadership, decision making and the strategic direction of the school. Strong education management will make the most difference.

High Levels of Collaboration, Communication & Professional Development

How are decisions made? How do people communicate? What do the interactions look like between stakeholders? How much time and energy is invested in developing and improving people. What systems are in place across the organisation that reflect this? There are many questions that can be asked to help you determine this and the style of answers shared will confirm, or discount, a school climate that values the contributions and collaborations of its stakeholders.

Rigorous Curriculum & Instruction

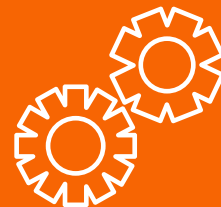
Curriculum is not rigorous just by nature of the textbooks or exams delivered or the licensing or accreditation on the door. Rigour implies reaching for a higher level of quality in both effort and outcome. A rigorous curriculum has clear learning outcomes with matching assessments. Schools should have engaging learning experiences and instructional strategies that are scaffolded or backward mapped "with the end in mind." There must be a belief, matched by behaviours, that all children can succeed. There must be a high sense of quality in terms of delivery by instructional leaders who are well qualified and committed. An assumption that school licensing and accreditation achieves this is false. It is the ongoing commitment to these licensing and accreditation standards and a mission and vision for high standards that achieves rigour.

Regular & Consistent Monitoring of Learning & Teaching as well as Accountability of Results

Clearly knowing and understanding what you are measuring is important. In schools it is essential that very clear systems are in place to analyse data in meaningful ways, then to use that data to influence practice. What is data? Well of course, it includes academic results but it also includes all the information we have about teaching and learning. A school should have systems in place to monitor and evaluate teacher performance. Information should be recorded and this data should be used to guide practice and influence ongoing support for teachers. Accountability does not have to mean "being tough." It can mean



EDUCATION MANAGEMENT



aligning all systems and understanding what matters in the pathway that begins at home, continues through the classroom with teachers, and ends with an excellent result. We can influence the significant levers in positive ways along every step of the way.

Supportive Learning Environment

In a genuinely supportive learning environment, every student feels valued, included, and empowered. This doesn't happen by accident. It is influenced by the shared focus and mission of the school and it will be reflected in the behaviours of all members of the school community.

Each student needs to know that their own personal story matters. For teachers, this means listening, and taking the time. Teachers will know where their students have come from, where they are now, and where they want to head in the future. Students will not feel anonymous. They will feel like their relationships and learning is personalised for them.

We can understand the degree to which this happens by talking to both the teachers and the students.

High Levels of Family & Community Involvement

Collaboration between parents and teachers is invaluable. School management should seem approachable and connected and genuinely value the involvement by family and community in the school. Involvement does not mean merely attendance. It should mean engagement and collaboration. So many times, parents do not feel as welcome as the signs at the entrance might profess. Parents will feel welcome when their ideas, input and contributions are taken up as an essential part of the school management philosophy.

What did you find?

You need to evaluate the quality of existing management and also review the history of management to this point in time. Is the organisational structure, leadership philosophy and management model effective?

Has there been a turnover in senior leaders? Why, why not? Will you retain or replace existing management systems? (people or structures) Is the current organisational structure working effectively and what are the levers for change that might make a difference? It is important to understand that the school must have a vision beyond the life of its current leaders. That might seem cold but your business plan cannot depend too much on only 1-2 key people. Where will the school be in 10-15 years and will the current management model achieve your goals? What drives strategic direction is a mission and vision that lives beyond the current personnel. A school vision must almost have a life of its own. Be "systems" oriented when you evaluate education management models.



MARKET GROWTH POTENTIAL



Should you buy that school based on **market growth potential**? In order to grow your school, it is imperative that you understand both who the existing market is, as well as who the new expanded market will be. It needs to be clear where the new growth can come from. If you don't know who your customers are, how will you be able to assess whether you are sharing the right messages and meeting their needs? What do they want? Where do they live? What can they afford?

Meetings with existing school leadership and the marketing team should very easily determine a clear picture of existing and potential markets. They should be able to articulate this almost as an "elevator speech." Should you buy that school based on growth potential, is a question that should have the answer to.

What Will These Questions Look Like?

The school should tailor their marketing and sales efforts to specifically reach the segment of population that will most likely join the school. It is critical that they first determine or clearly identify the primary market but they must also understand different market segments. Energies and funds can then be spent more efficiently. The school should have documented research as well as data that tracks market leads. They should be able to share conversion rates on leads and be able to justify current strategies.

Who is the Primary Market?

1. Why did existing parents choose this school?
2. Why would a new parent choose this school?

Parent Satisfaction

When parents are highly satisfied we know what the effects are:

- Retention rates are high.
- Satisfied parents who tell everyone about your school.

The overwhelming, most powerful marketing strategy in schools is word of mouth. You can't hide either good or bad practice. School management, teacher quality, safety, public relations all contribute to a strong marketing voice, delivered by reputation; your current parents.

Describe the Market Segments

Market or consumer segmentation is the process of breaking down a larger target market into smaller segments with specific characteristics. We typically divide into smaller target market segments on the basis of geographic, demographic, psychographic and behavioural characteristics.

MARKET GROWTH POTENTIAL



Geographic: Describe the market potential within 4km of the school, 8km from the school or even further. How big is the market in those locations and what are their unique characteristics?

Demographic: Potential customers are identified by criteria such as age, race, religion, gender, income level, family size, occupation, education level and marital status. Choose those characteristics of your demographic target market that relates to the interest, need and ability of the customer to join your school.

Psychographics: Schools offer a product/service based very strongly on the set of attitudes, beliefs and emotions of their target market. The desire for status, enhanced opportunities, career pathway, character and values are examples of psychographic variables. They are the factors that influence your parents decision to join the school.

Behaviourist: Schools are chosen for a variety of reasons. School management must determine what those reasons are, such as: location, brand, curriculum, loyalty, cost, university destination. It's important to understand the buying habits and patterns of your customers. Families do not rush and enrol their child in the first school they find.

Review Current Market Research

Comprehensive data should exist that drives current marketing plans. In addition to this, all leads should be tracked so that you can determine 1. Effectiveness of current campaigns or return of investment (ROI), and 2. you can refine your understanding of the market audience. This data is invaluable because it accurately describes the process that led existing parents to join the school, and others not. What are the new and emerging geographical areas? Demographics, location and price can change. An intentional marketing and enrolment plan is driven by market research which consequently drives specific strategies that will impact your school's growth. We also highly recommend a comprehensive competitive analysis.

Why should I do a Competitive Analysis?

A good Competitive Analysis allows us to not only identify competition but it allows us find the gaps in the market and also understand what other schools do well. Done properly, Competitive Analysis will give you plenty of quantitative and qualitative data to back up your own business decisions. Namely, it can help you:

- Develop and/or validate your identified Unique Selling Points.
- Ensure your school also focusses on the aspects of competitors' that their parents value the most.
- Capitalise on competitors' weaknesses parents complain about.
- Get benchmarks to measure your future growth against.
- Uncover market segments that aren't fully served by other schools but is needed by students and parents.

Perfect Imperfections

To be honest if you are looking to acquire and then improve a school you are looking for key areas that you can influence. Poor marketing strategies or decisions that are not based on hard evidence show a school not maximising potential. If management can be improved then the market will be satisfied by changes you make. Quality of teachers. Better marketing materials. Facilities. What you are looking for are things that can most easily be changed for the most positive effect. Some schools are better than others and to be honest the reasons are no huge secret.

When we advise investors on school acquisitions we are looking for "perfect imperfections". School turn arounds are not always easy but sometimes the small things can deliver very quick wins and help you make a quick start. Should you buy that school based on growth potential might also equate to "Does the school have enough challenges to fix and do I have the skills to do it?"





FACILITIES

Should you buy that school based on **facilities**? You need to be careful of the traps that might be hiding under the surface. You also may have some golden opportunities or quick-fixes that make the school more valuable than you thought.

Street Appeal & Branding

We all know that first impressions count. We believe that the schools vision and mission, its brand and identity, should be apparent as soon as possible. From the first interaction we should be clear about the message we are sending new parents. The facade of buildings, landscaping as well as signage can make a big difference. A school that describes itself as “welcoming”, “prestigious”, “safe”, “caring and supportive” can sometimes contradict itself. There can also be significant impact created by a school that invests in facility branding as well as way-finding systems.

Space Utilisation

The uninitiated may not realise this but it is impossible to achieve 100% classroom utilisation when juggling complex student schedules and classes of varying sizes at different grade levels. In practice it may be possible to achieve around 85% utilisation or higher, but only by balancing a number of different factors. You can achieve high ratios with good school design but also there is an art to scheduling strategies as well as making space purposeful. It is of course even more crucial at secondary level. You need to analyse the current space utilisation and look for ways to improve it. Increasing or maximising capacity is important. There may also be ways to expand if local laws and existing design allows.

Facility Audits

We highly recommend beginning the process with a school facility audit. This comprehensive review is the standard method for establishing baseline information about the components, policies, and procedures of a new or existing school facility. A primary objective of a facility audit is to measure the value of an ageing asset relative to the cost of replacing that asset. Thus, facility audits are a tool for projecting future maintenance costs. Facility audits are accomplished by assessing buildings, grounds, and equipment; documenting the findings; and recommending service options to increase efficiency, reduce waste, and save money. Thus, an audit provides the landscape against which all facilities maintenance efforts and



FACILITIES



planning occur. A facility audit is a data collection process, pure and simple. It should include data on all facilities, infrastructure, grounds, maintenance staff (e.g., specialised training courses attended), and equipment (including boilers and HVAC systems), floor finishes, plumbing fixtures, electrical distribution systems, heating and air conditioning controls, roof types, flooring, furniture, lighting, ceilings, fire alarms, doors and hardware, windows, technology, parking lots, athletic fields/structures, playground equipment and landscaping, and the building envelope. Other issues to consider during an audit include accessibility, clean air, asbestos, fire, occupant safety, energy efficiency, susceptibility to vandalism, and instructional efficiency. Should you buy that school based on facilities might be better phrased as are the facilities sound and can they be improved in a cost effective way?

Facility Components

Buying a school is a big investment. Before a purchase is made it is essential that a comprehensive building inspection is completed to highlight the true condition of the property and facilities and the costs required to repair them short term, or long term.

It is essential that a comprehensive and credible inspection is conducted by technical personnel capable of identifying major deficiencies in buildings and the range of school facilities. The inspection should not be based only on observations of visible and apparent condition of the school building and its components. Key areas for inspection should include:

- Structure
- Building Interior
- Grounds
- Roofing
- Plumbing
- Furniture & Equipment
- Building Exterior
- Electrical
- Documentation

Structure & Roofing

The structure of a school building refers to the main components of columns, beams, structural walls, floors, and roof structures. Many school buildings will naturally develop small cracks in the concrete columns, beams, structural walls, and floors. In most cases, this is a normal part of the structure settling in its original foundation. However it needs to be checked. Through advice from a trained professional, you may require further evaluation by a structural engineer.

Pay special attention to these aspects:

- Warping in columns, beams, structural walls, floors, and roof structure
- Rotting in wood structural components
- Rusting of metal structural components
- Roofs with damaged ridge caps or flat roofs affected by blocked drainage systems

These types of structural matters are very important to review before you buy a school based on facilities.



FACILITIES



Building Exterior

Most modern school buildings have exteriors that require little maintenance but the exterior will still need a periodic maintenance programme to protect the materials. The specifics of the programme will depend upon the materials used and their current condition. The biggest threats of the school building's exterior are water, wind, sun, and in areas near the coast, salt damage.

Building Interior

Besides paint, maintenance of interior masonry walls usually is minimal unless cracks are visible. Horizontal cracks might indicate great pressure against the wall from the outside. A vertical crack, or one that is stair step, is likely caused by differential stress along the base of the wall. It may result from simple settlement of the school building on its foundations and footings or something more serious. If there is a hairline crack where the walls join other elements, just resealing and repainting ought to do the trick.

Windows, louvres and doors should open and close easily. If they don't, investigate any substantial movement in the school building. The same issues can cause ceilings to sag. Also investigate water leaks that can cause deterioration in key structures.

Plumbing

Most of a school's plumbing has five major parts: water supply, water storage, fixtures, waste collection, and septic system. Water is provided either by a public system or a private well, and the water storage could be underground or elevated. The distribution of water in as well as the systems to distribute waste out of the building should be checked thoroughly for any fault. This also includes venting of sewer gases. All fixtures that serve the distribution system should also be in sound condition.

Electrical

The school's electrical system is somewhat similar to the body's nervous system, with a brain (electrical panel box) and nerves running throughout the school building. Inside the panel box, main power lines bring electricity into the school, and branch lines (circuits) take electrical power to other parts of the school. A technical expert should check that all systems are well maintained and that the electrical load is adequately servicing all areas of the school.

Grounds

In all areas of the school maintenance needs to keep a watchful eye for conditions that may cause tripping hazards or water drainage toward the school buildings. Any tripping hazards should be eliminated to a safe standard.

Driveways and parking lots require some degree of maintenance. Concrete or asphalt driveways may experience sinking, or the surface can crack due to settlement and water. The driveway elevation should be below the school building floor so that rain will drain away from the school building, not into it.

Particular attention should be paid to the direction of the water flow in heavy rain. Flood proofing techniques are used to reduce flood damage to the buildings by direct water away. Retaining walls should be checked for deterioration. They will be affected by excessive pressure built-up behind them, root pressure or from general movement of top soil.

Gardens and turf can require varying levels of maintenance including water. The quality, type and design should be reviewed and considered.

FACILITIES



Furniture, Fixtures & Equipment

Furniture, fixtures, and equipment (abbreviated as FF&E or FFE) refers to movable furniture, fixtures, or other equipment that have no permanent connection to the structure of a building. These items, which include desks, chairs, computers, electronic equipment, tables, bookcases, and partitions, typically depreciate substantially over their long-term use.

By keeping appropriate records and identifying valuable items of school equipment and furniture, losses can be minimised and the value of the assets can be used to deliver educational services for the school. These records can be reviewed in general to determine their current value, replacement value and considerations for depreciation.

On inspection consideration should be made about the quality and types of materials used in construction or fabrication of FFE. Different countries have different quality standards for manufacturing. This may impact on the equipments life as well as health and safety concerns. eg. Toxic plastics and paint.

Documentation

Building inspectors review many documents during the inspection process. They may review previous appraisals, building plans, previous citations, certificates of occupancy, licenses, construction permits, evacuation plans, environmental studies, fire safety system records, floor plans, maintenance records and surveys. These records will reveal the true cost of owning the building short and long term and help you as an investor determine the true value of the property.

An inspector's findings will be compiled in a final property condition report (PCR). The report will feature written evidence of observations, as well as photos for clarification. The report will also include any recommendations from the inspector on how to conduct corrective action or request follow-up testing by a specialist. In most cases there will be a cost estimate for repairs and future replacements. This document is a very important part of your decision making process.

All schools should also have a comprehensive asset management plan that can be reviewed on request. An asset management plan serves as the cornerstone for an effective asset management system. These plans provide a road map for organisations to understand their objectives and long-term asset management strategy.

It is essential that you review documentation using technical experts before you buy a school based on facilities.

Maintenance

Evaluating current maintenance plans is essential as there are a number of factors that can contribute to a "maintenance gap". They include insufficient funds, poor management of funds and provision that do not match educational needs. Poor maintenance increases running costs, such as for energy and cleaning. Reducing energy consumption can help not only to save money but also to reduce carbon dioxide emissions help the school become more sustainable.

Consequences of poor maintenance:

- deterioration of parts of the building
- an unsafe and unhealthy environment
- a lower quality of teaching and learning
- a lower quality of living
- vandalism

Advantages of good maintenance:

- **Educationally:** the condition of the environment indicates society's support for education;
- **Socially:** it sets an example to pupils, that the environment in which we live should be cared for;
- **Environmentally:** good maintenance promotes the aims of education.



VALUATION



Selling a school can be a difficult decision for investors and entrepreneurs to make, both on an emotional and financial level. There are a number of factors that come into play when determining an appropriate asking price, including competitive advantages, growth opportunities, and historic financial performance.

However, one valuation metric in particular, EBITDA, can be a great starting point in measuring a company's potential value. It is commonly used to determine a sale price so it is important to understand how this valuation metric will be used to calculate the worth of their company.

What is EBITDA?

EBITDA — or earnings before interest, tax, depreciation, and amortization — is an indicator commonly used by prospective buyers or investors to measure a company's financial performance.

In its simplest form, EBITDA is calculated by adding the non-cash expenses of depreciation and amortization back to a company's operating income.

Below is the basic formula:

$$\text{EBITDA} = \text{Operating Profit (EBIT)} + \text{Depreciation (D)} + \text{Amortization (A)}$$

It is a simple approximation of the cash flow generated by a school in a given period of time and will help you determine: Should You Buy That School Based on **Valuation**?

Using EBITDA to Strike a Deal

If a school is in a high-growth market, it can expect an offer that is several times its most recent EBITDA. What are typical multiples? It is foolhardy in current markets to make assumptions about "typical" multiples of EBITDA. The range is so broad and there are so many factors that influence this. A stand alone school might attract a lower EBITDA, however large K-12 schools, school groups and schools in fast growing markets are attracting much higher multiples. It really comes down to how much you are prepared to pay, for that location, context and the current economy. It may be determined by current EBITDA, future projected EBITDA or using an average of the company's EBITDA over the past few years as a base number. The EBITDA will be determined based on the company's overall financial performance and a well prepared financial statement.

VALUATION



Comparing EBITDA Multiples

If you research data about common EBITDA multiples paid across different industries you will find a wide range of results. It is difficult to make fair comparisons and even within the “education industry” it can be misleading. For example, you certainly cannot compare a K-12 school with a language school. K-12 schools include significant assets and income is secured by a model that requires children to attend for 13 years or more. A language school sells its services to a smaller clientele sometimes in products of just 200hrs. We would argue that it is almost another industry all together. Similarly it is difficult to compare a school in a high growth market like Vietnam with private schools in the USA or the UK. Do some research but filter the results with the support of both financial experts and specialist in the K-12 education industry.

Can EBITDA be Misleading?

EBITDA can also be misused. Let’s take the example of an industry that has assets that depreciate. If the depreciation schedule of assets is extended significantly eg. 5 years to 10 years the profit will jump in the current period because less depreciation is charged. Companies have also been known to change regular expenses to assets so they could depreciate them. This removes the expense and increases depreciation so they can inflate their EBITDA. EBITDA can be manipulated so it does not always truly reflect what is happening in companies. EBITDA must also be compared to cash flow to insure that EBITDA does actually convert to cash as expected. Should You Buy That School Based on Valuation is more complicated than just 1-2 calculations.

Other methods to consider & include:

Asset Value: What is the value of all assets owned by the school? The value of assets will include all equipment and inventory less any debts or liabilities against those assets. The value of these assets is a starting point for determining the business’s worth but obviously only part of the picture. How much revenue and earnings the school produces determines worth. These assets, would otherwise produce little value for any other purpose unless transformed or modified. eg. A school transformed into residential housing, hospitality or other purpose.

Revenue: How much revenue does the school generate from tuition fees and other services? The revenue will be an important factor to determine value and sometimes will be used as a multiple to determine a sale price.

Discounted Cash-flow Analysis: The discounted cash-flow analysis is a complex formula that considers at the business’s annual cash flow projected into the future. It then discounts the value of the future cash flow to today, using a “net present value” calculation. There are many calculators available online as well as comprehensive explanations to help you calculate using this method.

More Than Just Science: It is important not just to base your assessment of the business’s value using number crunching. Geographical location, brand value, facilities, growth market potential all play an important part. In many cases a buyer will determine price based on potential strategic value and business synergies. This is why comparison of EBITDA multiples are proven to be just a guide and consideration.

