Education Market Update

Industry Specialty Team | December 2024

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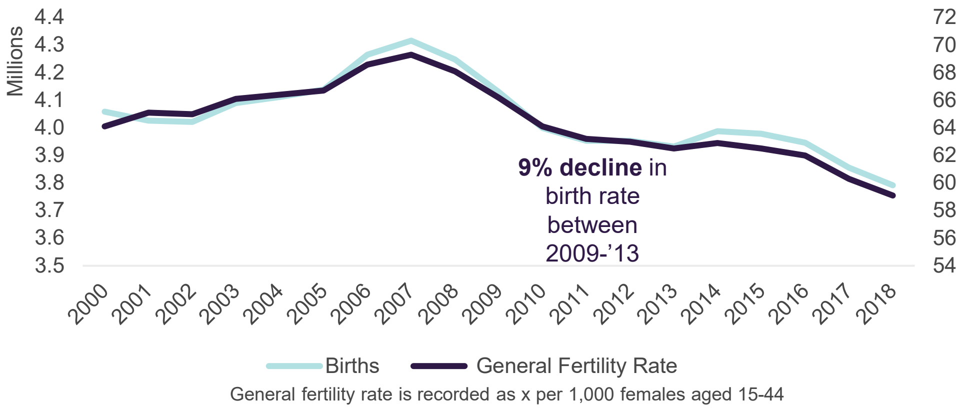
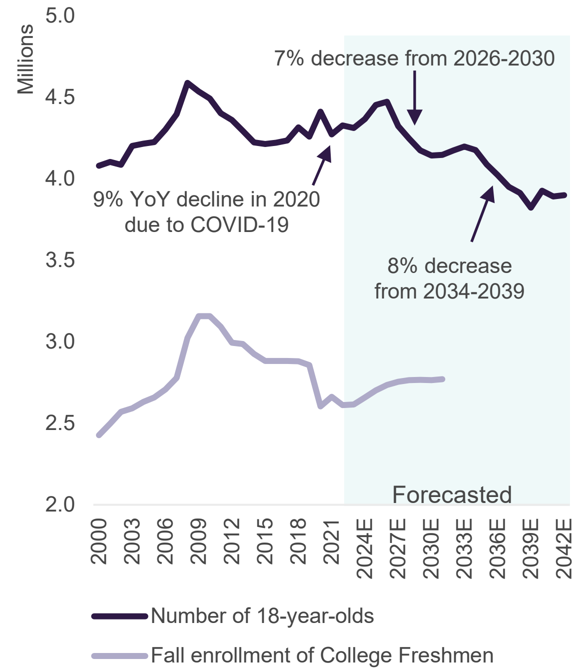
Birth Rate Declines Negatively Impact Enrollment



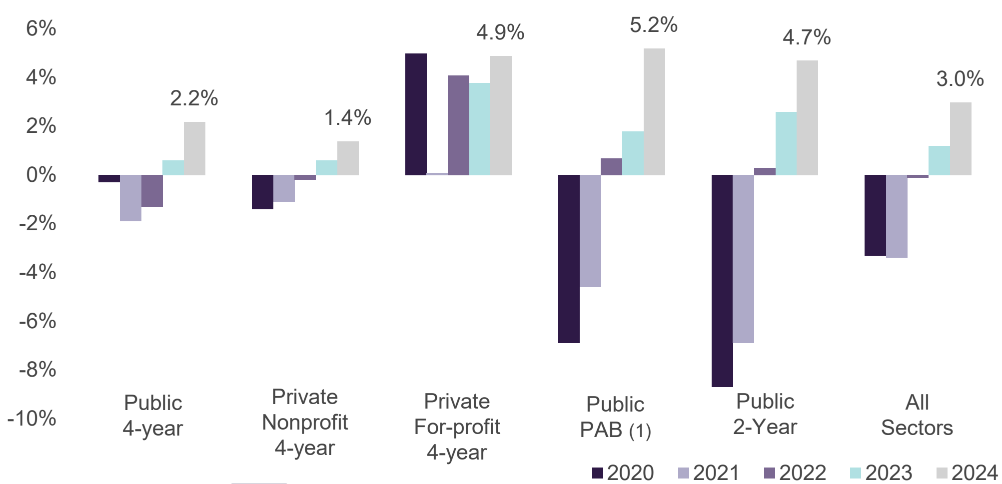
The Great Recession resulted in 2.3 million fewer births than expected, with a 9% decline in birth rate between 2009 to 2013. This decline mirrors trends seen during the Great Depression in 1930s, when delayed childbearing and record-low fertility rates led to a generation that never fully recovered its birth numbers. These demographic shifts have long-term implications, particularly for higher education. The decline in births in 2009 will result in fewer 18-year-olds in 2026, significantly impacting the number of freshmen enrolling in colleges and universities.

Enrollment Impacts



- From 2000-2010 the average increase in fall enrollment was 3%.
- 2020 saw a 9% decline in freshman enrollment due to the COVID-19 pandemic and was not able to fully rebound the following year, with a 2% increase in year-over-year enrollment in 2021.
- In 2024, the number of 18 year-olds who enrolled in college declined by 5.8%.
- Despite the enrollment cliff, over the next decade the average year-over-year growth in fall enrollment of college freshman is expected to be 0.7%.

Percent Change in Enrollment Year-over-Year



- **Average 3.0% increase in overall undergrad enrollment** across all sectors in 2024, this is driven by non-freshman enrollment (+4.7%) and dual enrollment (+7.2%).
- **Freshman enrollment is down 5% year-over-year**. Public 4-year freshman enrollment is down 8.5% YoY and private nonprofit 4-year is down 6.5% YoY.
- Private for-profit 4-year institutes remain attractive with flexible online programs and personalized pathways.
- Primarily online institutions increased enrollment (undergraduate and graduate) 6.3% YoY.
- Dual enrollment (+10%) and community college (+6.2%) growth is driving enrollment growth within the sector.
- Enrollment in **undergraduate certificate programs is up 7.3% YoY** and 19.1% from Fall 2022-2024. Graduate certificate follows at a 13% from Fall 2022-2024. Whereas Bachelor's degrees have increased 1.9% YoY and 2.9% from Fall 2022-2024.

(1) PABs: Primarily associate degree granting baccalaureate institutions while also offering bachelor degrees.
Sources: CDC, University of New Hampshire, The Chronicle, US Census, Department of Education, National Student Clearing House (as of September 26, 2024), Forbes

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Net Tuition Revenue and Discount Rates

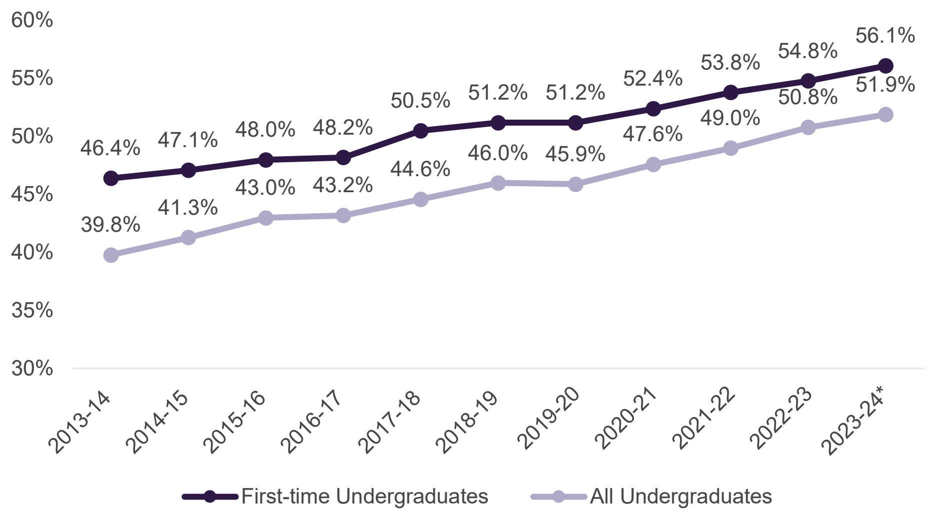
Net Tuition Revenue:

- Moody's reports that 74% of **private** universities are projecting a median increase in net tuition revenue of 3% for fiscal 2025. Fiscal 2024 forecasted an increase of 2%.
- 83% of **public** universities expect a median net tuition revenue increase of 2.8% for 2025. Following a projected increase of 4.4% of fiscal 2024.

Discount Rate:

- Fiscal 2025 is projected to have a flat discount rate at 44% - in line with fiscal 2024.
- First-year tuition discounting is higher at 56% - this remained steady over the last three years for small and moderate sized private institutions.
- Larger private institutions are projecting median tuition discount rate to increase 3% (from 44% to 47%).

Discount Rates for Private Institutions Over the Last Decade



41% of institutions have implemented academic programmatic changes or additions to increase net tuition revenue in fiscal year 2022.

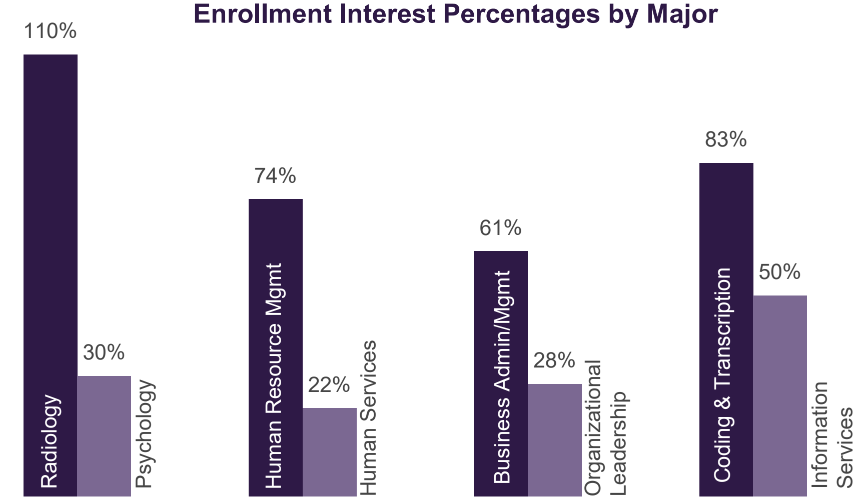
Programmatic Restructuring

Schools across the nation have begun opting for programmatic restructuring, the process for which pathways and offerings are reevaluated to better serve the institution and its students. Rising operation costs and fewer high school graduates entering college have pushed schools to create new solutions and consolidate their degrees and programs. The divergence continues as large public universities are expanding their degrees by honing in on niche pathways for students.

Examples of Programmatic Restructuring:

- A student on the premed track could opt for radiology over psychology or a student interested in tech has more specific offerings like medical billing, coding and transcription over information sciences.
- West Virginia University has opted to prioritize offerings that correspond to the needs of the future job market, such as healthcare and tech and focusing on these areas to expand.
- WVU simultaneously, eliminated 28-degree programs including art history and biometric systems, with language and graduate studies taking the largest hit, as the serve less purpose to the current job market.

Enrollment Interest Percentages by Major



Conversely, to large publics generally smaller, private schools are consolidating programs and operating units. They are also looking to reduce faculty headcount as enrollment declined 1.9% for private institutions in the fall of 2024. Some schools are focusing on their best performing majors to produce their largest return on investment as they reframe their budget and pathways to fair for long term survival.

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Mergers and Acquisitions in Higher Ed

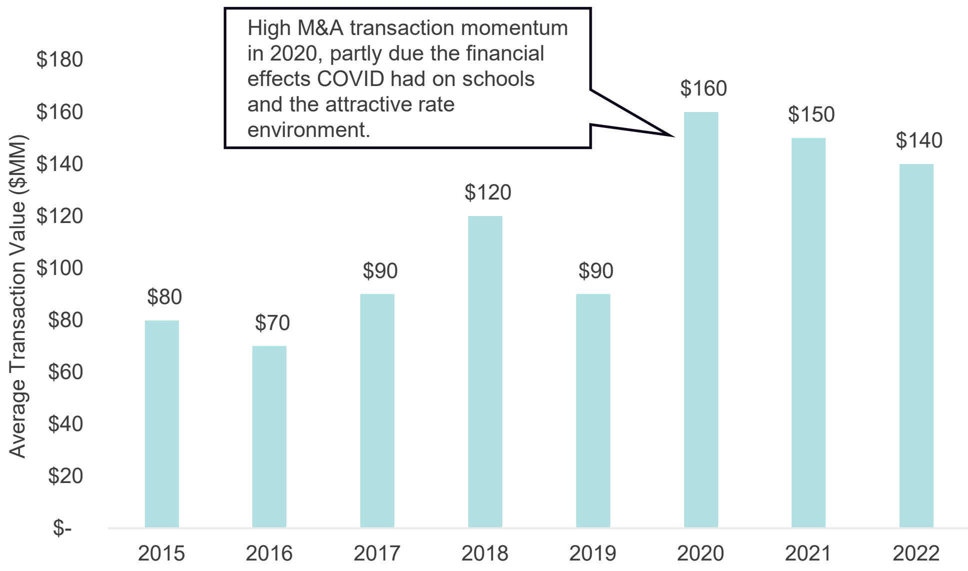
Higher Education as a sector experienced extensive growth prior to 2011, with student enrollment numbers grew 526% from 1957 to 2011. There was a surge of 17.7 million students entering public and private institutions of varying sizes. However, this growth period not only halted, but reversed in 2013 through 2023, when **97% of all higher education institutions experienced a decline in student enrollment.** The decline was driven by a myriad of reasons:

- Changing demographics
- Increasing cost of attending higher education institutions
- Evolving education models – 47% of those surveyed attended classes via YouTube and 25% were enrolled to receive a license (1)
- Americans continue to question the value proposition and the effectiveness of traditional higher education system (1)

Institutions with less than 1,000 students in enrollment faced the largest decline averaging a 35% loss. Schools face financial and operating challenges given the contraction in enrollment. Due to the contraction of potential students within the sector, higher education institutions can't deploy the same strategies to plug financial holes that they used during years of high enrollment growth sector wide. Rather, higher education institutions need to get creative. Some schools will be able to cut staff and "deploy" programmatic restructuring initiatives. However, others will need to entertain large scale changes while they are still viable to prospective partners, such as corporate conversions, mergers, and acquisitions.

Mergers should not be considered as a last resort bail out – by then it is too late. They should be considered when financials are predicted to decrease but have not yet incurred a steep drop off to have candidacy for M&A. If schools want to merge with others or want to be acquired by another institution they must have strong financials, statistics, and/or strength in their endowments. Many schools have previously thought that M&A transactions in the industry allow for them to draw down on their resources and once those resources have become limited, they turn to M&A. Additionally, institutions prospecting for M&A should consider location and proximity to other institutions. One of the largest struggles is what to do with campuses, utilizing these buildings or to "sell them for parts".

M&A Education Transactions*



*Data contains Private Higher Education, Public Higher Education, and K-12 M&A transactions

Artificial Intelligence Integration into Education

Key areas AI is being utilized in:

- Streamlining admin tasks regarding scheduling, financial aid management, which in turn reduces errors and allows for administrators to focus on more technical heavy work
- Enhanced learning analytics that help educators identify student behavior and identify those who need more specific assistance
- AI Chatbots utilized to engage with students with interest in admission, decreasing response time to end users
- Integration of AI literacy in curriculum for workforce preparation

(1) Edge Research and HCM Strategies supported by the Bill and Melinda Foundation surveyed 1,675 college dropouts between the age of 18 and 30.

Sources: Mountain State Spotlight, Inside Higher Ed, Chronicle, Evolution a Modern Campus Illumination, US Dept pf Education College Scorecard, LEK Deal Round Up, TIAA Institute