Private Equity Warming To For-Profit Colleges; Hurdles Remain

By Melissa Korn, Of DOW JONES NEWSWIRES

NEW YORK -(Dow Jones)- Private-equity firms are showing some renewed interest in operators of for-profit colleges, though deal activity still may not pick up until regulatory clouds begin to clear later this year.

Industry insiders say that private-equity firms have been inquiring about a number of companies in recent months, with potential targets ranging from schools that offer short certificate programs to more expensive bachelor's degree offerings. They are looking at both private and publicly traded companies, these people say.

BMO Capital Markets equity analyst Jeff Silber said his group has had "at least one conversation with private-equity investors about every post-secondary name we cover, as well as some we don't."

Silber declined to provide the names of which firms have been showing interest. His team covers private and publicly traded companies including Corinthian Colleges Inc. (COCO) and Lincoln Educational Services Corp. (LINC), both of which have been considered takeover targets because of their low valuations, as well as industry giant Apollo Group Inc. (APOL), DeVry Inc. (DV), Education Management Corp. (EDMC) and others.

Companies, current stakeholders and prospective investors are all awaiting a new rule from the U.S. Department of Education that could transform the for- profit higher-education landscape. The regulation, which is intended to measure how well programs prepare students for gainful employment, could force schools to overhaul or even shutter programs if their graduates have heavy debt loads.

Bruce Eatroff, a partner at private-equity firm Halyard Capital, said his firm is "very bullish" over the medium term, defining that time frame as anywhere from one to three years. Still, he said, the firm "would not be against making the right for-profit investment in the next year," once the regulatory environment becomes more certain.

The uncertainty over the final version of the rule, and what information will be used to measure how programs stack up, has kept prospective investors at bay for much of the past year.

Regulatory issues brought "a screeching halt to the market for post-secondary transactions" in mid-2010, said Jay Bartlett, partner at The Parthenon Group and co-head of its global private-equity practice, which helps conduct due diligence for prospective investors.

Once the rule is released, likely within the next two months, insiders say the deal pipeline will begin to fill back up.

"As soon as the regulations are published, I think you can expect to see post- secondary assets coming to the market," said Robert Lytle, a Parthenon partner focusing on for-profit education.

To be sure, there is no shortage of private-equity firms testing the waters. " The number of people who have looked at education assets in North America in the last three years has really gone up exponentially," Lytle said. The pickup began in earnest after Laureate Education Inc. was taken private in early 2007. Lytle said that this past summer, prospectuses were going out to "north of 100 different parties." That interest just didn't translate into action.

There are other issues blocking the deal path even when investors are ready to pounce. Lenders have been willing to give for-profit college operators new credit lines or expand their borrowing capacity, but are expected to remain skittish on funding acquisitions for a few quarters.

"It's not like the lending flood gates open the day the [regulation] comes on the books," BMO's Silber said, predicting it will take months for companies to assess how the gainful-employment measure will affect their growth capacity and access to the federal student financial aid on which they rely for the vast majority of their revenue. That, in turn, will keep lenders guessing how they can determine companies' projected cash flows.

Eatroff said that in the meantime, companies looking to offload assets to private-equity firms may need to extend seller

financing or find other creative means to close deals.

No matter what happens this year, "it'll certainly be more active than the second half of 2010," Lytle said. "That was almost a goose egg."

-By Melissa Korn, Dow Jones Newswires; 212-416-2271; melissa.korn@dowjones.com

(END) Dow Jones Newswires
01-19-111441ET