

Trends in Private Education Investment in MENA Report 2014

PERSPECTIVES FROM THE REGION'S LEADING ORGANISATIONS

OVERVIEW

EDUCATION INVESTMENT MENA 2014

The Middle East this year retains its standing as one of the fastest growing private education markets in the world. Recent reports by both Alpen Capital and Al Masah Capital have demonstrated significant growth in demand, enrolment rates and fees available in the sector. These have been fuelled not only by private investment but also increasingly by regional governments, as growing acceptance of state inability to adequately meet the demands of diverse populations are encouraging private sector engagement in education delivery.

As the market continues to develop, as do the number of deals in the private education arena. However, transaction volumes have not risen as quickly, mainly due to structural, regulatory, pedagogic and financial onstraints, rather than investor appetite.

When we conducted research for the Education Investment MENA Report in 2013, the results indicated that, despite the numerous opportunities, the volume of private investment into education lagged significantly behind other international markets. This year, there has been little change in the volume, yet appetite has increased significantly. This year, our study is aimed at understanding investor and operators' interests within the private education market, their hesitations when entering the market, as well as the criteria vital to the success of profitable educational deals that have a positive impact on the learning outcomes of the students and communities that they serve. Our introduction serves as an overview of several interviews conducted with leaders in educational investment; which can be found at the end of the report.

INCREASED OPPORTUNITY

Our conversations have shown that in spite of regional unrest, there is increasing interest in markets beyond the developed and somewhat saturated market of the UAE. According to our respondents, Saudi Arabia, Qatar, Oman and Egypt are all attracting significant attention. However, others are closely watching markets that are less developed in terms of education, including Tunisia, Morocco and Algeria, as these are far less saturated markets with significant need for quality educational investments.

Investors and operators are also showing increasing interest in emerging opportunities beyond the premium K-12 model, which has traditionally shown greater attractiveness; due principally to higher enrollment numbers, simpler financial models and higher demand. However, both as these markets begin to saturate in several geographies, and also as demand increases for non-traditional educational delivery models, more investors and operators are turning towards new business models. These focus primarily on higher, vocational, online, distance and special educational needs, as well as specialist ancillary educational sectors, including recruitment, training, assessment, test preparation and financing.

HIGHER AND VOCATIONAL

The particular growth in higher and vocational education has been spurred in the main by Government investment in developing national youth, in tandem with securing a knowledge based economy. In order to achieve this, governments need to identify the sectors in which improvement is required and provide programmes in accordance with those requirements.

“Some governments have come to terms with that but others have not yet,” said **Alan Diaz**, Senior Vice President for Europe, Asia, Middle East and Africa at Laureate Education. “The only way forward is around employability. The biggest challenge we have in the MENA region is that kids are not yet workforce ready ... Our experience in Saudi Arabia

has been exactly about that; where the government has realised and fostered the idea that on the one hand Saudisation is a good thing - and it certainly is - but on the other hand that the resources to provide the requisite level of skills for Saudisation are not there. That’s where we step in to help the government [in higher education] to achieve the outcome of employability that were not created in high schools or the systems that existed before,” he added.

Sophisticated enterprises in the vocational space are also attracting investment from large multilaterals – such as Plato Education Group, which receives financing from the E4E initiative from the IFC. Such funding has assisted the group in upgrading social and environment policies, increasing the business network for the group, as well as expanding throughout the region based on local ability.

Another significant deal for 2014 was IFC and Swicorp’s acquisition of a 33% stake in Luminus Group – a dynamic company serving Technical and Vocational training in the MENA region, comprising several schools, colleges and institutes, offering fully accredited post-secondary training programs, as well as customised courses for industry and commercial partners. The Group focuses on building the accreditation system with international bodies plus the industries that are directly connected with the technical education and vocational training areas.

TRANSNATIONAL OPPORTUNITIES

While the Middle East is steadily positioning itself as a hub for regional students in higher education, it is also increasingly gearing up to capture a greater share of the transnational student market. New innovative models in higher education are emerging to capture this potential, such as IHC, the first 2+2 pathway to top universities in Dubai and the platform chosen by GEMS to invest into and enter the higher education space.

ONLINE DELIVERY MODELS

While technology adoption within the classroom has become mainstream across a large majority of the region, increasing opportunities are emerging within online and distance learning businesses themselves.

“Online education is a huge thing for us. Probably about 10% of our students are online. Our philosophy for online education is the following,” says **Alan Diaz**. Laureate’s approach to online education has been conceptualised based on the fact that it is more suitable for the postgraduate space. This is mainly due to the degree of commitment that it requires. This level of involvement cannot be achieved by a young undergraduate student. “Doing a bachelor’s degree is as much about growing as it is about education; it is as much as becoming a social animal as it is about becoming a student. So our view is that the full online product should be more for postgraduates who are working adults,” he elaborated. On the other hand, their experience with hybrid education where the online element plays a role but not a dominant role within the program at the undergraduate space has been successful.

GEMS Education is also starting to explore the online sphere by providing some of their education programmes that involve little face to face teaching time on campus. **Dino Varkey**, Group Executive Director and Board Member of GEMS Education said, *“Online education is part and parcel of what we do. We are actually offering a full online diploma program. I think the future outlook of online education is yet to be determined. The world is changing so fast that it is difficult to forecast with any degree of certainty what it can look like. Sometimes the perceived challenges are captured more from the viewpoint of parents who would be much more comfortable with their children being in a school, getting educated in a conventional classroom with a teacher who is physically present.”*

The slow uptake of online education programmes that is due in part to the high level of attrition; exponentially higher than conventional education. One of the reasons for this is the lack of the support program that is provided by simply being physically present in a classroom. The cultural need for peer and instructor interaction, where the learning process is influenced equally by fellow peers and instructors is difficult to overcome in the MENA region. Therefore, online education remains a convenient alternative to working students with less flexible schedules. The impact potential in the Middle East is huge; for remote, working, hard to reach students and parents.

“We expect to see an increase in the number of students enrolled in hybrid schools and taking online supplementary courses for advanced placement, languages and international certifications,” says **Bernard West**, Executive Director of Tadrees Holding. *“We will invest in and partner with companies that have a track record improving student achievement in an online environment,”* he continues, reflecting on the increasing interest from PE, VC and incubator investors in technology companies in the region.

However, the fragility, low-ticket value and high-input required with these types of deals, coupled with the limited supply of regional firms, means that little activity has taken place within the last year. One of the largest deals in recent years, by value, was the US\$76.3 million acquisition of the GL Education Group in the UK by Investcorp Bank, an alternative investments firm in Bahrain. With this deal, the investor aimed at capitalizing on GL Education Group’s robust standing in the education assessment services market (Source: Alpen Capital GCC Education Industry Report).

ADDRESSING SPECIAL EDUCATIONAL NEEDS

A number of operators and investors are also offering solutions tailored to meeting the significant need for delivery of education for students with special educational needs. The Riverston Group, based in the UK and currently expanding into the Middle East, was established to deliver an innovative, inclusive and bespoke curriculum in which students of differing abilities are embraced within a genuine mainstream setting that encourages each to maximize their potential. *'Riverston Schools are deliberately non-selective,'* says **Prof Michael Lewis**, Chairman of Riverston Group, *'so that we can help every child we think we can develop... We feel there is huge potential both educationally and socially in working with all children - including those with more modest academic potential such as those with Dyslexia and Autistic spectrum conditions.'*

MAKING INVESTMENT WORK

As previously outlined, education transactions are on the rise. Several more groups are delivering organisations of greater scale, such as Al Masah Capital, which with 24 months in operation has acquired 18 education assets spanning Dubai, Abu Dhabi and Singapore. However, marrying the often distinctly opposing objectives of both owner-operator parties are significant barriers to successful and profitable partnerships. Some operators maintain a level of scepticism about the opportunities brought to them by investors. *'We would not say 'never' but presently we have no plans to seek such investment. The concerns we have are related to the effect such investment would have on our strategic planning and decision making processes,'* said **Tammam Abushakra**, Advisor to the Chairman of ESOL.

Diaz believes that the reluctance of some operators could be relevant to issues relevant to management and losing

control over the institution. *"It depends who the third party investor is. If it's someone who just wants in and out and cash in within a 24-month-period, then I wouldn't accept investing with that person either. Because education is a long tail business and you can't expect returns that you might be able to get at other industries at the same timeframe."*

The catch is to find the right strategic investors who can understand education as opposed to financial investors. *"We would like to find someone who has a genuine interest in our niche educational and business model which has a strong community focus, as well as assisting us in maximising investor returns over the next five years,"* said **Prof Lewis**.

While some operators question the long-term interests of certain private equity companies, the real challenges for some investors lie in finding serious operators who are willing to make a long term commitment and to take the risks. According to these investors, it is easy to find *"suitcase operators who can walk out tomorrow if things go wrong"*. While the mediators of most deals are the financial advisors, the investors' main concerns touched on the importance for operators to know what they need to think about when approaching investors.

Dino Varkey, Group Executive Director and Board Member of GEMS Education, feels that it is less about mutual commitment and more about alignment of values and objectives. *"This is usually where the challenges are. Private operators typically tend to have a very high valuation for their business and financial investors would naturally have lower expectations in terms of what they are willing to pay. Also, financial investors have shorter term objectives while education operators, because of the nature of the sector, look at the long term goals. So it's a matter of whether they can find that common understanding and alignment of their goals."*

FINANCIAL MODELS

Besides the significant challenges of aligning objectives, making the finances stack up is also a challenge for investors. *“Education is a hands-on business, and most PE firms add value by focusing on financial engineering and cost cutting”* says **Bernard West**. However such *“slipping and chipping’ can be hugely frustrating,”* says **Prof Lewis**, who has led Riverston to grow via its own resources whilst trying to find suitable investor/s. The long gestation periods, limited customer acquisition periods and significant staffing costs, coupled with high land and build costs, make investments unviable for those not truly aligned to the long-term objective of educational investments.

Other investors, however, such as Al Masah Capital Management, are not experiencing the same challenges. **Don Lim**, Executive Director, said, *“I don’t totally agree [with these investors] as the private education sector is very profitable in the Middle East, especially at the operational level. Our firm focuses on sector which both yields an attractive return to investors, and at the same time contributes to social infrastructure and social well-being of the markets we invest in.”*

EMERGING THREATS TO BUSINESS GROWTH

We asked our panel about the greatest threats to education businesses in the region:

“Social unrest in certain MENA communities”

*“A shortage of suitably **qualified local staff**”*

“Access to capital”

*“Restrictive **tuition fee** and yearly tuition fee increase policies”*

*“The **rising cost** of attracting talent”*

*“Cost of **land** and **building materials**”*

*“Government **licensing and regulations**”*

“Labour unions”

KNOWING WHEN TO LEAVE

‘It is true that there are comparatively few exits and listings in this sector, but it also means the demand for such an offering would be significant when an education opportunity of a suitable profile and size hits the market,’ says **Don Lim** of Al Masah Capital. Successful exits by Amwal Al Khaleej, Abraaj, Global Investment House and NBK Capital in the past two years are testament to this; all for undisclosed sums.

KEY TIPS FOR SUCCESSFUL PARTNERSHIPS

They also told us key strategies for ensuring successful partnerships in education:

*“Knowing the business down to the hands-on **operational detail**”*

*“Aligning the **interest** of all parties”*

*“Having a **clear strategy** and **growth path**”*

*“Day to day business decisions should be made by the people knowledgeable about the sector and **operating environment**”*

*“**Excellent** governance at the board and **strategic level**”*

*“**Executorial excellence**”*

WHAT MORE SHOULD BE DONE BY THE REGULATORS

“**Regulation remains vital** to the successful development of the private education market, as highlighted by our panel”

“**Market forces** should be allowed to dictate fees as overhead costs are increasing faster than **fee levels**”

“**Greater assistance** from the educational authorities with regards to funding for children with **special educational needs**”

“**Greater transparency** in ownership and licensing”

“As in other sectors, we believe that competition is the **key to driving education** in the MENA region. Allowing various educational and business models to compete using their different educational approaches and facilitating investor involvement by **reducing business barriers** will increase the standard of private education. In free market environments, such as the UAE, this will ultimately **attract new investors**, encourage current investors to **invest further**, and will eventually lead to an increase in educational standards and **reduction in costs**, thus benefiting the end consumer (i.e. parents and students)”

CONCLUSION

In conclusion, our panel this year has seen increasing interest and activity in the private education investment market in MENA. A gradual uptake in deals, increasing acceptance of the profitability of education, as well as growing sophistication of operators are all contributing to this increasing interest. While many barriers to successful investment and growth still exist, an increasing number of new market entrants and domestic entities delivering strong organic growth give the market a particularly positive outlook.

Read our in-depth interviews with the speakers below to get their in-depth insight.

CHANGES 2013 - 2020



Number of students **3%** to reach **13.7 million**



Number of schools **2.4%** Private schools enrollment **6.7%**

to correspond with population growth



Total enrollments from **5.8%** to **7.4%**

to correspond with population growth



Tertiary segment from **14.8%** to **16.5%**

MEET THE CONTRIBUTORS TO THIS REPORT



Don Lim
Executive Director
**Al Masah Capital
Management**

About Al Masah Capital

We manage an education investment vehicle whereby we acquire and operate leading pre-schools/nurseries, K-12 schools, tertiary institutes and training centres across the MENA and Southeast Asia region. We started actively investing in May 2012, and in about 24 months of operations, had already acquired 18 education assets spanning Dubai, Abu Dhabi and Singapore, with another 10 more assets in Dubai, Abu Dhabi, Oman and Singapore being in various stages of negotiations and completion currently. We aim to be one of the largest diversified education holding company in the MENA and Southeast Asia region in 2- 3 years time.

Why has your company chosen to invest into the education sector in the Middle East?

Our firm focuses on sectors which both yields an attractive return to investors, and at the same time contribute to social infrastructure and social well-being of the markets we invest in. From the yield side, the education sector is very attractive due to the demographic factors like a growing and extremely young population, economic factors like the ability and willingness of parents to pay for good private education, and the high expat population which has a preference for the British and Indian private schools which we acquire and operate. On the social angle, we believe that education is the cornerstone of every society's growth and development, and we are glad to be able to participate and contribute in this aspect in every of the market which we operate in.

There's been a recent surge in interest in investing into education, but comparatively few deals. In your opinion, why is that?

Investors are increasingly starting to realize that this is an attractive sector and starting to enter the market. This is expected. However, we view ourselves as being in a competitive position as we have the early mover advantage of acquiring and operating 18 education assets already, and operating one of the only 12 Outstanding rated schools in Dubai.

Education is considered a comparatively difficult sector for securing profitable returns, especially for PE. Why is that?

Don't totally agree on this as the private education sector is very profitable in the Middle East, especially at the operational level. In terms of exits, it is true that there are comparatively less exits and listing in this sector, but it also means the demand for such an offering would be significant when an education opportunity of a suitable profile and size hits the market. We are very confident of the returns from our PE investment in the education sector

What are the key factors to successful owner-operator deals that are profitable?

Knowing the business down to the hands-on operational detail. Aligning the interest of the owners, operators, managers. Having a clear strategy in mind of acquiring and operating good assets with a clearly defined growth plan



Michael Lewis
Chairman
The Riverston
Group

About Riverston

Riverston School (www.riverstonschool.co.uk) was founded in 1926 in south-east London and moved to its present site in 1927. The school is deliberately non-selective and co-educational. The Riverston Group (www.riverstongroup.com) has recently been established to capitalise on the success of our innovative, integrated, inclusive and bespoke curriculum in which students of differing abilities are embraced within a genuine mainstream setting that encourages each student to maximise their potential - howsoever defined. Our objective is to establish an international group of schools and colleges providing a wide range of excellent educational opportunity in tandem with vocational and life-skills training to each and every student – including those who are gifted and talented as well as those with mild-moderate learning difficulties. Our delivery model has enabled Riverston to generate attractive financial returns of 25%+ EBITDA in the UK and similar returns are achievable internationally. Our ambition is to replicate our success into other geographical territories, including MENA. Riverston has been approached by several private equity groups to facilitate such an expansion, but is interested in meeting with local MENA investors and partners.

How has private investment impacted your business?

Our experience with London private equity parties proved costly and hugely frustrating with their seemingly constant 'slipping and chipping'. Whilst an interesting educational and business experience (!), Prof. Lewis took the decision to grow the group via its own resources whilst trying to find a more suitable investor/s. We have made considerable progress but would like to find someone who has a genuine interest in both our educational and business model which has a strong social purpose, as well as assisting us in maximising investor returns over the next five years.

What are the three biggest inhibitors or threats to the financial profitability of your institution or business? And what are you doing to overcome them?

Our concerns include the impact of social unrest in certain MENA communities on our business activities and expansion programme; a shortage of suitably qualified local staff; and, access to capital. Sadly we are not able to do much about the regions societal unrest on our own; with regards to staffing issues, we have plans to establish our own UK accredited training and teaching facility here in the UAE to enable our own staff and the wider community to enhance their skills in working with students with additional learning requirements. We are also planning to establish a specialist children's clinical and educational assessment, diagnosis and therapy intervention centre which will include a research facility and specialist resources for the local community.

Which sectors are of most interest to you?

With many years experience actively working with UAE families I know there is huge potential in working with children with more modest academic potential including those with Dyslexia and Autistic spectrum conditions. There is a niche in the local marketplace that Riverston is especially well-positioned to cater for.



Tammam Abushakra
Advisor to the
Chairman
ESOL Education

About ESOL

Esol Education has operated leading international schools in the Middle East since 1975. Today the organization's 9 schools provide a high quality international education to over 10,000 students in the UAE, Egypt, Cyprus, and Lebanon. Each Esol school follows an American or UK-based curriculum, offers one or more International Baccalaureate programs, and is accredited by the Middle States Association of Colleges and Schools (MSA) and/or the Council of International Schools (CIS).

Are you currently, or have you previously considered, accepting private investment (private equity, family office, investment back, multilateral) to grow your institution or business?

We have partnered with local investors or developers on specific projects but have not sought private equity, family office, or multilateral investment in Esol. We would not say "never" but presently we have no plans to seek such investment. The concerns we have are related to the effect such investment would have on our strategic planning and decision making processes.

What are the three biggest inhibitors or threats to the financial profitability of your institution or business? And what are you doing to overcome them?

The inhibitors or threats vary by country, but the three I would identify overall are:

- government regulations that restrict fee increases when such increases are necessary to enable us to operate viably and maintain and improve upon the quality of our offerings.
- security threats related to political instability.
- changes in law or regulation that affect our ability to operate as international schools, for example by restricting our ability to employ international teachers.



Dr. Tolga Yazici
President & CEO
Plato Education

About Plato Education Group

Plato Education Group is active in higher education. Main investments are Plato College of Higher Education (Turkey) which is a country wide spread vocational college and International Plato University (Kirgizstan) which is a private university with satellite expansion in the CIS Region.

Are you currently, or have you previously considered, accepting private investment (private equity, family office, investment back, multilateral) to grow your institution or business?

Plato Education Group has close relations with IFC and receives financing for E4E (education for employment) initiative from IFC. With the investing partner we upgraded the social and environmental policies/practices to international standards. The investing partner increased the business network for our group and increased insight for the sector globally. Investing partner has leveraged our local abilities to be expanded in the region through multinational experience sharing.

What are the three biggest inhibitors or threats to the financial profitability of your institution or business? And what are you doing to overcome them?

- Government regulations – licensing, quota and pricing regulations – excessive control over private institutions
- Increasing demand for higher vocational education in the region
- Labor Unions



Bernard West
Executive Director
Tadrees

About Tadrees Holding

Tadrees Holding is a MENA focused education investment platform with significant investments in Kingdom of Saudi Arabia based K-12 School Brick and Mortar Schools. The group has expertise and strategic global partnerships in Virtual and online Schooling, Vocational training and workforce skill development Student Achievement, Assessment and Test Preparation.

Why has your company chosen to invest into the education sector in the Middle East?

The founders of Tadrees are from the Kingdom of Saudi Arabia. They have been disappointed by dearth of quality educational options and are committed to investing in programs and building systems that improve student performance.

There's been a recent surge in interest in investing into education, but comparatively few deals. In your opinion, why is that?

- Majority of the market is small individual operations where deal sizes tend to be small
- Many operations are closely held by founders and sale/ investment process is longer than in other industries.
- Sellers prefer to trade with operators who come from the sector and have a chance in improving the educational offering.

Education is considered a comparatively difficult sector for securing profitable returns, especially for PE. Why is that?

- Education is a hands-on business and most PE value add focus on financial engineering and cost cutting.
- Gestation period tends to be longer than in other sectors.
- Frequent changes in government policy makes for challenging operating environment
- Limited customer acquisition period: beginning of the school year and mostly in transitional years; limited mid-year enrollment.
- Limited hiring and onboarding cycle: the best teachers will need minimum 3-6 months advance notice before leaving.
- Due to the seasonality, poor execution of C or D can wipe out a year of earnings.

What are the key factors to successful owner-operator deals that are profitable?

- Day to day business decisions should be made by people knowledgeable about the sector and operating environment.
- Excellent governance at the board and strategic level.

What is your approach to online learning? What do you anticipate for the future of online education?

- Online learning is here to stay and is an important means for learning in K-12 and post-secondary education globally.
- Online learning will increasingly become an important part of the education offerings in the Middle East.
- Expect to see an increase in the number of students enrolled in hybrid schools and taking online supplementary courses for Advance placement, languages and international certifications.
- We will invest in and partner with companies that have a track record improving student achievement in an online environment.



Victor Saad
Vice President &
Board Member
SABIS®

About SABIS®

SABIS® is a global educational network that operates in 15 countries on 4 continents, educating close to 65,000 students. Roots in the 19th century have provided SABIS® with a solid foundation in the world of global education management. Today, the SABIS® School Network is managed by a knowledgeable team of skilled individuals and overseen by three independent corporations headquartered in the U.S., Lebanon, and the U.A.E. Based on a proven proprietary system, SABIS® member schools -in both the private and public sectors -provide students with a top-quality education that prepares them to meet the challenges of a changing world.

If you would never consider accepting investment, why wouldn't you? What concerns do you have for your business or institution?

Private equity is one of the many tools that can drive growth within a particular sector, including education. However, SABIS® holds a very long-term view with regards to both strategy and financial returns. The long-term nature of our strategy, and the decision-making needs that come along with that, mean that we believe seeking external investment is not the best strategy for the organization at this time. On specific school projects, we do however, partner with various local investors who subscribe to our vision and help drive our growth.

What are the three biggest inhibitors or threats to the financial profitability of your institution or business? And what are you doing to overcome them?

The first inhibitor to financial profitability is unforeseen pricing regulations that restrict tuition fees and yearly tuition fee increases. Another inhibitor to financial profitability is the rising cost of living and subsequently, the rising cost of attracting talent that meet ever-growing qualification requirements. Finally, there is also a marked increase in the cost of land and building material that has a direct impact on the financial viability of each operation. This is a particular concern to SABIS® as all our member schools have to meet stringent specifications for campus design and facilities.

In view of these challenges, we continue to engage with government and legislative bodies to share our concerns and try to find common ground. We also continue to invest heavily in Academic & IT research and development that help streamline our operations and make them more cost efficient while seeking to maintain and continuously improve our high standards of education.

What more should be done from a regulatory perspective to increase the standard of private education in MENA?

As in other sectors, we believe that competition is the key to driving education in the MENA region. Allowing various educational and business models to compete using their different educational approaches and facilitating investor involvement by reducing business barriers will increase the standard of private education. In free market environments, such as the UAE, this will ultimately attract new investors, encourage current investors to invest further, and will eventually lead to an increase in educational standards and reduction in costs, thus benefiting the end consumer (i.e. parents and students). When this happens, competition to deliver better education at a more reasonable cost will increase dramatically; ultimately weeding out mediocre and over-priced schools. Supply will then catch-up with demand allowing the market to eventually self-regulate.



Ibrahim Safadi
CEO
**Luminus Education
Group**

About Luminus

Luminus Education is a leading provider offering consultancy services, vocational degrees and professional development training for individuals, public and private sector clients. Luminus Education adopted an innovative strategy to enhance the delivery of quality of education services by addressing the mismatch between the skillsets of Arab youth and labor market needs which is in line with the IFC's e4e Initiative for Arab youth. Luminus Education consolidated all of its education subsidiaries under one umbrella. It includes:

Al Quds community college: Largest Community College with 4,000 Students. It is the only college offering HND Level 5, taught in English, in the MENA region.

Luminus for Languages: Offers Business English and customized courses in demand driven sectors such as tourism and hospitality in Jordan and the region.

Luminus Media/SAE: Offers Diploma Degree Courses and Specialized Courses for job creation. Luminus plans to open SAE institutes every two years with plans to open SAE in Jeddah Saudi Arabia later this year.

Luminus Training and Consultancy (LTC): Offers specialized professional services to donors, corporations and government agencies in demand driven areas.

Luminus for Oil and Gas: Provides training services to the Oil and Gas Sector in Jordan, Iraq, Libya and the UK. It operates through a state of the art training center in Basra/Iraq with 100 full time instructors.

Are you currently, or have you previously considered, accepting private investment (private equity, family office, investmentback, multilateral) to grow your institution or business?

Luminus Group accepted private investments and received financing from Manaseer Group in 2008 and IFC E4E (Education for Employment) Initiative and Swicorp in 2014. These investments have allowed us to innovate our approach and services by creating employability products that meet the needs of job seekers and employers and bridging the gap between educational output and market demand.

If so, how has it impacted your business?

Our institution has transformed from a family business to a globally recognized institution with sound corporate governance that is accountable to its shareholders and end users. We share IFC E4E vision to create solutions to address the rising level of youth unemployment in the Arab world by providing youth with market relevant skills and creating an enabling environment by engaging the private sector and policy-makers.

What are the three biggest inhibitors or threats to the financial profitability of your institution or business? And what are you doing to overcome them?

1. Government Regulations: Policies and decisions are not driven by data or market need, 2. Cultural Perceptions: A University education is still regarded as more valuable than a technical and vocational degree, 3. Affordability: Youth find very few avenues for financing their studies in a private vocational and technical college. In light of these challenges, creating more awareness at the policy and community level will encourage investment in in quality technical and vocational education and allow the private sector to innovate and create solutions to encourage growth in this sector and reduce costs



Tariq Shaikh
Managing
Director & CEO
RHT PARTNERS

About RHT Partners

- invested in and advised Board and founders of Taaleem (second largest school operation in region)
- founded, built and set up operations of IHC - first 2+2 pathway to top US universities in Dubai platform chosen by GEMS to invest into and enter the higher education space.

Why has your company chosen to invest into the education sector in the Middle East?

- selective areas show large potential for upside

There's been a recent surge in interest in investing into education, but comparatively few deals. In your opinion, why is that?

- few understand operational realtors in ground

Education is considered a comparatively difficult sector for securing profitable returns, especially for PE. Why is that?

- mismatch of risk reward expectation



Dino Varkey
Group Executive
Director and Board
Member
GEMS

Can you tell us more about your growth journey from the small business that you started off with to your current success and expansions?

Our story is one that goes 55 years back. I am very proud that in my family I come from a third generation of education operators; 3 out of 4 of my grandparents worked in education. My grandfather came to Dubai in 1959 initially to tutor adults in English and Math, and my grandmother joined him later in 1961. In 1968, they founded their first school. This was a huge achievement for them because given their background as a lower- to middle-income family in the South of India. For them, this journey was critical to making a future for themselves and their family. This school grew to about 300 students over the course of 12 years. During this period, my father came back from the UK and saw an opportunity not only to fulfill a social imperative but a commercial imperative as well. As a result, he took that one school and 300 students and transformed it into the largest private K-12 education company in the world. Today, Gems has had the privilege of educating over 140,000 students across 19 countries that represent 173 different nationalities. We employ over 13,000 education professionals and staff from over 115 different countries. In addition, we were in a sector that had such a tremendous potential where we had to understand the macro demographic and economic factors at play. Some of these factors included the fast growing youth population that was given a predominantly government provision which unfortunately had not been providing the results and outcomes that parents around the world wanted. This naturally created an avenue for the private sector to try and contribute to creating a high quality education for families and communities that were in the UAE at the time.

Having had a long journey in education, what are your current priorities in terms of projects, sectors, geographies, etc?

We continue to expand globally in terms of the emerging markets which is where we can experience the most significant growth. The UAE continues to remain our most important market, not only is it our home market but it is still the largest and fastest growing private education market around the world.

Closer to home, we are still very focused on other GCC countries like Saudi and Qatar. We are also focused on Bahrain, but to a less extent. There are opportunities in North Africa, but we are still waiting to see how the current events will unfold over the next few years before we put any capital risk. We already have two schools in other parts of Africa, since Africa as a whole is naturally a continent that everyone is looking to invest into.

Another market that we're focused on is South East Asia particularly in countries like Malaysia, Indonesia, Vietnam, and China. South Asia continues to be a key focus area specifically in India.

Our developed market strategy consists of the schools that we have in the US, UK, and the rest of Europe. These are extremely important in terms of strategic perspective because they represent the flagship or the beacon that help our growth in emerging markets.

As you have been previously involved with private investors such as Abraaj, will there be any more future investments for you?

We worked with Abraaj for 4.5 years in which they were good partners for us. Our organisation was evolving as we moved from a traditional family business that covered a single-geography into a more corporate institutional business that was growing across multiple geographical areas. Naturally, the family needed access to greater levels of capital as well as a greater level of strategic partnership, which Abraaj was able to offer through their infrastructure fund.

We are always in discussions with potential investors in different parts of the world because of the strategic merit and the capital that they can provide in the future. We also continue to invest in new projects. We have developed a significant amount of projects globally; during the last two academic years, we opened 17 new schools and welcomed around 22,000 new students.

Some education operators said that they would never consider accepting investment, why do you think they have such a view?

I think that it's entirely dependent on the operator. If you take Gems Education as example, we were able to continue to develop the business just with our relationships with our key banks, enabling us to raise debt and consequently grow. However, this method has limits. So we needed to look at alternative sources and to partner with strategic investors like Abraaj. From my perspective, it is usually something that is related to the ambitions of the operator and how quickly they want to grow. Increasingly, there has been a lot of activities in the education sector around the world where there has been a lot of investments made across K-12, tertiary, or associated sectors within education.

In our research, both the investors and operators indicated that they are having difficulties in finding committed partners. Where do you think is the gap?

I don't think that it's an issue of commitment. Perhaps, it's more relevant to the alignment of the shared values and objectives among operators and investors, which is typically where the challenges are. It is usually the case that private operators tend to have a very high estimate of their business, whereas financial investors would naturally have lower expectations in terms of the amount which they have to invest. Also, the objectives of education providers are more likely to be long term, naturally because of the nature of education, as opposed to the common goals of financial investors. It all comes down to whether both parties can find this common understanding and alignment.

What are the three biggest inhibitors to the financial profitability of your institution or business? And what are you doing to overcome them?

I think that there are global challenges for the education sector. One of these challenges is the current shortage of teachers across the world. Great teachers are a diminishing resource. As a result, the cost related to attracting the best of teachers is increasing. In our case, the fact that we are attracting from a global talent pool adds to this challenge. Currently, we are the education employer of choice in our sector. This year, we hired 1,600 new teachers and we still get about 1,500 resumes a month. We can leverage our position but we know that this might not be sustainable which is why we considered building our own pipeline of talent rather than just relying on the current supply. This was done by delivering teacher trainings, allowing us to hire the trainees once the programme is done.

Did the current political unrest have an impact on your operations in the region?

Not really. We benefit from the fact that the UAE still represents a safe harbour in the middle of this political unrest. As a result, additional turmoil in the region naturally drives people towards this safe harbour. If anything, this actually served to strengthen our business because it meant more students for us.

What is your view about the effectiveness of providing foreign education, like the British and American systems, in developing the local youth across different countries?

Certainly, our youth needs to have a very good understanding of their local community, culture, and values. However, I think that this should be separated from offering standardised curricula. Every year, we have about 2,000 to 2,500 graduating students who are getting admitted at some of the best universities in the world. In the last 4 years alone, these students went to 860 universities across 49 countries. Twelve universities of those were among the top 15 in the world, and 7 were among the top 50 in the US. With a 100% graduation rate, our students are going on to become gainfully employed, effectively contributing to their community, wherever that may be. So the education that we provided enabled them to compete on a global stage. Here in the UAE, we are constantly competing and positioning ourselves against the best in the world, which our schools certainly reflect.

Which sectors are of most interest to you? And which ones are currently under developed in MENA?

Our core that we will continue to invest in is k-12 education. There are natural adjacencies to our sector that are important including education technology, vocational or skills training aspects, which we focus on in order to support our core. Even with our work with the public sector, in which we are increasingly being asked to do things that are related to skills and employment.

In terms of under developed sectors, given the current statistics about the regional sector of education collectively, I think that there is room for improvement in terms of primary and secondary education. If you could exclude students at Gems and other leading education providers, the vast majority of children in these sectors are unfortunately not doing as well as they should. Therefore, the government is implementing a policy that is going to enhance these sectors to reach better levels of student outcomes.

What more should be done from a regulatory perspective to increase the standard of private education in MENA?

There is already inspections framework that is clearly in place which certainly looks at the schools' performance and outcomes. This is a very effective measure in outlining the relative quality that education systems should achieve.

Can you tell us more about your experience with online education and the future outlook of such a trend?

Online education is a part and parcel of what we do. We are actually providing the region's first fully online IB diploma programme in our school in Silicon Oasis, Dubai. Our approach to the online education is that, while the curriculum is being taught entirely online, the kids still have to come in from time to time to interact within the conventional school settings where they get all their required social and sports interactions.

I think that the future outlook of online education is yet to be determined. Our world is changing so fast, making it challenging to forecast the future of this trend with any degree of certainty. The perceived challenges of online education might be from the perspective of the parents - rather than from the students themselves - because they are more comfortable with the idea of having their children at a school that has conventional classrooms and teachers that are physically present. I think this perception about the concept of online education will change, but predicting further details remains challenging.

This is the 3rd year for you to participate at this event, how do you like it so far?

We have seen the conference grow and develop year after year. I think it's very good to get all the stakeholders in one room together to discuss the future of the sector. From this angle, we have been happy about the contribution that we have made to the platform.

ABOUT EDUCATION INVESTMENT



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MENA 2014

Education Investment MENA is the definitive forum focusing on the business of education in MENA. Hosting leading **Ministries, Regulators, Educators, Investors and Advisers**, the annual meeting point of the private education community provides expansion, innovation and partnership opportunities for education businesses in **Early Years, K-12, Higher, Vocational and Skills** sectors.

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