

Sample Merger and Acquisition Analysis

January 2019

rpk GROUP
from mission to market

Project Description and Goals

- This analysis focuses on the opportunities afforded by a possible strategic alliance between _____ College and _____ University
- The goals of the project included:
 - Creating an operating model for each institution, leading to a consolidated operating model.
 - Utilizing the model to identify and test the impact of various operating “levers” at the institutions which might reduce cost, create economies of scale, and allow for resource reallocation to support investment in growth initiatives.

Strategic Alliance Modeling

- Central to the success of this project was the creation of a tool for both institutions, rather than just a financial analysis.
- The business model tool utilizes three years of audited financial data for the period FY 2012-2014, the revised FY 2015 budget figures, and a three year projection period FY 2016-2018.
- The model successfully ties to each institution's historic financial statements, providing confidence in the model projections.

Institutional Levers

- Key Question: How might we frame and analyze the business model benefits of a strategic alliance?
- This project focuses on the impact of institutional levers, including:
 - pricing
 - tuition discounting
 - enrollment mix and size
 - production efficiencies, and
 - other operating costs

Key Findings

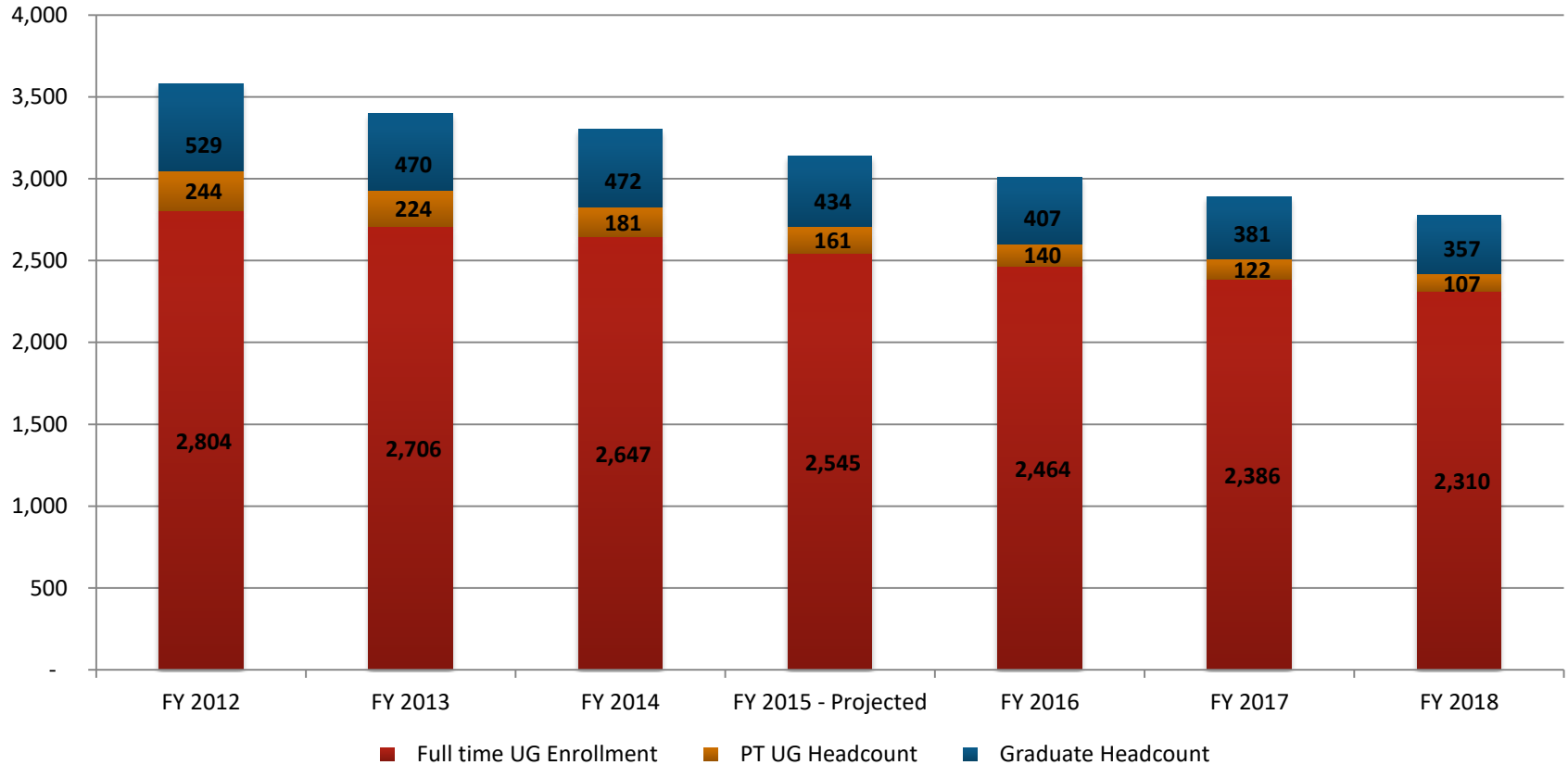
- Baseline trend analysis shows 4% decline in total FTE enrollment, worsening efficiencies and annual deficits in out years
- Of all “1% change” factors, enrollment growth has the biggest impact
- Significant positive impact opportunities are projected from relatively small, though not always easy to achieve, efficiency increases
- Reallocation strategies exist which could arrest downward enrollment trends and contribute to growth scenarios

Setting a Baseline for Analysis

- What does life looks like if we just continue doing what we are doing now?
 - Undergraduate FT Enrollment -3% annually
 - Student/Faculty and Student/Staff Ratio -3%-4% annually
 - Annual Net Revenue Deficits FY 15-17

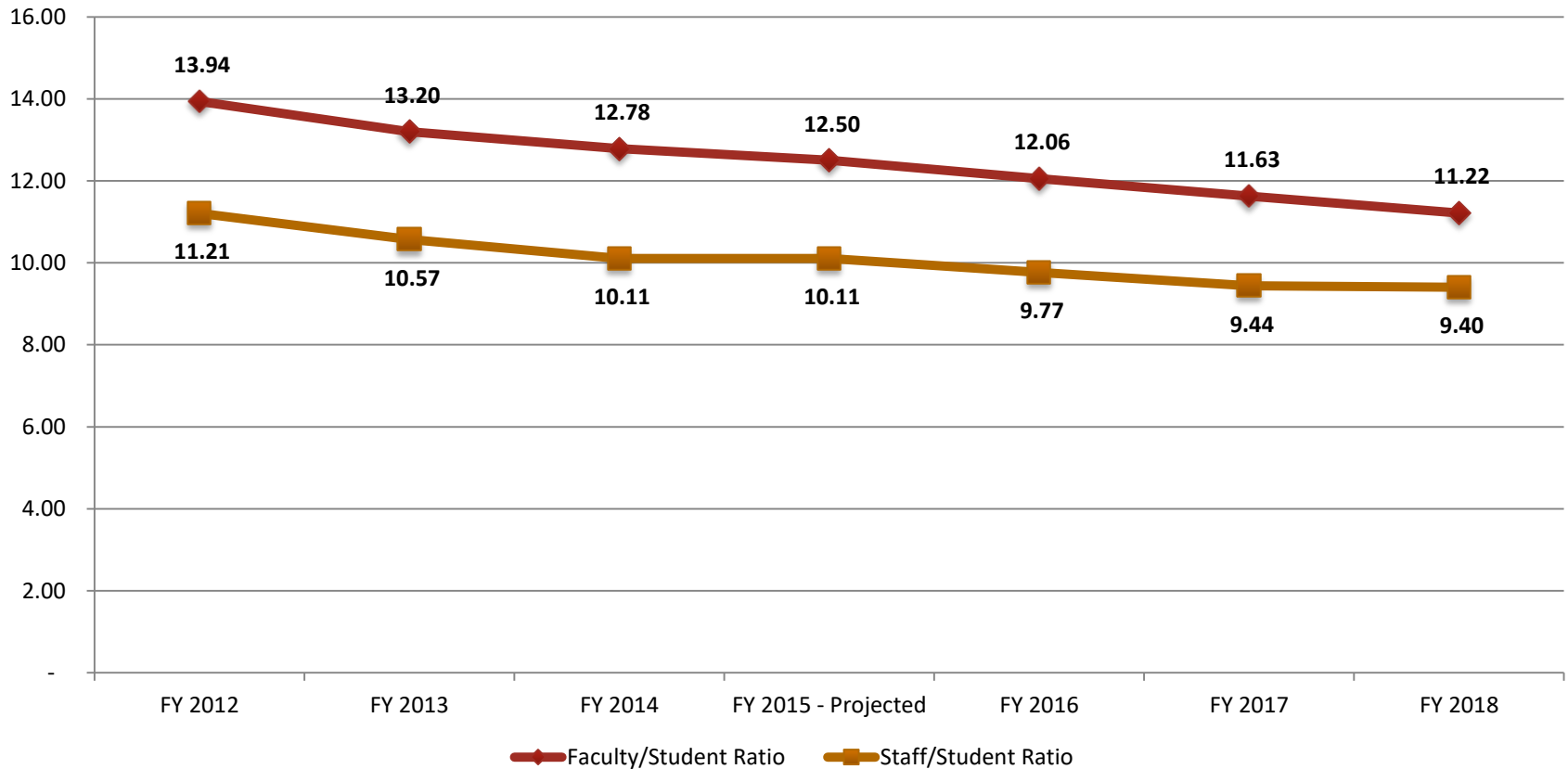
Enrollment Continues Its Negative Trend

Enrollment – Trend Analysis



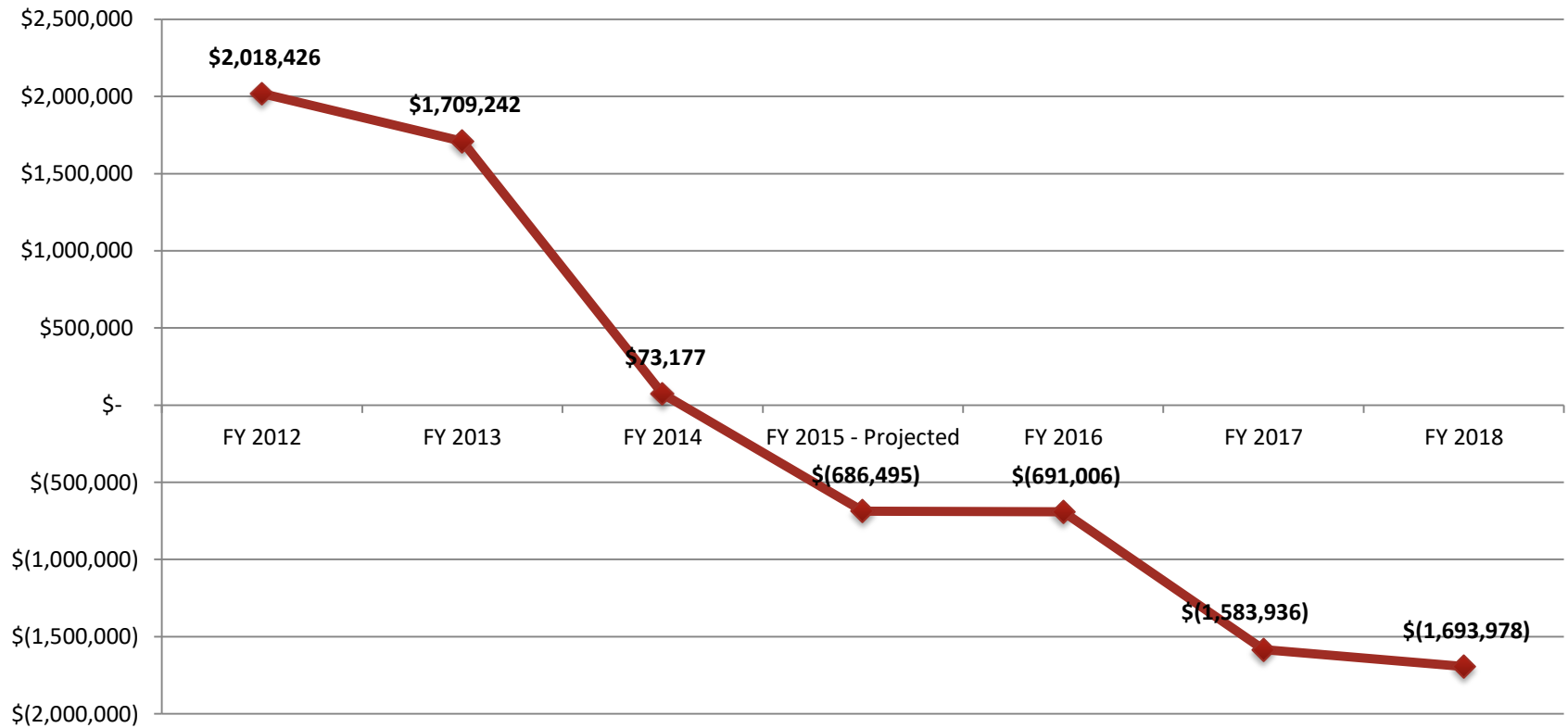
Drop in S/F and S/S Ratios Hurt Efficiencies and Bottom Line

Student/Faculty and Student/Staff Ratio – Trend Analysis



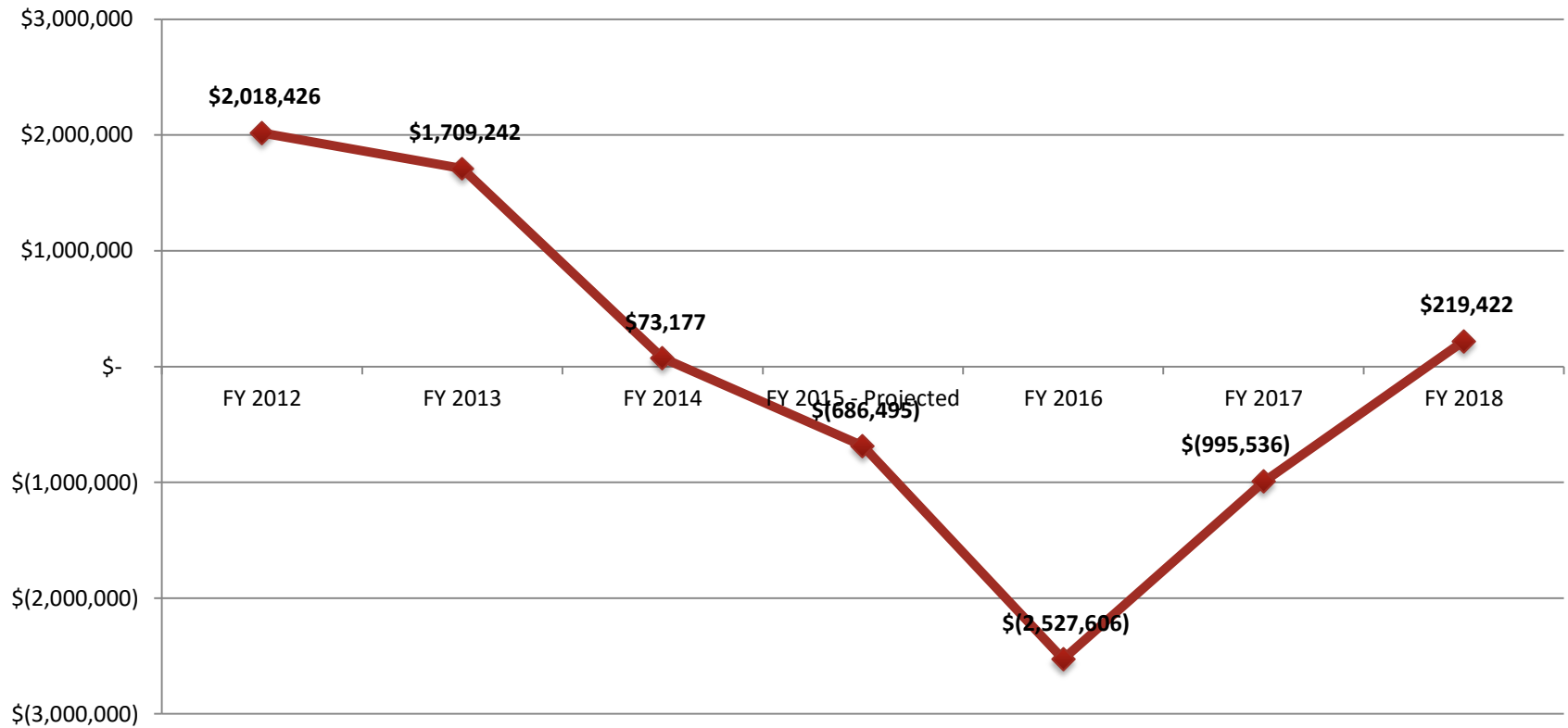
Limited to No Ability to Reinvest Institutionally

Annual Net Revenue - Without Savings and Transition Costs – Trend Analysis



Even When Savings Kick In, Will It Be Enough?

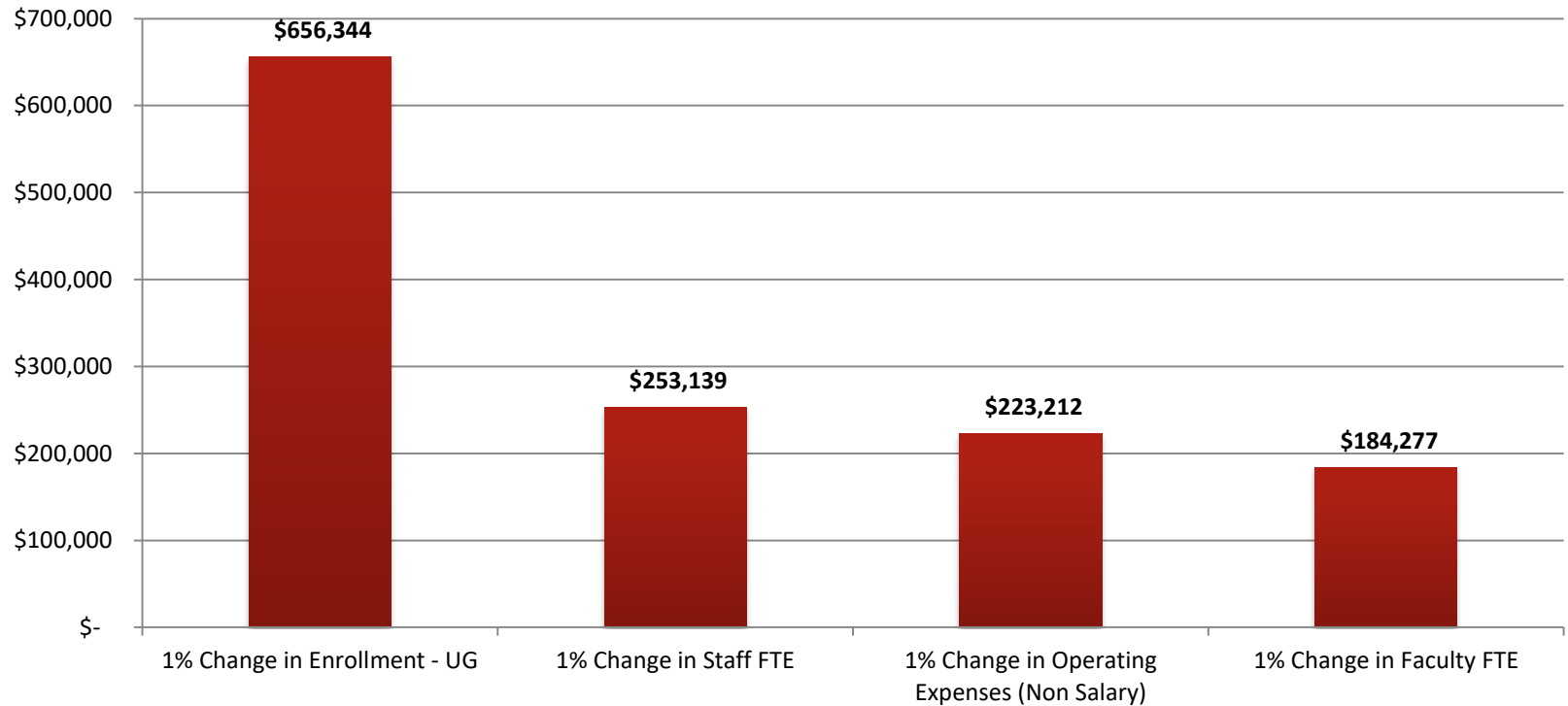
Annual Net Revenue - With Savings and Transition Costs – Trend Analysis



Power of 1% Changes

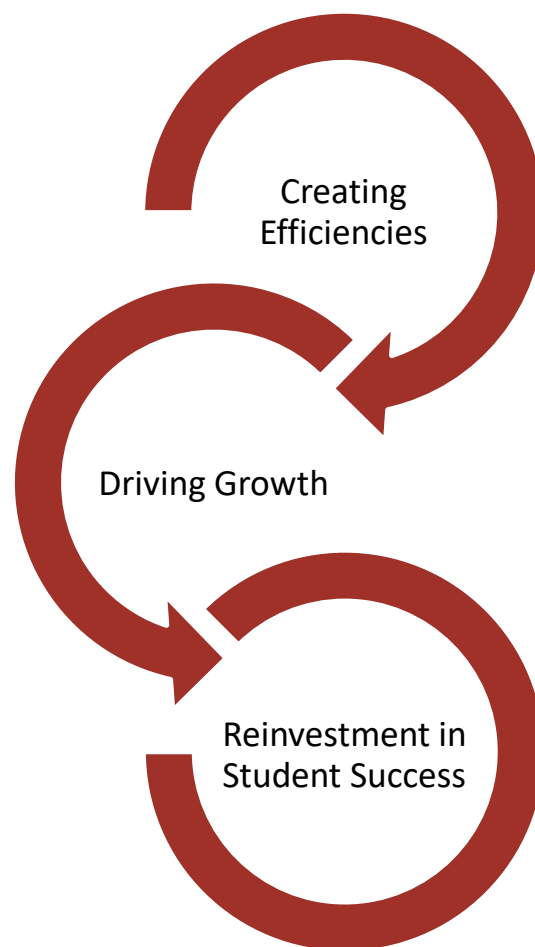
Where might we focus our efforts and what changes have the biggest impact?
Model suggests enrollment growth has biggest impact.

1% Changes - Using Projected FY15 as Base



Focusing on Key Opportunities

- Two areas of focus:
 - Creating efficiencies
 - Driving toward growth
- Creates a sustainable business model and the opportunity to reinvest in student success

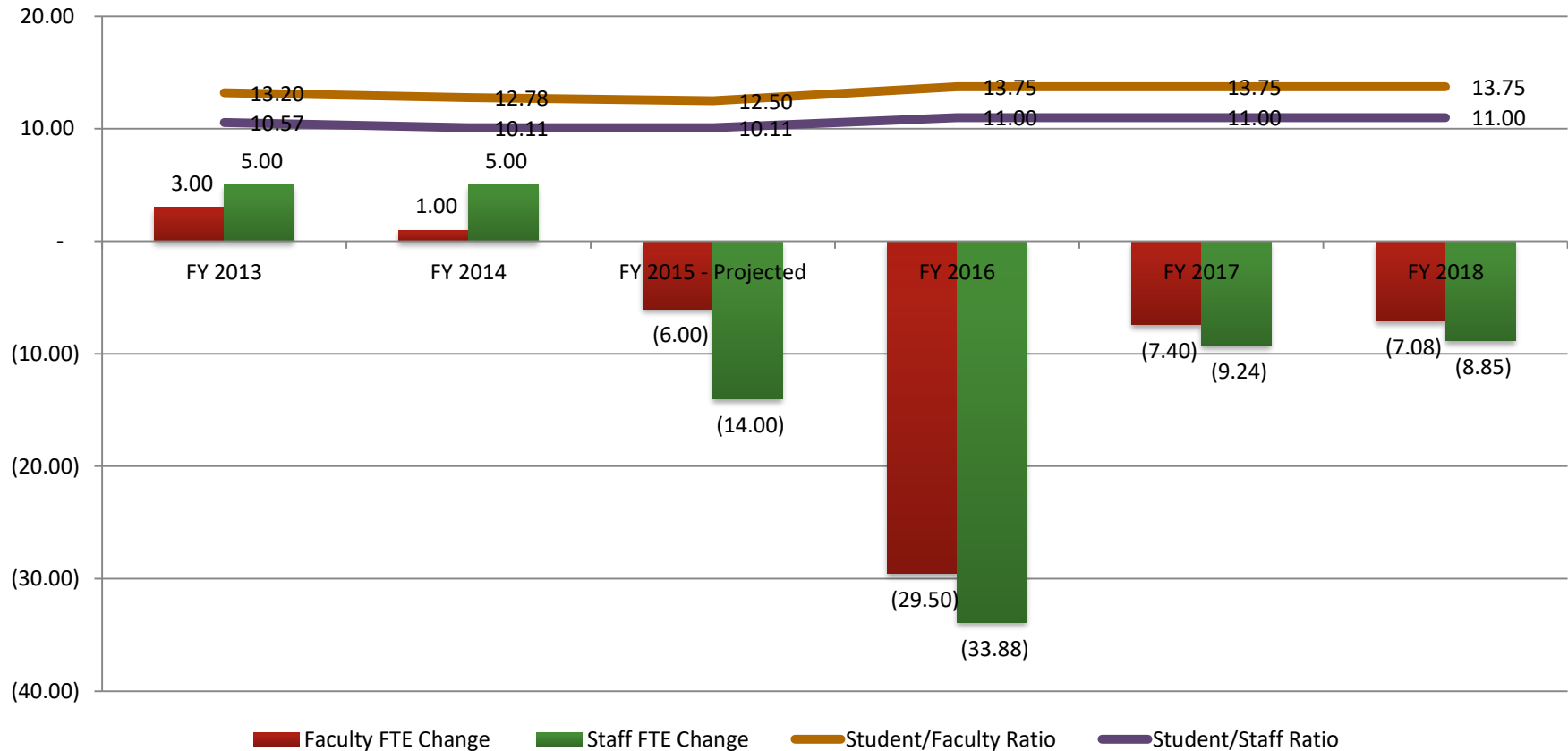


Using Institutional Levers to Gain Efficiencies

- The model uses student/faculty and student/staff ratios to evaluate the impact of efficiency changes
- What industry best practice might impact S/F ratio?
 - Class size
 - Number of sections
 - Release time
 - Assessment of which programs should have majors
 - Leveraging technology
- What industry best practice might impact S/S ratio?
 - Economies of scale from consolidation
 - Outsourcing
 - Leveraging technology and service level triaging

A 10% Change in S/F and S/S Ratio Has a Significant Impact

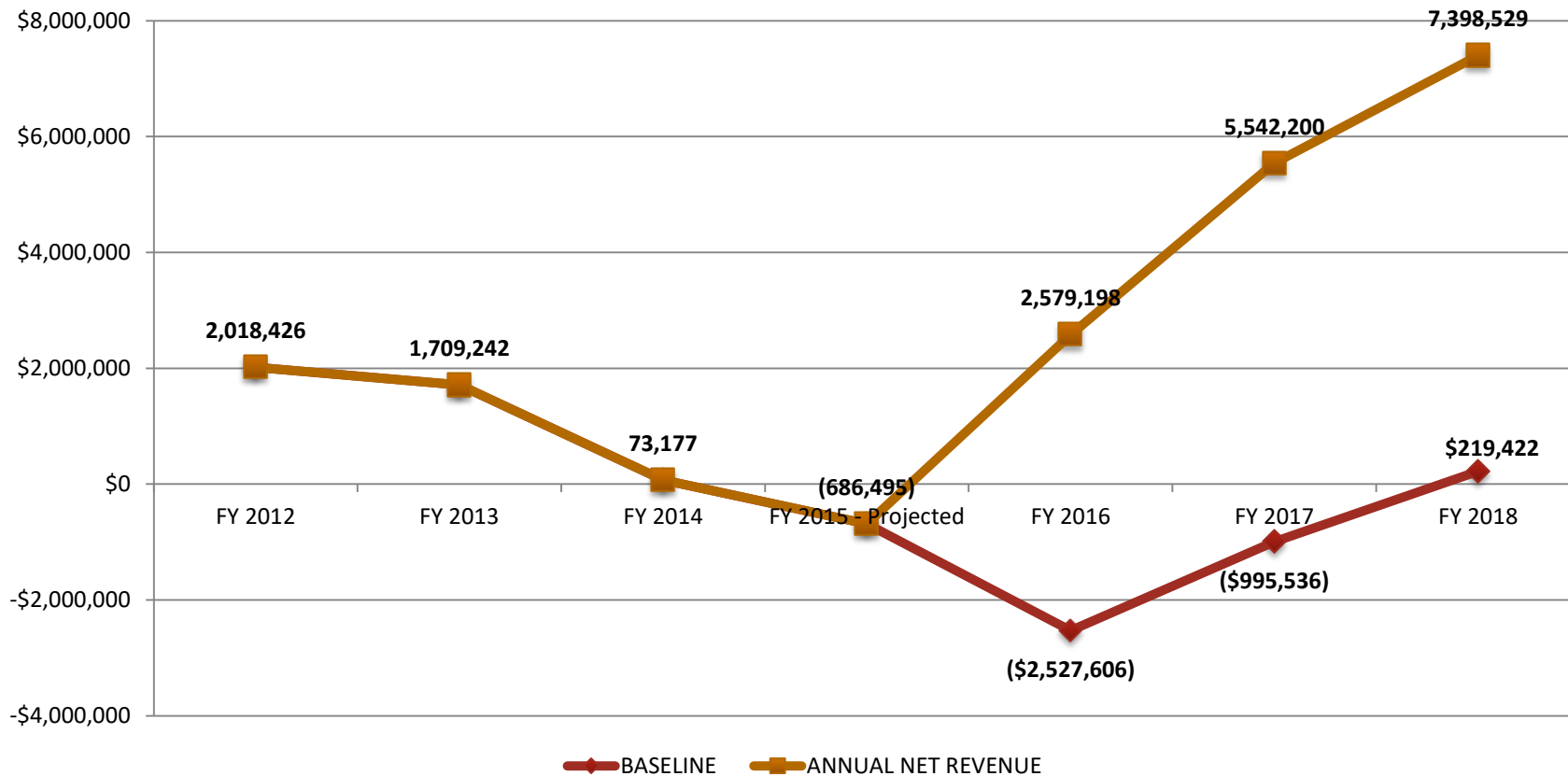
Impact on FTEs with Change in S/F and S/S Ratios



10% Shift in Staffing Ratio Would Allow for Reinvestment

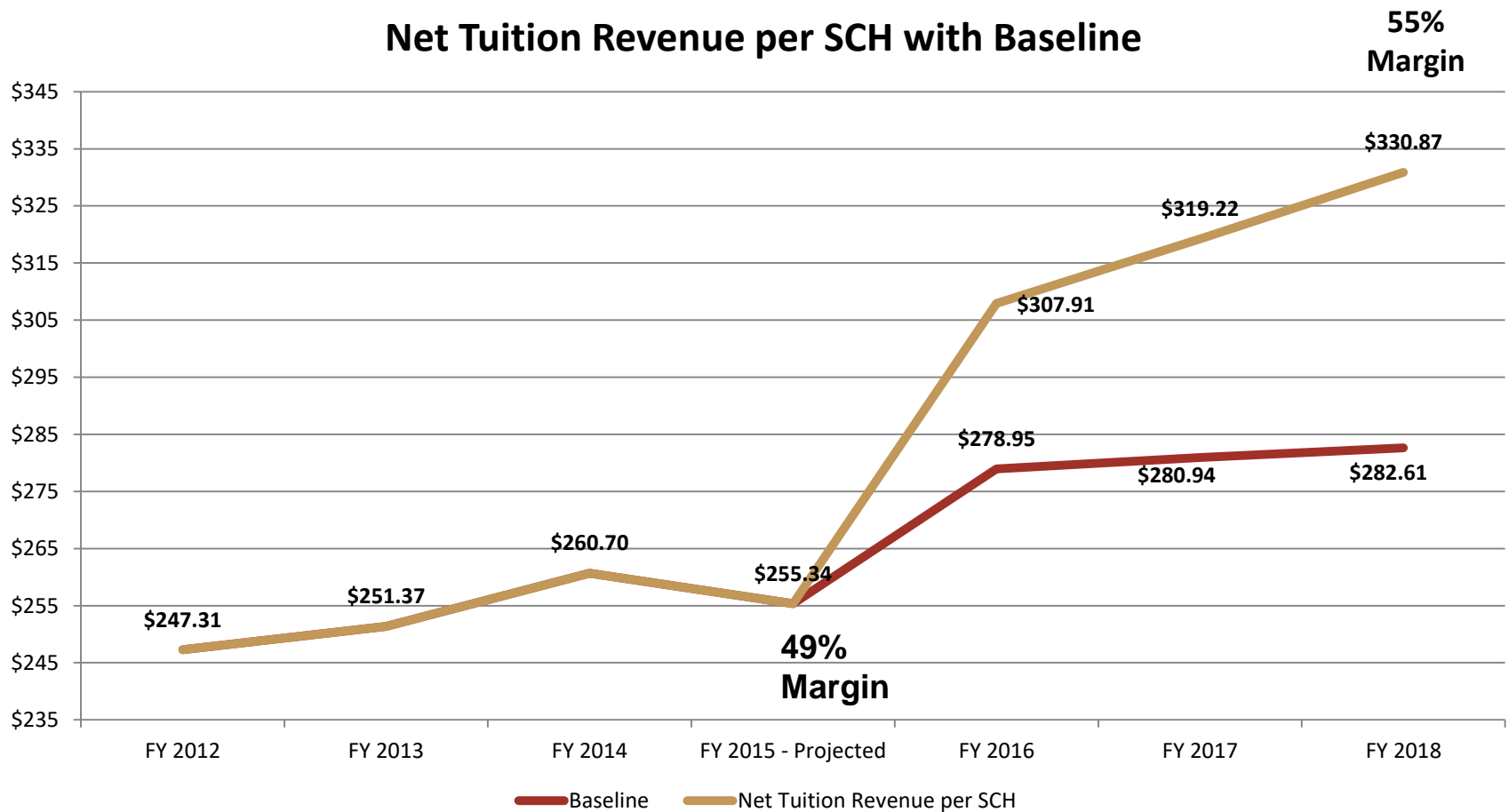
Creating these new efficiencies could add \$5 million to annual net revenue in FY 2016

Annual Net Revenue with Baseline



Change in S/F Ratio Shifts Net Revenue per SCH

Net Tuition Revenue per SCH with Baseline

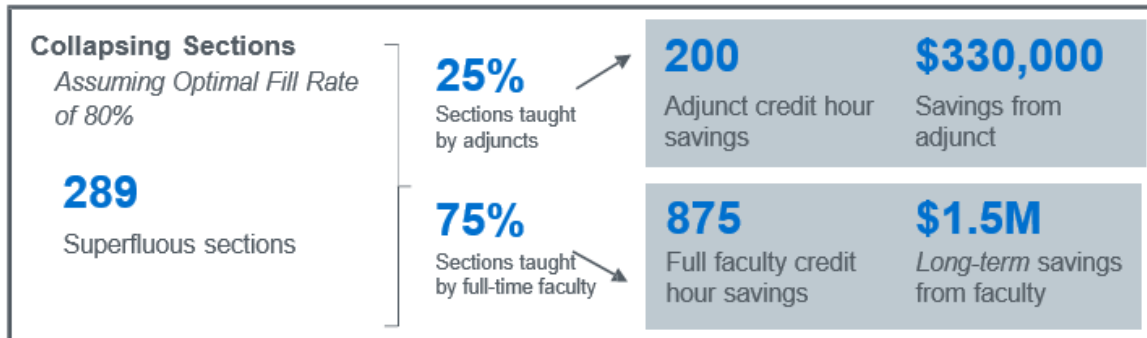
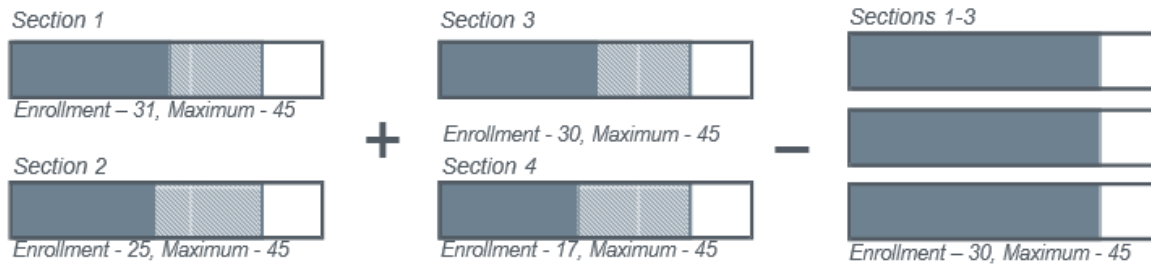


Flying the Planes Full

Institutions are beginning the hard work of understanding how to better allocate resources to improve efficiencies and allow for reinvestment

- Colleges can improve efficiency by making sure sections are filled at an optimal level

Lower Division Anthropology Course



1) For Impact analyses, all courses with a maximum enrollment of zero are excluded.

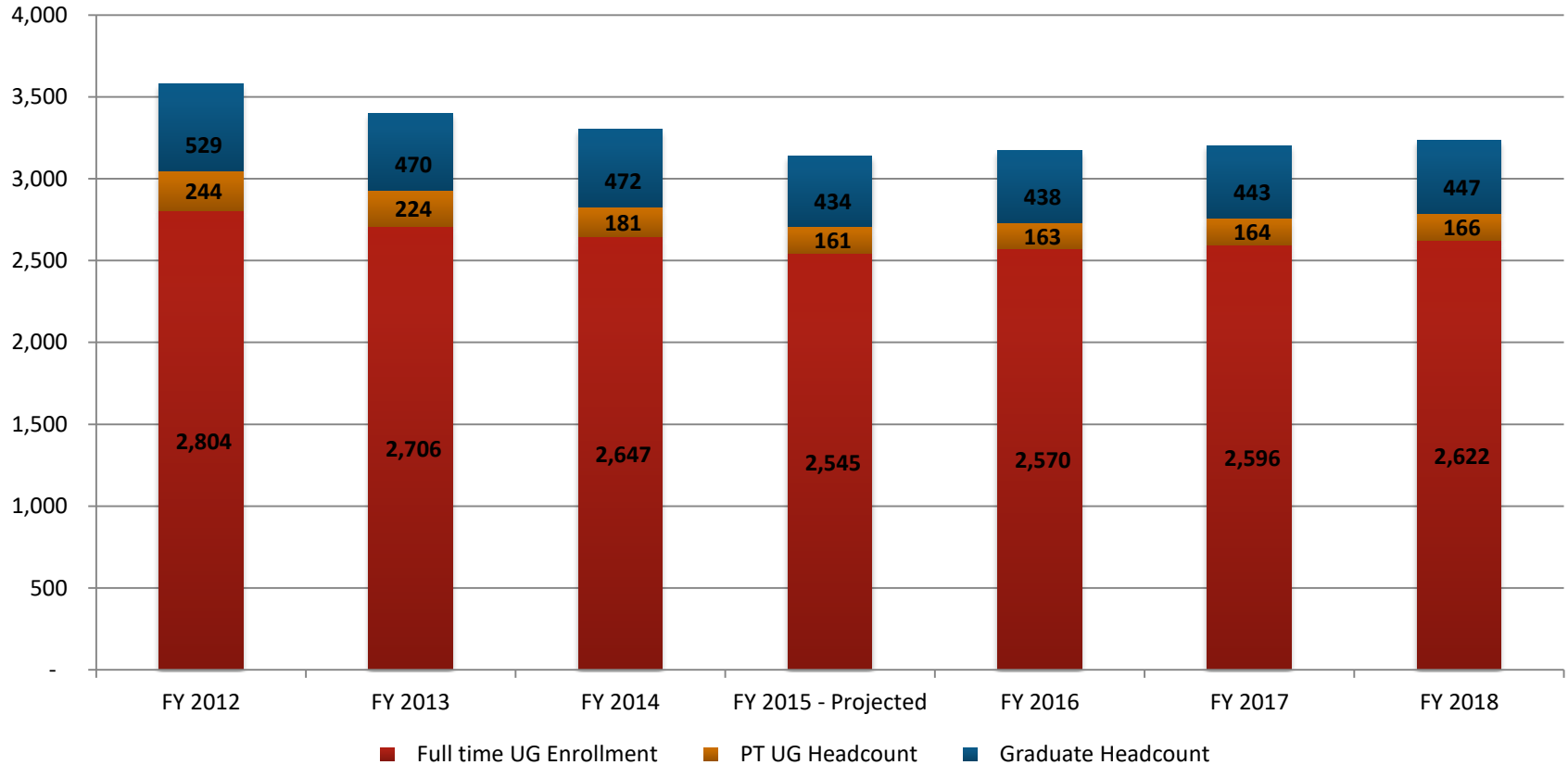
Source: EAB-Gates Report "Reallocating Resources to Support Academic Excellence"

Moving to Growth

- What best practices could contribute to growth strategies?
 - Identification of and investment in signature programs
 - Reallocation strategies for higher demand/yield programs
 - Identification of areas of workforce shortage

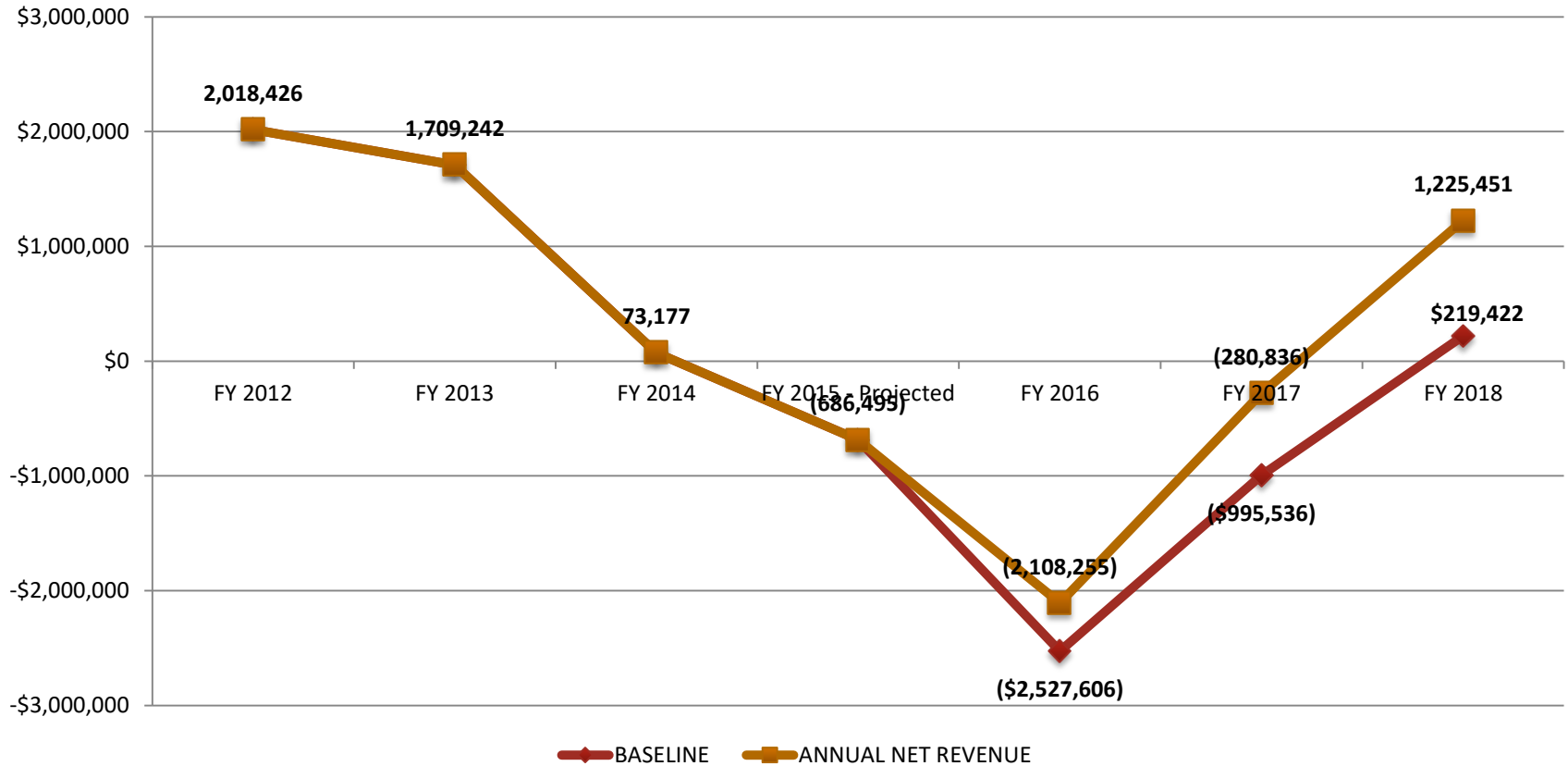
1% Growth in All Academic Programs

Enrollment



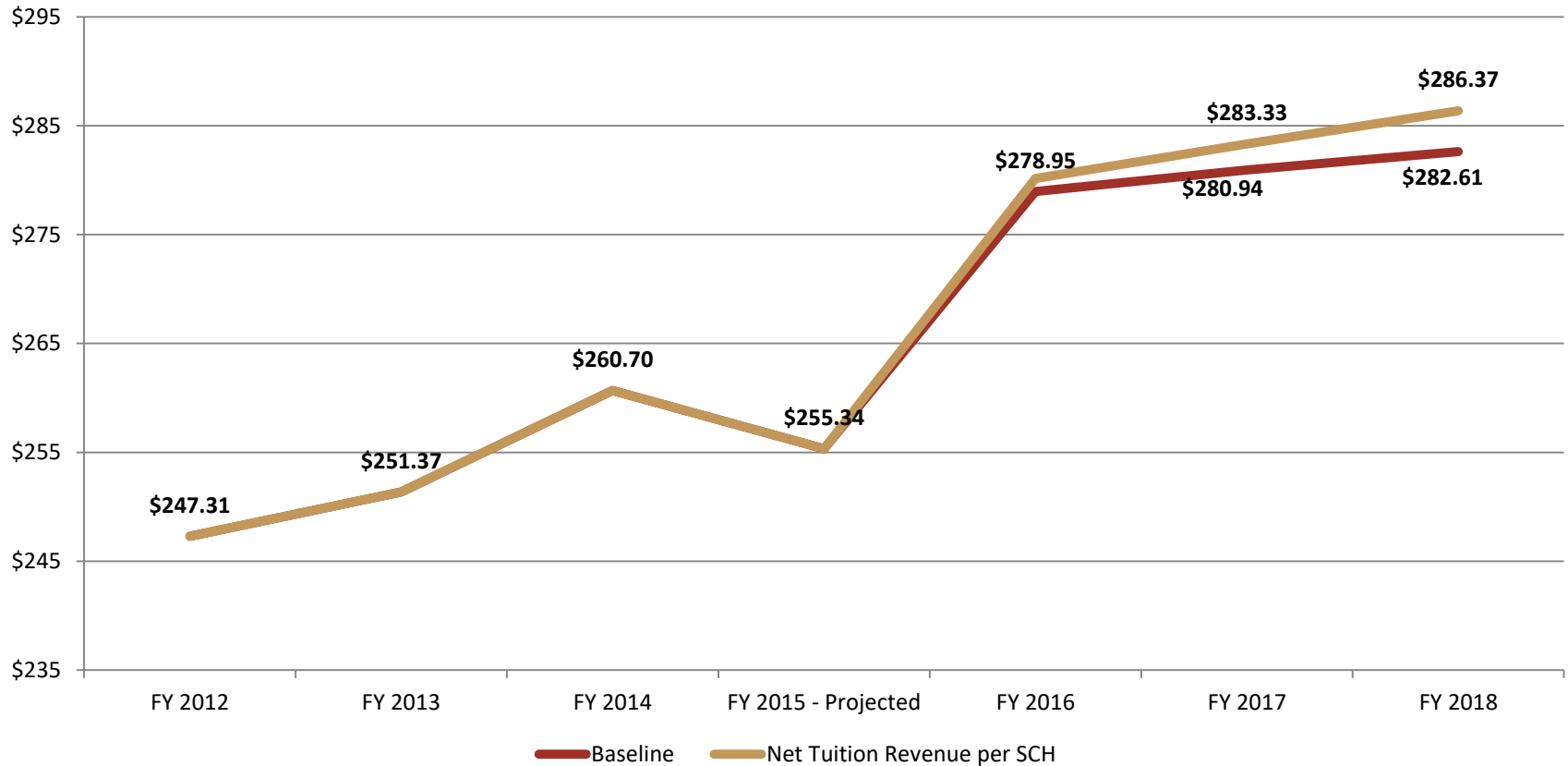
1% Growth in All Academic Programs

Annual Net Revenue with Baseline



1% Growth in All Academic Programs

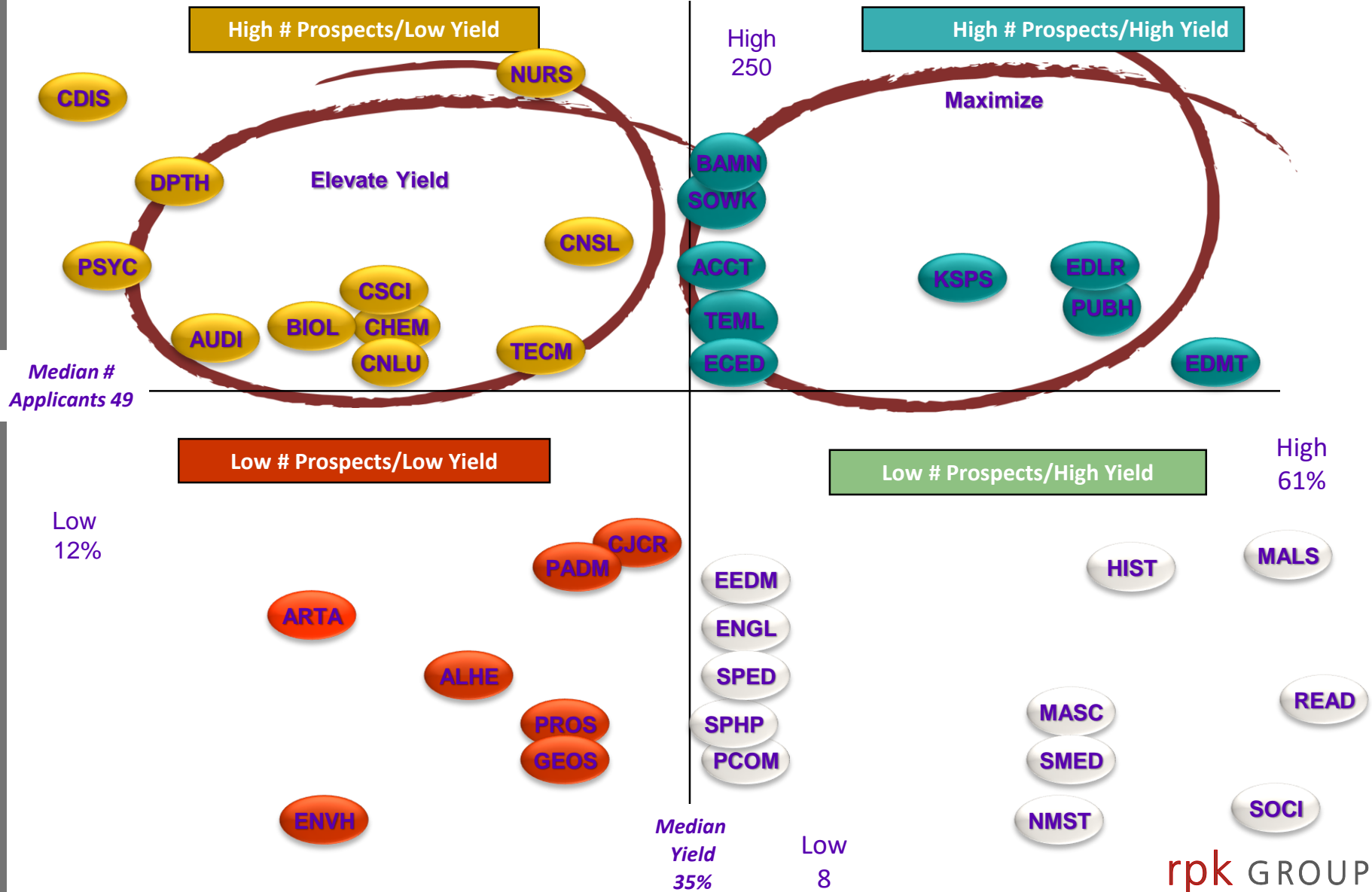
Net Tuition Revenue per SCH with Baseline



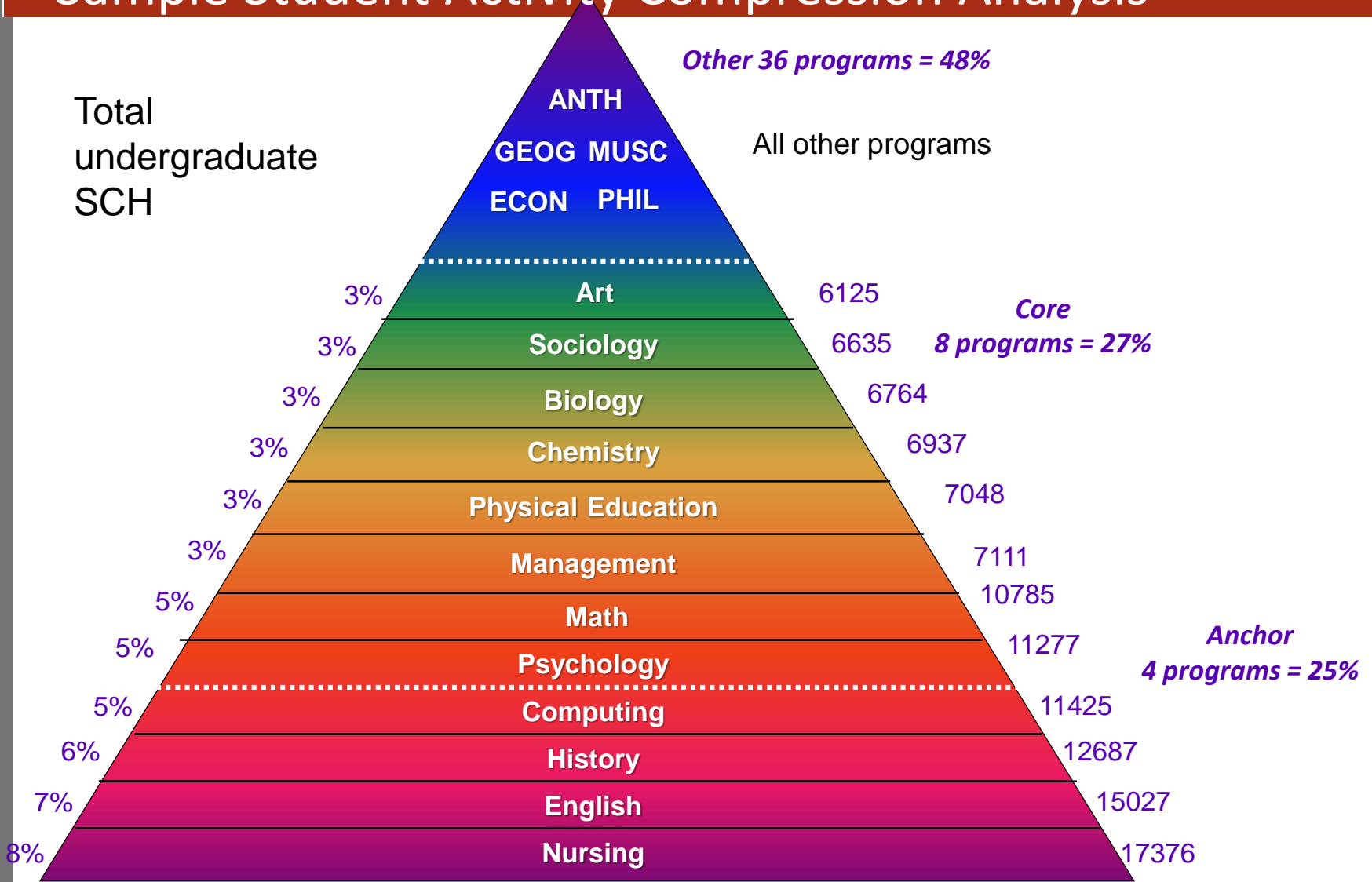
Thinking About Reallocation – A Framework

- **Flow**
 - Student demand and yield
 - Instructional activity
 - Retention and degree production
 - Net revenue
- Group programs into categories
- Consider investment/reallocation opportunities

Sample Reallocation Strategy Analysis



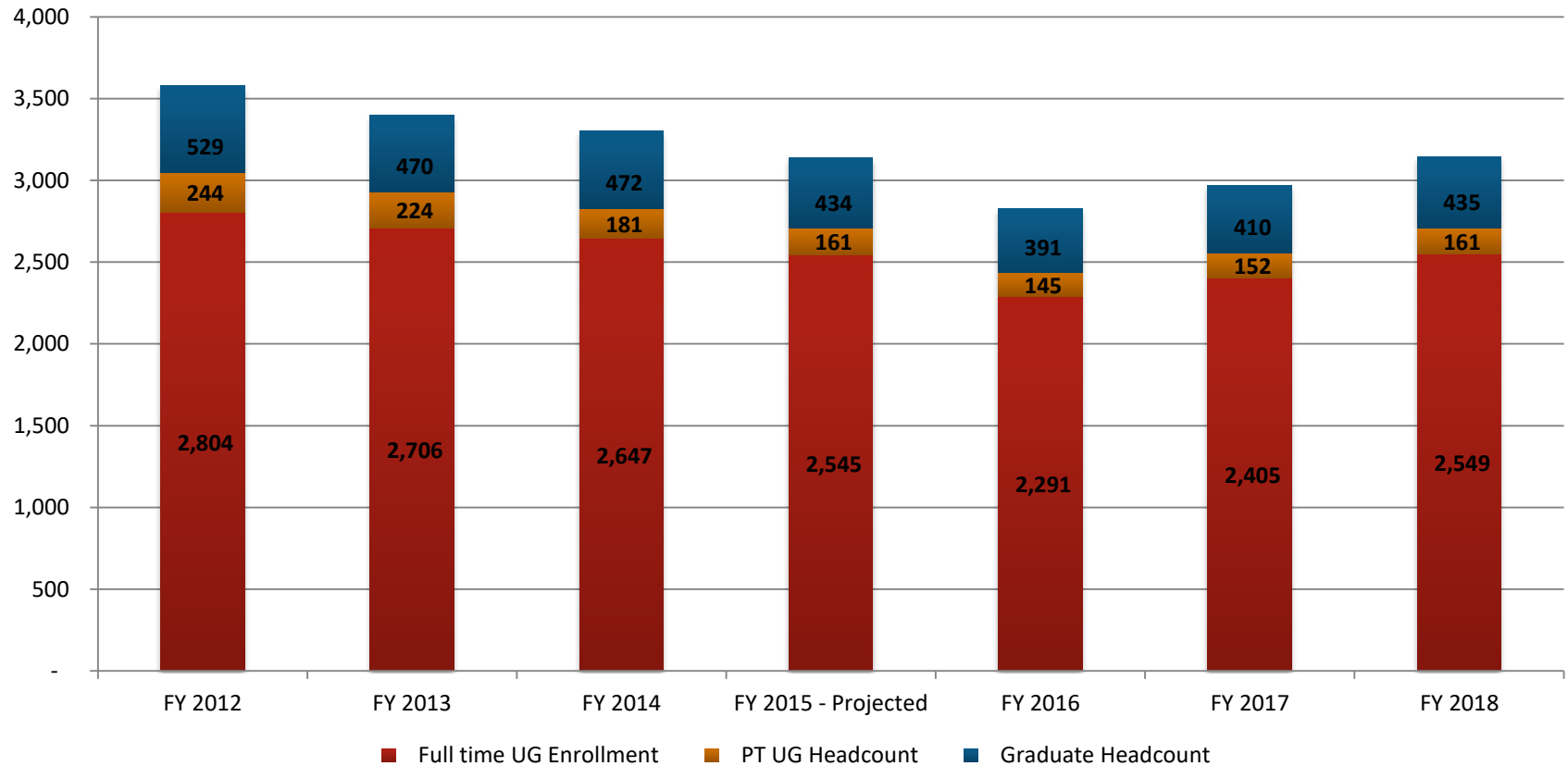
Sample Student Activity Compression Analysis



A Final Projection Scenario

In this scenario, we see a drop of 10% in enrollment, with a recovery by FY 2018

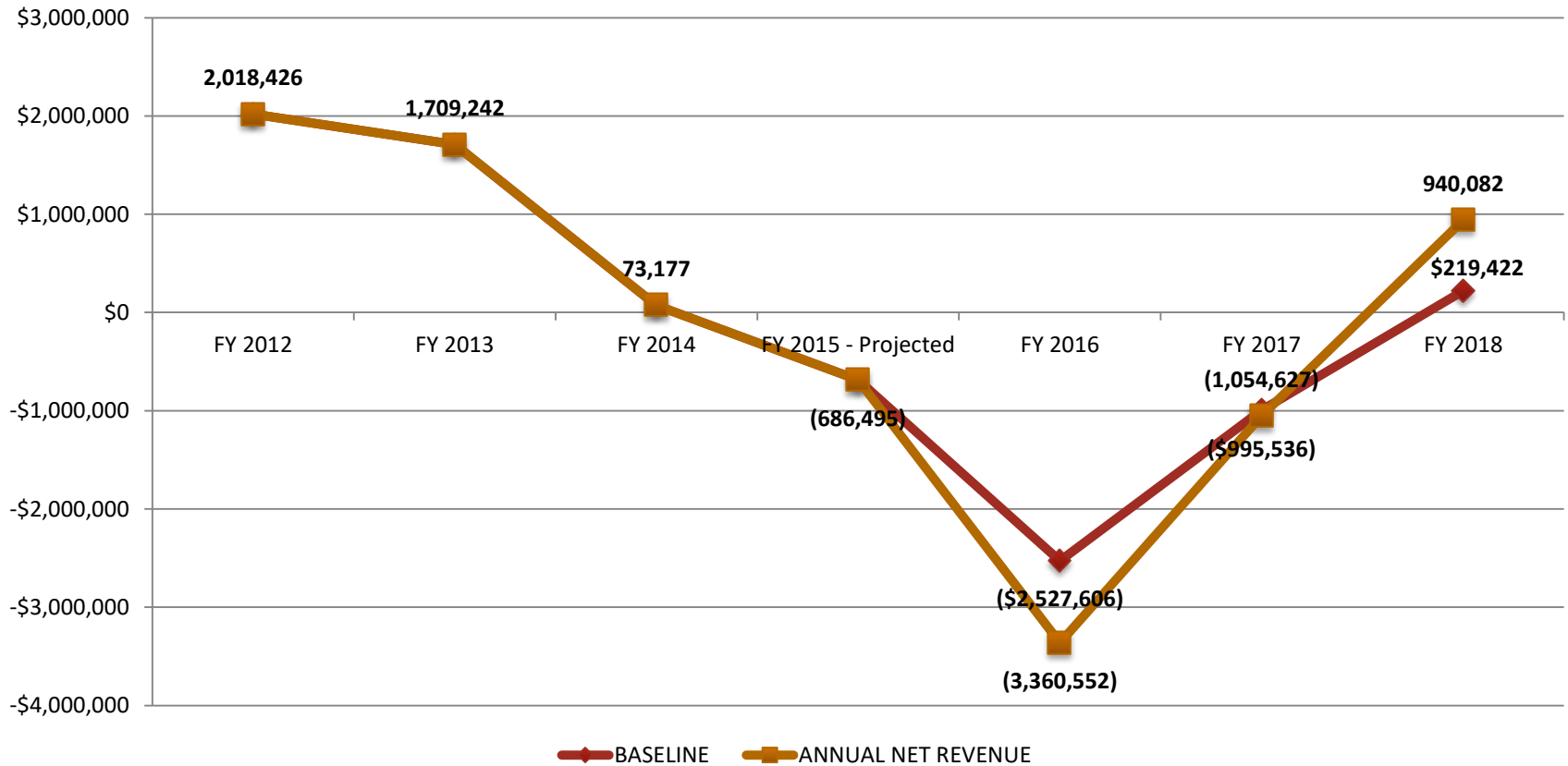
Enrollment



A Final Projection Scenario

In this scenario, we see a drop of 10% in enrollment after Alliance is created, with a recovery by FY 2018

Annual Net Revenue with Baseline



Where Might Additional Savings Come From?

NON-ACADEMIC PERSONNEL OPPORTUNITIES for SAVINGS

POSITION	AMOUNT
President	\$ 320,100
Academic and Student Life	671,100
Institutional Advancement	396,500
Enrollment Management	203,600
Business/ Finance	218,500
Information Technology	228,600
Total	2,038,400
Hilbert Campus Executive	(125,000)
Total, net	<u>\$1,913,400</u>

Total Estimated Transition Costs

Transition Cost Estimates (not funded by existing grant funds)

Description	Estimated
IT integration/conversion	\$2,500,000
Faculty Severance	800,000
Staff Severance	900,000
Public Relations/Marketing Campaign	300,000
Legal	100,000
Capital Costs	TBD
Meeting/Transportation costs	100,000
Athletics-- uniforms/branding?	125,000
Academic program start-up costs	250,000
Total Estimated Transition Costs	<u><u>\$5,075,000</u></u>

Next Steps

- Does the model allow us to engage with stakeholders around the opportunities presented by a strategic alliance?
- What other data or analysis might we need to inform the decision making around the strategic alliance proposal?