

FOR-PROFIT EDUCATION IN GCC

January 2011

Market Size to more than Double by 2015



EXECUTIVE SUMMARY

The market size of the for-profit education sector in the GCC is set to more than double by 2015 to USD 50.0 billion, driven by the increasing enrolment ratio of school age population. This, combined with the rising quality consciousness of an increasingly wealthy population, will lead to a larger share of for-profit institutions in a growing education sector pie. With primary and secondary enrolment ratios close to the peak in most countries, the tertiary enrolment market, which remains highly under-penetrated, offers a significant potential for growth.

The GCC countries have recently witnessed high GDP growth rates, driven by increasing oil prices. The last few years have seen an increased awareness in the region for the need to diversify the economies away from oil, leading to investments in physical and social infrastructure. The education sector has been a major beneficiary of this trend.

The rapid economic growth has led to increase in personal incomes of the population, expected to rise at 7.3% annually from 2009 to 2015. This has led to rising awareness among the population of the importance of education in order to compete in the globalized world. Governments across the region have taken various initiatives to encourage education and improve quality, and this is expected to contribute significantly to the growth of the sector. Major investments are being made in education infrastructure; reforms have been initiated to improve curricula and train teachers; and institutions are being established for quality monitoring.

The region, experiencing high population growth expected at 2.5% annually over the next 6 years, is in the midst of a youth bulge, with an increasing number of young people.

We believe that all these factors will contribute to a rise of 5.0% in enrolment rates of school age population from 2009 to 2015. Tertiary education stands to benefit the most, with enrolment ratios rising to 41.0% in 2015 from 28.0% in 2009.

Though historically, education has always remained a public sector focus, there has been an increase in private sector participation in the region in the recent past. The presence of a large expatriate population, which prefers private education, has already created a strong foundation for private sector participation in the sector. With quality consciousness rising on the back of increasing wealth, enrolments in private institutions will witness high growth. Further, governments have been undertaking initiatives to encourage private sector participation to improve overall quality. All this put together, this will lead to significant opportunities for growth of the for-profit education sector. Of this, higher education will constitute 60.0% of the for-profit education industry by market size.

Lack of quality, shortage of qualified teachers, and traditional under-emphasis on English, science, and math are the key challenges faced by the sector. With growing awareness of the existence of these issues, governments have undertaken various initiatives have been taken by governments to help overcome these challenges.

EDUCATION IN THE MENA REGION

The Gulf Cooperation Council countries have grown rapidly in the last few years, with rising oil prices leading to increasing wealth and infrastructure development in these countries. Growth in the region has been faster than the growth in the number of qualified professionals required to meet its needs. This resulted in heavy reliance on an expatriate labor force and persistent unemployment of locals. The experience of Bahrain, Dubai, and Oman, which are close to exhausting their hydrocarbon resources, provides an example of the need for, and benefits of, investment in the region's greatest assets – its youth.

Education has become a key spending and policy priority in most countries. As we will detail later, major investments have been made to ramp up educational infrastructure

and policy reforms have been undertaken to ensure quality and to develop curricula.

The education sector in GCC has shown tremendous growth in the last few years. This is mainly because of rapidly growing young population, as well as rising enrolment rates in education. We expect this trend to continue going forward for secondary and especially for higher education, which remains highly underpenetrated.

To date, education in GCC has been heavily reliant on public funding, but private sector participation is on the rise, with various companies operating in the sector through innovative business models to exploit the tremendous opportunity offered by education.



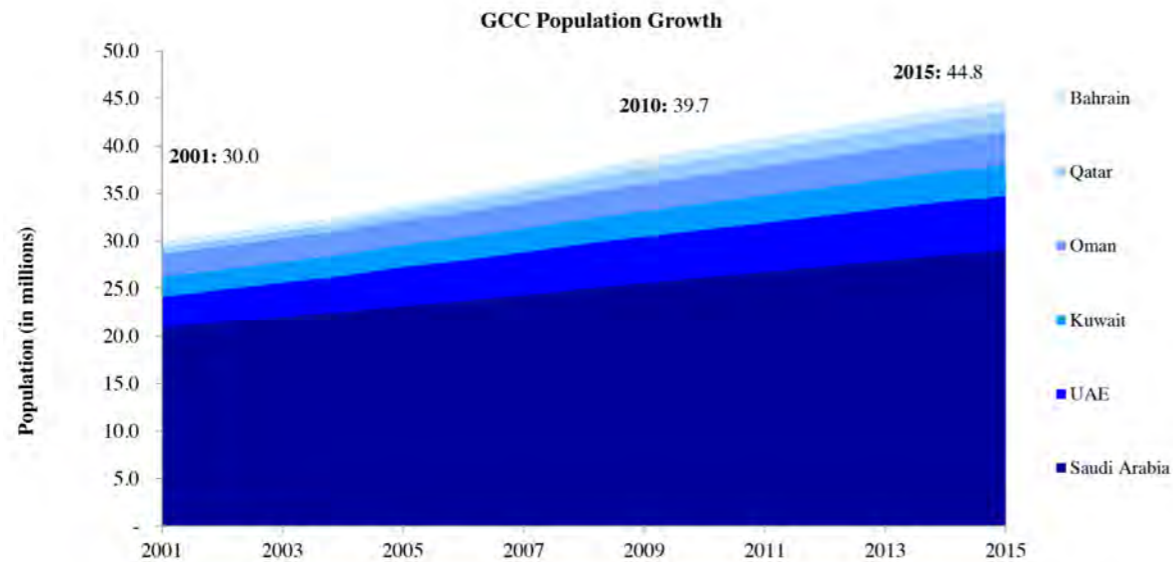
THE MARKET SIZE OF THE FOR-PROFIT EDUCATION SECTOR IN THE GCC IS SET TO MORE THAN DOUBLE BY 2015 TO USD 50.0 BILLION

EDUCATION HAS BECOME A KEY SPENDING AND POLICY PRIORITY IN MOST COUNTRIES IN MENA

GROWTH DRIVERS

The Demographic Dividend

A rising young population, coupled with growing expatriates, is expected to drive education demand in the GCC. The region's population growth has averaged 3.5% from 2004-2009, against 1.2% globally, and is expected to grow at a CAGR of 2.5% to 44.8 million by 2015.



Source: IMF.

GCC countries are currently experiencing a youth bulge, with 60.0% of the regional population under the age of 30. This will result in a growing demand for education services in the region. The success of the region in educating and employing this young population will be a significant contributor to its future development.

Migrants in the Population

The Gulf's construction boom and tax-free status has attracted expatriate workers to the region. In 2010, expatriates are expected to constitute 38.9% of the population of



the six GCC states. In countries such as Qatar, UAE, and Kuwait, migrants have become a majority of the population.

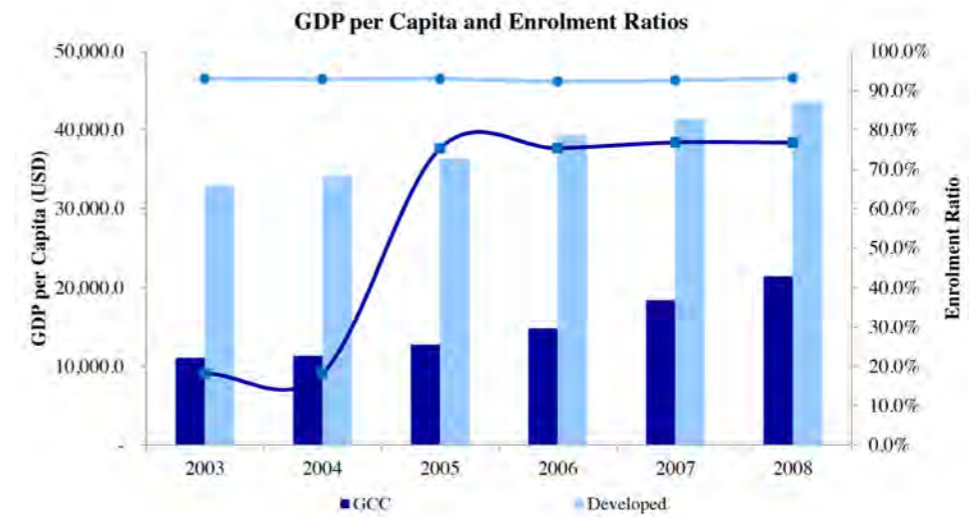
The high number of expatriates has led to a rise in demand for education at par with their home countries boosting demand for private education in the region. Also, most public institutions use Arabic as medium of instruction which is not preferred by non-Arabic speaking migrants, driving migrant families to send their children to private schools. This trend is evident in countries with high migrant population, which have a higher proportion of primary enrolment in private schools, such as Qatar (50.3%), Kuwait (37.6%), and UAE (69.7%) as of 2008.

Rising Income Levels

The economic growth of the GCC countries has created immense opportunities for the people of these countries. With one of the highest per capita incomes, this region still lags in education. Increasing urbanization and rise in income levels have raised the standard of living in the region. This has also influenced the attitude of people towards education, leading to improvement in gross enrolment ratios in all countries. As seen below, with GDP per capita expected to grow 7.3% annually from 2009 to

2015, focus on education by families in the region is set to increase, and this will narrow the gap between enrolment ratios of GCC and developed countries.

Also, as average household incomes increase, the number of households that can afford private higher quality education for their children also rises. This is evident in Saudi Arabia, where ~90.0% of students study in public schools, and only the wealthiest nationals and expatriate children attend private schools. The significant rise in GDP per capita will lead to rapid growth in the number of middle-class families, which will be a key target market for private sector education providers.



Source: IMF.

Growing Enrolment Ratios

Enrolment ratios in GCC have been on an upswing in recent years. Secondary enrolment ratio has increased from 89.9% to 93.8% over 2005 to 2009, while tertiary enrolment ratio has increased from 26.5% to 28.3% over the same period.

The enrolment rates are likely to increase, as educational awareness and government reforms translate to increase in the number of parents willing to send their children to school. We estimate that enrolment rates for secondary education will increase to 98.4% by 2015, and further rise to 100.0% after 2015.

While primary enrolment ratios have already peaked in most of the countries, secondary is close to the peak, tertiary enrolment ratios are significantly low as compared to developed countries.

Tertiary enrolment rates are expected to increase to 40.5% by 2015. We believe that tertiary education will be the biggest driver of growth in the space.

Private Education = Quality Education

Private education is generally perceived to be better quality. This is especially true in the GCC, where public schools usually mean state-funded education in Arabic. Increasingly, parents are seeking international and bilingual education for their children, mainly due to the importance of English, need for quality education, and exposure to expat students with diverse cultural backgrounds. Private schools emphasize mathematics, science, and English in their curricula and prepare students for the requirements of higher education. As the GCC economies become more globalized, there is likely to be higher demand for schools and colleges providing a more global education, which will translate to more education investment opportunities for the private sector. At the same time, with rising income levels, parents in the region will become more quality conscious, and will prefer to send their children to private schools due to their perceived quality.

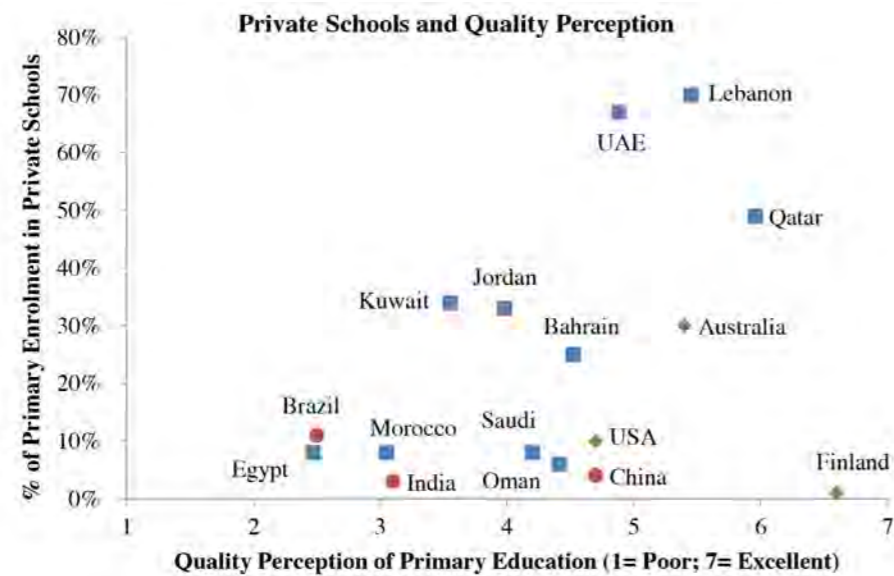
ENROLMENT RATIOS IN GCC HAVE BEEN ON AN UPSWING IN RECENT YEARS



As shown below, the perceived quality of primary education is higher in countries such as UAE, Lebanon, and Qatar, where private schools have a higher proportion in primary enrolments, while Egypt and Morocco have lower quality education, stemming from lesser private schools. This trend is visible in other countries as well, with Brazil and India having low quality primary education, and Australia, long known for its educational strengths, having good quality education from more private schools. Fin-

land has a very strong public educational system which is heavily subsidized by the government, and stands as an exception to this trend.

We expect total enrolments in the GCC for-profit sector, which increased from 10.9% in 2005 to 13.0% in 2009, to grow to 17.7% by 2015, reflecting increasing importance given to quality of education by students and parents.



Source: World Economic Forum Global Competitiveness Report 2010-2011, Education for All Global Monitoring Report 2010.

Outbound Students

The quality of higher education in relation to international standards and requirements of the job sector is still a key issue for governments. Majority of the higher education institutes in the region have traditionally focused on humanities. To cope with this situation and be able to compete for jobs, regional students are moving overseas, reflecting on the inability of local education to meet international standards. This has prompted governments in the region to encourage foreign universities to open their branches in the region in an attempt to discourage students from going abroad for seeking higher education. This also represents an opportunity for the private sector, which can open private universities or offer services to educational institutions.

Governments have also started taking efforts to revamp curricula to better match international standards. There is

a growing focus on English, science, and math education. Countries such as Saudi Arabia and UAE have plans to rapidly increase spending on research and development to encourage innovation in science and technology. Countries have also developed teacher training programs to improve quality. This is likely to slow down the rise in students from the region going abroad to seek higher education.

As the outbound mobility ratio* has been witnessing a declining trend over the last few years, in spite of the increase in the absolute number of students going abroad.

The effectiveness of these initiatives can be seen, as the outbound mobility ratio has been witnessing a declining trend over the last few years, in spite of the increase in the absolute number of students going abroad.

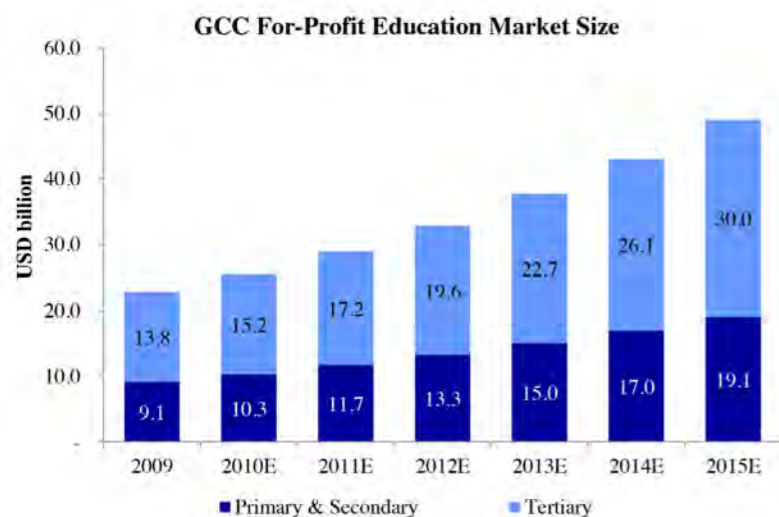


GOVERNMENTS HAVE STARTED TAKING EFFORTS TO REVAMP CURRICULA TO BETTER MATCH INTERNATIONAL STANDARDS

*Outbound Mobility Ratio = (Number of Students Going Abroad / Tertiary Enrolments) x 100.

FOR-PROFIT EDUCATION MARKET SIZE

We estimate the market size for the for-profit education industry in the GCC to more than double to USD 49.1 billion in 2015, growing 13.5% annually over 2009 - 2015.



Source: TresVista.

Within the industry, the for-profit education market for tertiary education will grow at a pace of 13.8% annually compared to 13.1% annual growth of for-profit primary and secondary education. Tertiary education will represent ~60.0% of the total for-profit education market size over 2009 to 2015.



GOVERNMENT INITIATIVES

Recognizing the urgent need for expansion of the education space, governments across the region have launched various initiatives and reforms to help the sector grow to its potential. Governments have started allocating a higher proportion of their budget expenditure to education.

In a significant change from previous policies, governments have started taking steps to actively encourage private sector participation in the education space. The Saudi government issued 19 licences for international schools and approved establishment of 25 new colleges in 2009. In UAE, a number of Al Ghad Schools were opened in 2007-08 under a private-public partnership model. Qatar is developing the Qatar Education City, a 2,500.0 acre campus housing several US universities alongside government educational agencies and institutes. The Kuwait Ministry of Education is planning to privatize 30 public schools.

As shown in the above table, despite having a higher budget allocation to expenditure, the region still lags behind developed countries in terms of spending per student. While governments are making all efforts to help the growth of the sector, a low spend per student indicates that there is potential for the private sector to step-up and contribute to reduce the funding gap.

Quality of education remains a key concern in the region. Governments have realized this and are taking initiatives to address the issue. Countries have established regulatory bodies to set standards for education, to monitor performance of institutes, and for accreditation. These include National Center for Measurement and Assessment, National Commission for Academic Accreditation and Assessment in Saudi Ara-

bia, The Abu Dhabi and Dubai Education Councils in UAE, and The Supreme Education Council in Qatar. Steps have also been taken to improve the quality of teachers.

Reforms are also targeted at eliminating the traditional weakness of students in math and sciences. Saudi Arabia is developing the King Abdullah University of Science & Technology to promote scientific research and development. It also aims to increase R&D spend to 1.6% of GDP by 2020. Abu Dhabi plans to invest \$1.3 billion for R&D activities by 2018, and raise the share of engineering related graduates from 9.0% in 2010 to 28.0% in 2018.

These initiatives by GCC governments will be the prime movers for growth in the sector, since the countries have little private sector contribution across most industries. In the field of education, government involvement becomes all the more important and necessary in the GCC, since the region is deeply conservative, and introducing education reforms involves managing a huge shift in the attitude and mindset of people.



WE ESTIMATE THE MARKET SIZE FOR THE FOR-PROFIT EDUCATION INDUSTRY IN THE GCC TO MORE THAN DOUBLE TO USD 50.0 BILLION IN 2015

IN A SIGNIFICANT CHANGE FROM PREVIOUS POLICIES, GOVERNMENTS HAVE STARTED TAKING STEPS TO ACTIVELY ENCOURAGE PRIVATE SECTOR PARTICIPATION IN THE EDUCATION SPACE

PRIVATE EQUITY INTEREST IN GCC EDUCATION

The education sector in the GCC presents an attractive opportunity for investment, as the sector is set for unprecedented growth. However, due to the limited number of education companies listed on regional exchanges, private equity becomes a favorable route for exposure to the industry.

The region has witnessed an increasing number of private equity deals in the education space in the last few years. 5 deals have taken place during 2008 and 2009 itself. The growing interest evinced by private equity players is a further testimony to the high return potential of private education in the region.

Year	Target Company	Investor	Country	Segment	Deal Size (USD million)
2009	Al Maaref Private School	Education Capital	UAE	Childcare, Primary, & Secondary Schools	NA
2009	Al Maaref Private School	NBK Capital	UAE	Childcare, Primary, & Secondary Schools	7.0
2009	Al Raeda for Education Development	Eastgate Capital	Saudi Arabia	Education Support Services	NA
2008	Madaares PJSC	Global Capital Management	Kuwait	Conventional Education	11.4
2008	Al Zuhour Private School	Education Capital	UAE	Childcare, Primary, & Secondary Schools	NA
2007	Global Education Management	Abraaj Capital	UAE	Childcare, Primary, & Secondary Schools	124.0
2007	Maarif Education & Training Holding Company	Gulf Capital	Saudi Arabia	Primary Schools	93.0
2006	Al Rayan Hoding Co	Global Capital Management	Kuwait	Education Investment Company	20.8
2006	Rayan Hoding Co KSC	Global Capital Management	Kuwait	Education Investment Company	15.6
2003	Dubai International Schools	Ithmar Capital	UAE	Childcare, Primary, & Secondary Schools	NA

Source: Zawya.

CHALLENGES

Despite the huge potential of the education sector, there still exist significant challenges to development of the sector. We have listed some of the major ones below:

Quality of Education: The quality of education is a key issue, with lack of qualified and skilled teachers being the biggest impediment to the growth of the sector. At the same time, institutes in the region have traditionally focused on humanities, as a result of which, students are weak in English, science, and math, hampering the globalization and private sector acceptability of students.

Lack of Job Opportunities after Education: The region still lags in absorbing high-skilled labour, thus disincentivizing the education attainment levels. Enrolment ratio in universities for females is generally higher than the male population. This is primarily because the governments provide employment and good salaries to the nationals (usually male) with minimum qualifications, tempting youths to choose government jobs over private jobs requiring higher education.

High Fees: High fees charged by private players are another major concern, especially for expatriates, who usu-

ally send their children to private schools. Sensing their growing demand, many private schools in the region have increased fees substantially.

Capital Intensive Nature of Investment: The education sector requires significant investment for construction of the schools and colleges. The average number of students per school is low in the region, which increases the cost per student borne by school and reduces the revenue per student. Moreover, the industry has a high turnaround time, which acts as a setback for the entry of investors looking for a quick turnaround.



CONCLUSION

The extraordinary growth experienced by the GCC countries in recent years has been accompanied by a growing awareness that the region's oil wealth is exhaustible and that there is an urgent need to invest it in sustainable development. While initially, this wealth was primarily invested on developing physical infrastructure, the recent past has witnessed a realization that sustainable growth is only possible when investments are made to develop the region's immense human capital potential. Education is being recognized for its immense significance in this regard.

The region offers an excellent mix of demographics, economics, and environment for the private education space. Its growing young population, increasingly a part of the globalized world, represents both an urgent challenge and an exceptional opportunity for countries in the region. Increasing wealth and the resultant quality consciousness in people is one of the key factors which will drive more and more of the population towards private education.

While the sector is facing challenges to the realization of its true potential, governments across the region have taken various initiatives to reform education and improve quality. Recognizing the changing dynamics of the sector, various governments are also encouraging private sector participation in the sector. This has created conducive environment for the for-profit education sector, making it an attractive investment opportunity.

ABOUT TRES VISTA FINANCIAL SERVICES

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