



Industry Commentary

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M&A Interest in Corporate Training Grows as Skills Gap Widens

Evolving trends in the workplace and the learning ecosystem are changing how companies invest in talent.

A powerful combination of economic, regulatory, demographic, and technological forces are reshaping the labor market and forcing employers to increase the speed and efficiency with which they train employees. Meanwhile, ongoing changes in how people consume information and engage with educational content have unlocked new opportunities for innovative training companies to significantly enhance the learning experience.

These factors have accelerated individual and company investment in training, making it one of the fastest growing sectors within the broader education industry. The global corporate training market is projected to grow at a compound annual rate of 9.8% and reach \$114 billion by 2022, according to Technavio. These tailwinds have resulted in strong interest in corporate training companies from strategic acquirers and financial sponsors—with much of the strategic interest coming from an evolving set of players, many of whom are outside the traditional corporate training industry.

Factors Driving Increased Demand for Corporate Training

A confluence of factors over the past decade has made employer-

sponsored training an increasingly vital component of the labor market. The most significant driver of this trend is the increasing mismatch of skills and jobs. This shortage of skilled labor has led to an underemployment rate of about 10% in the United States. Many postsecondary degrees are viewed by employers as inadequate preparation for real-world positions, and the ever-shortening technology cycle is accelerating the rate at which skills become obsolete. As a result, employers are being forced to make significant investments in hiring, training, and continually retraining qualified workers.

Furthermore, the increasingly stringent regulatory environment and ongoing policy changes at the federal, state, and local levels are creating steady demand for regulatory and compliance monitoring and training. For example, New York City passed an ordinance requiring all employers in the city to provide sexual harassment training to workers starting in April 2019. Even without government policy, risk management is a driving force for amplifying training initiatives—following its recent foodborne illness outbreak, Chipotle announced plans for quarterly food safety training and assessment of its employees.

And, in May, Starbucks closed all of its more than 8,000 U.S. stores for a half-day to deliver racial bias training to its 175,000 employees, costing an estimated \$12 million in lost profits.

Other factors driving companies' increased training efforts include high employee turnover, lack of employee engagement, and the need for company leadership teams to manage complex cultural and interpersonal issues in the workplace. A UC Berkeley study found that as early as 2008 the average hiring cost per professional was \$7,000, a number that has likely increased with the growing skills gap. In contrast, the average training cost per employee, which increased 25% from 2016, is just under \$1,100. With the median tenure at 4.6 years, investing in development to improve employee engagement and skills can translate into significant savings in employee replacement costs.

Evolution of Workplace Learning

Over the past two decades, workplace learning has evolved from a siloed, self-study model defined by passive consumption of prepackaged modules to a highly customized omnichannel

learning experience that is integrated into the flow of the workday. Advancements in cloud computing, mobile technology, online video, and social media have changed the way users engage with educational content and created new ways for training companies to deliver custom-built programs that improve the learner experience. Social and collaborative learning presents opportunities for participants to learn from each other and foster deeper engagement. Modules that blend digital and in-person content are increasingly used to optimize the training experience for each worker and to balance hands-on experience and convenience. Tactics such as gamification and microlearning are used to increase workers' motivation to learn, aid information retention, and improve accessibility in already full workdays.

Adjacent Categories Expand Into Corporate Training

The growing importance of corporate training has generated significant interest from strategic buyers and financial sponsors. One of the most interesting trends shaping the dealmaking landscape has been

efforts by companies in adjacent industries to use acquisitions or strategic partnerships to expand their corporate training capabilities.

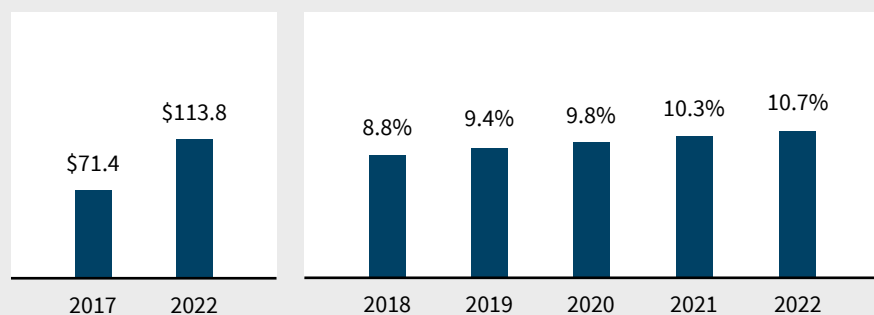
Several of the highest-profile acquisitions of training companies over the past few years have been by staffing or recruiting companies looking to use training to strengthen the marketability of their talent pools and help employers bridge the skills gap. In April 2018, recruiting firm Adecco Group announced that it was acquiring General Assembly, which provides courses in web development, coding, and other digital skills, for \$413 million. In 2015, LinkedIn aggressively enhanced its training capabilities by acquiring online education company Lynda.com for \$1.5 billion.

In May 2018, William Blair advised Penn Foster on its acquisition by Bain Capital Double Impact, the impact investing strategy of Bain Capital. Through its online and blended learning programs, Penn Foster offers affordable diploma, certificate, and degree programs primarily for middle-skilled workers (i.e., those in roles that usually do not require a college degree). In 2017, Penn Foster partnered with EmployBridge, a large commercial staffing company, to provide online courses to EmployBridge associates for free. These short modules empowered workers who wanted to move into better-paying and more advanced positions to acquire new skills during their commute, on a break, or within short windows of free time. Penn Foster's focus on helping the middle-skills population improve their career prospects aligned with Bain Capital Double Impact's mission to invest in companies that are delivering social benefits. More broadly, a major driver of investors' interest in Penn Foster was the shift from a historically B2C only platform to a highly synergistic balance of B2B and B2C offerings.

Investment in Corporate Training Accelerates

Factors such as a mismatch between skills taught by universities and those required by employers, the shortened technology cycle, and higher employee turnover are forcing companies to invest more in corporate training to address the skills gap. Thanks to these trends, along with heightened demands for compliance and regulatory training, the global corporate training market is projected to grow at a compound annual rate of 9.8% from 2017 to 2022.

Global Corporate Training Market (in billions) **Year-Over-Year Growth**



Source: TechNavio

Characteristics of In-Demand Corporate Training Targets

Within the larger growth story for corporate training, strategic buyers and financial sponsors are showing strong interest in this sector. Since 2015, there have been almost 500 transactions involving companies related to corporate training.

Training businesses that have established strong B2B relationships have garnered buyer interest. Whether through informal partnerships or ongoing enterprise commitments, these affiliations represent greater repeatability, higher volume demand, and potential for network effects to drive added value for a growing user base.

In a similar vein, M&A buyers have sought training companies that serve end-markets requiring ongoing employee training to meet compliance or regulatory requirements. Compliance training businesses in healthcare, financial services, and food services are appealing given high degrees of recurring revenue and insulation from economic downturns.

Tech-enabled features have also helped augment the value ascribed to training solutions. For example, gamification can enrich learning experiences, which in turn improves both the quality and quantity of time spent training. Particularly for training programs using subscription-based pricing, greater efficacy and enjoyment increases customer retention rates and more sustainable repeat revenue.

As “big data” has permeated everyday life, investors have also attributed value to training solutions that embrace analytics. Data capabilities are valuable for multiple reasons: First, real-time data about students’ progress and synthesis of the information illuminates key competencies and skills gaps that can also be leveraged as a feedback loop

to optimize the learning experience; second, data on job placement and post-training performance help assess the efficacy of and economic value created by the training; third, in regulatory and compliance settings, data analytics yield meaningful cost savings through automated tracking, processing, and follow-up. These value-added data features can drive significant user and revenue growth for a training business.

To learn more about these and other trends that are shaping the dealmaking landscape in the education and training industry, please don’t hesitate to contact us.

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