A blurred background image showing students walking up a set of wide, light-colored stone stairs. The students are in motion, creating a sense of activity and movement. The background is a modern building with large glass windows.

Survive or thrive? Succeeding in today's evolving higher education environment

2019 NAICU Annual Meeting & Advocacy Day
February 5, 2019

Agenda

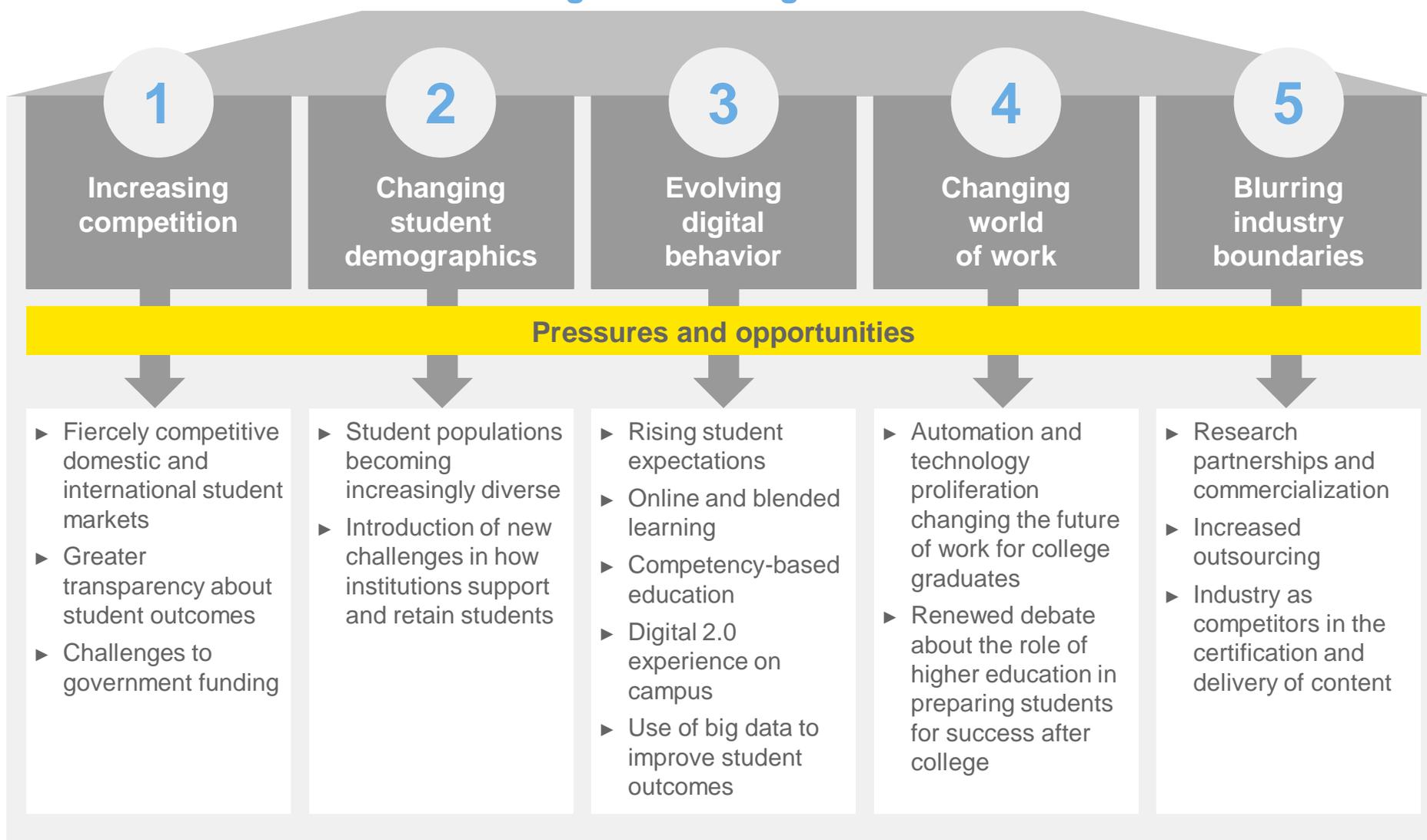
- ▶ **Higher education landscape today**
- ▶ Measuring financial pressure
- ▶ Strategies in the face of increased pressures

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Higher education landscape today

Five megatrends are transforming the higher education sector

Five megatrends in higher education



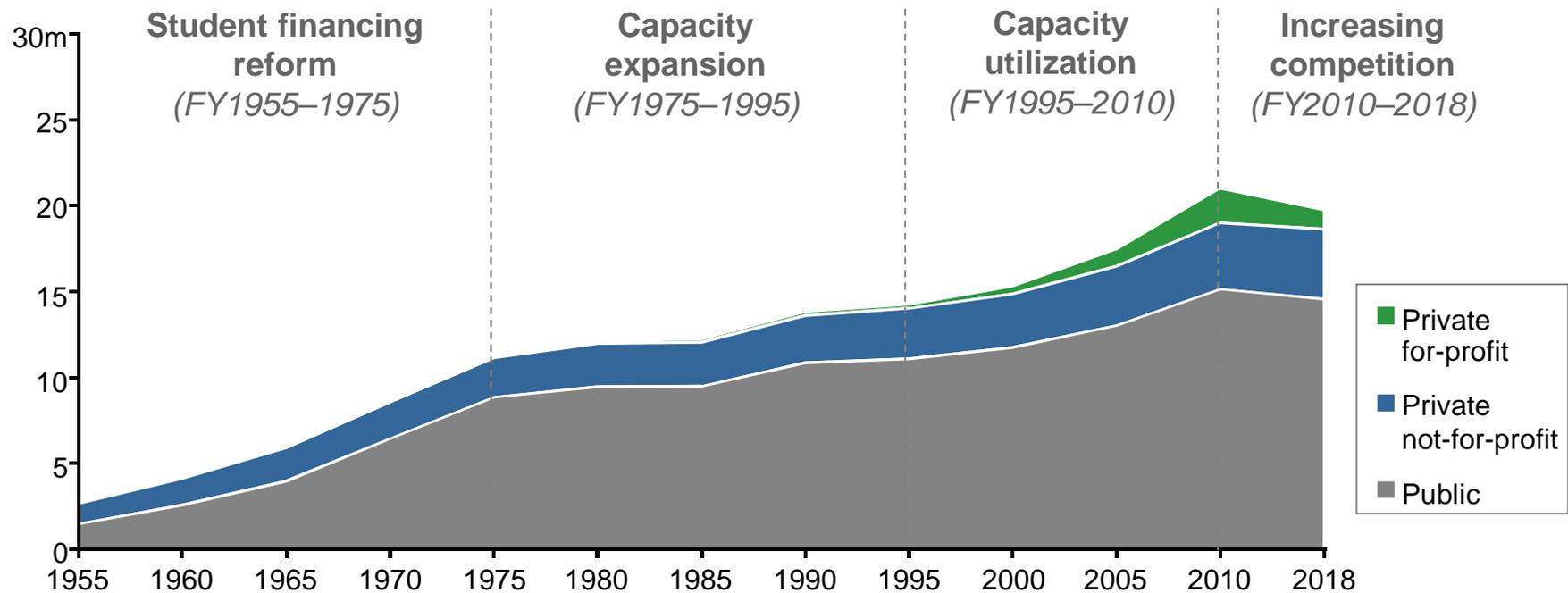
Higher education landscape today

Higher education enrollment growth lags previous historical periods, due to increasing competition within the market

1

Increasing competition

Higher education enrollment, FY1955–2018



Enrollment compound annual growth rate (CAGR)	7.5%	1.2%	2.6%	0.0%
Number of institutions CAGR	1.8%	1.5%	1.4%	-1.1%

Note: The data includes enrollments from US institutions that are both degree-granting and Title IV-participating.
Source: National Center for Education Statistics (NCES); Integrated Postsecondary Education Data System (IPEDS)

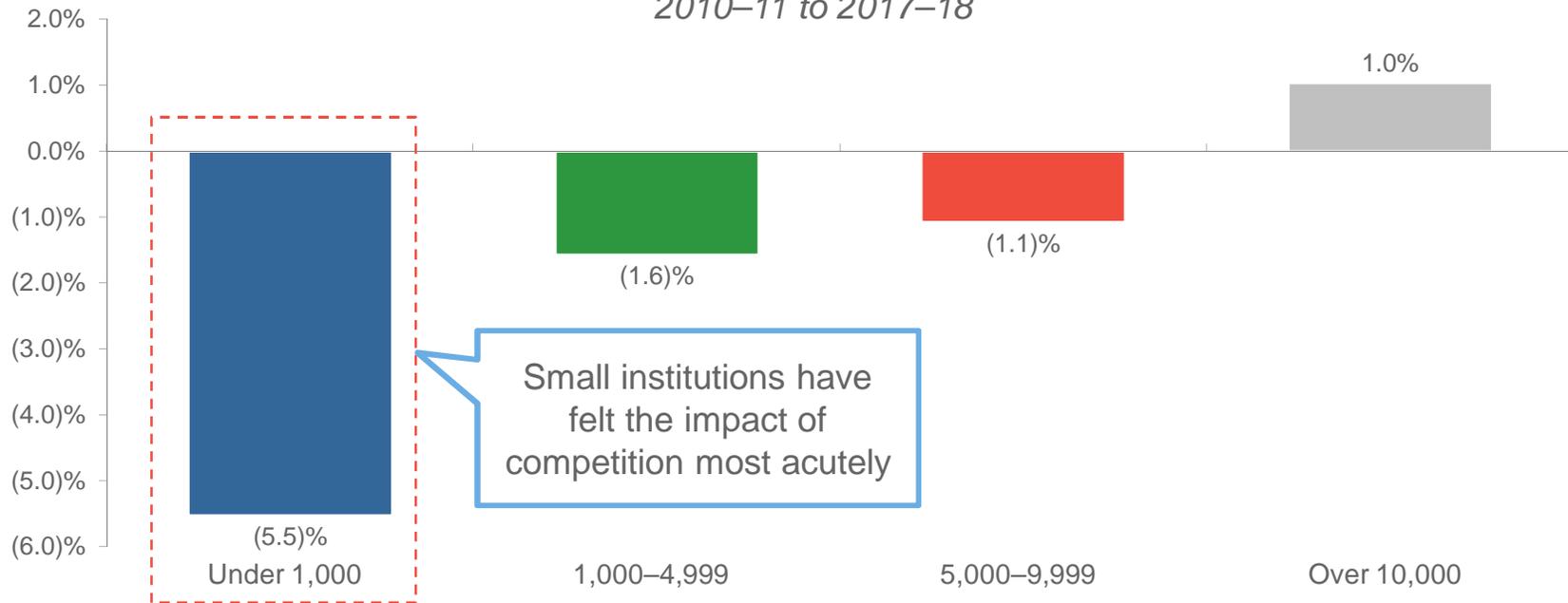
Higher education landscape today

The increasing competition for students has disproportionately affected smaller institutions

1

Increasing competition

Annual enrollment change by size for all US degree-granting institutions, 2010–11 to 2017–18



Number of institutions	1,859	1,429	498	560
Percentage of institutions	43%	33%	11%	13%
Percentage of total enrollment	3%	18%	18%	61%

Note: Buckets are based on 2017–18 enrollment (not fluid buckets)

Source: IPEDS

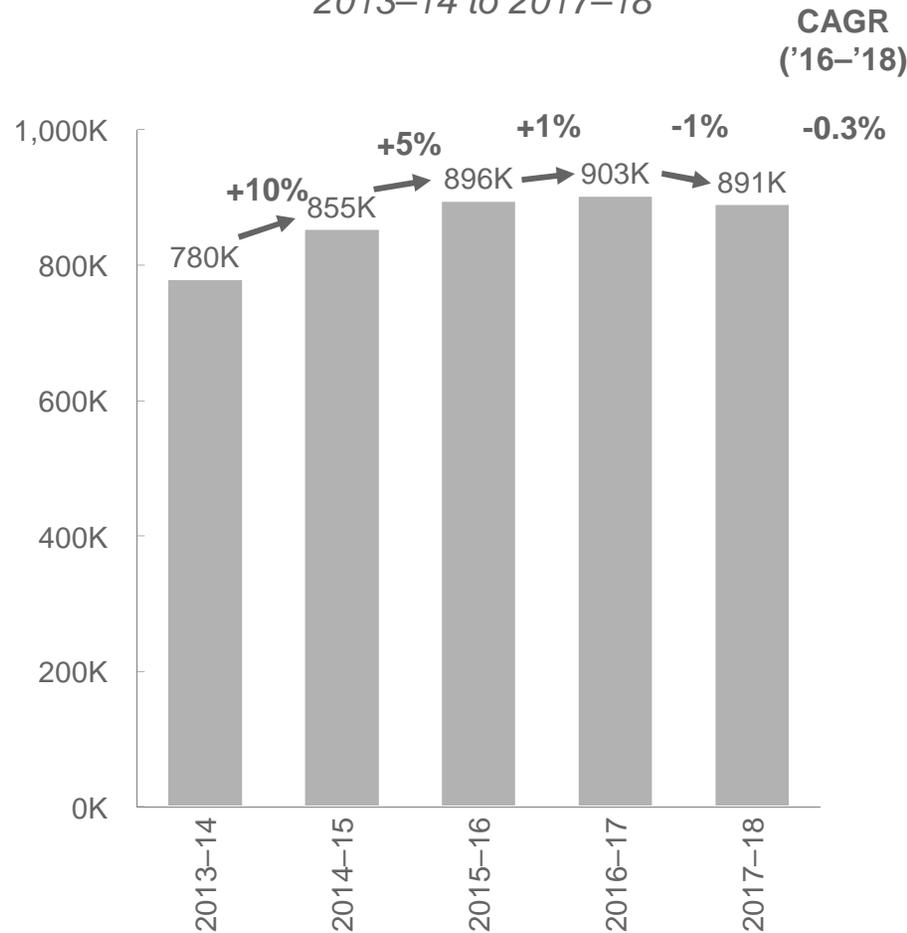
Higher education landscape today

International student enrollments have become less reliable as sending countries build local capacity and students select less expensive options

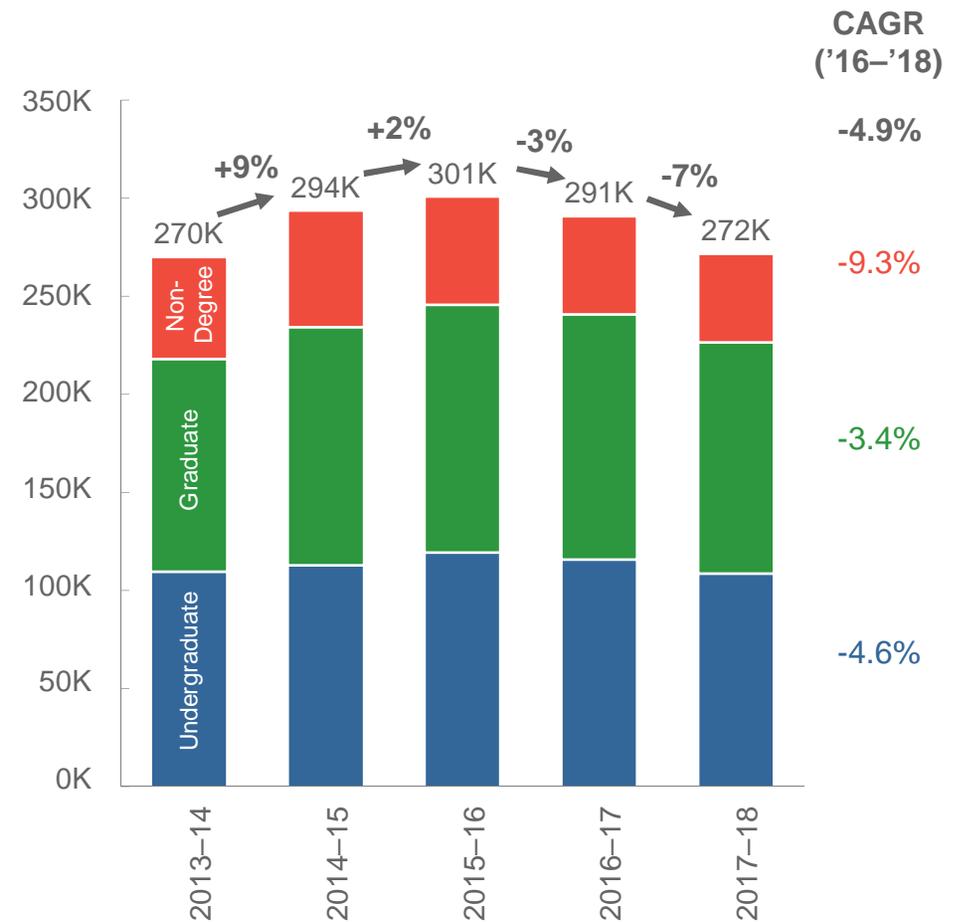
1

Increasing competition

Total international student enrollments in the US,
2013–14 to 2017–18



New international student enrollments in the US,
2013–14 to 2017–18



Source: Institute of International Education (IIE) Open Doors; Inside Higher Ed; NCES

Higher education landscape today

Student demographics are changing; forecasts estimate institutions will serve a population of older, more ethnically diverse and lower-income students

2

Changing student demographics

The over-25 population is projected to grow faster than the under-25 population

42%

Forecasted share of enrolled students 25 and older by 2025

Ethnic diversity continues to grow

+32%

Increase in Hispanic student population by 2025

+22%

Increase in African-American student population by 2025

Students face many responsibilities outside of the classroom

28%

Have children or dependents¹

25%

Take full course loads while working full-time²

38%

Are enrolled part-time²

The changing student demographics means that institutions have had to adapt in how they attract, educate and serve students.

Source: NCES, Gates Foundation.

¹2015 data

²2014 data

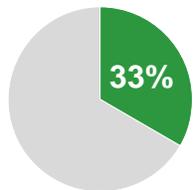
Higher education landscape today

Technology defines one key trend as universities are moving from creating digital strategies to defining a university strategy in a digital world

3

Evolving digital behavior

Delivery is moving **online** ...



Share of higher education students enrolled in a hybrid or all-online program

However, many institutions still need to build online capabilities.



Share of institutions with online program offerings

... while schools incorporate **digital 2.0** into the student experience ...



Digital laundry: dormitory laundry apps to find open machines and monitor wash times



Virtual classrooms: allow students to sit through lectures remotely



Virtual library: digital access to a variety of research tools outside of physical library resources



Campus Alexa: virtual assistants (e.g., Amazon's Alexa) with pre-loaded, campus-specific commands

15k Number of EdTech companies in market

\$9b Amount invested in EdTech globally in 2017

17% Projected annual growth of the EdTech market, 2015–20

... but **information security** remains a major concern.

CIOs rank information security as their **No. 1** concern.

66%

Percentage of breaches due to hacking, malware or unintended disclosures

29%

Percentage of university information security professionals that feel their institution has a well-documented information security strategy in place (2018)

The impact of cybersecurity breaches can be significant.

\$3.9m

Average cost of a data breach in the US (2018); in addition, there are numerous nonfinancial costs

Higher education landscape today

Many students pursue higher education because of career prospects, but institutions sometimes struggle to align their programs with workforce needs

4

Changing world of work

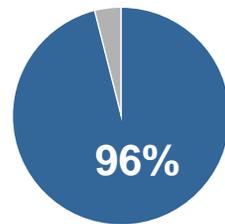
88%

Percentage of today's entering freshmen whose top priority is:

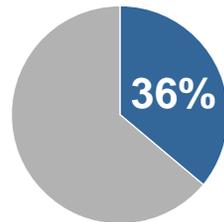
“to get a good job”

– an increase from an average of 73% in 2000–09

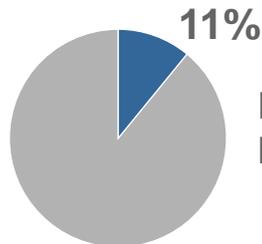
Percentage of stakeholders who perceive that institutions are effectively preparing students for the workforce



Chief academic officers



Students



Business leaders

“Sixty-five percent of the children entering grade school this year will end up working in careers that haven’t even been invented.”

– Duke University

“Forty-seven percent of all jobs could be automated in the next 20 years.”

– Oxford Martin

“More than one-third of US workers are in the gig economy, which works out to approximately 57 million people.” – Forbes

“The average person changes jobs 10 to 15 times (with an average of 12 job changes) during his or her career.” – Balanced Careers

Higher education landscape today

Institutions are increasingly looking at new ways of partnering with industry and each other to find success in today's competitive environment

5

Blurring industry boundaries

~10x

The number and value of public-private partnerships today compared with during the 2008 recession

Partners in recruitment and delivery

Continuing education

- ▶ Increasingly, employer funding for continuing education is arranged through partnerships; Guild Education connects employers with colleges, including University of Denver and Wilmington University.

Corporate-developed curriculum

- ▶ A leading tech firm created a computer science curriculum to be delivered by colleges.
- ▶ Students that complete the courses are eligible for internships; Lasell College, Scripps College, Mills College and others are participating.

Potential competitors

Developing corporate universities

- ▶ Corporations are building sophisticated internal training structures and offering credentials.
- ▶ The number of corporate universities has more than quadrupled since 1997.

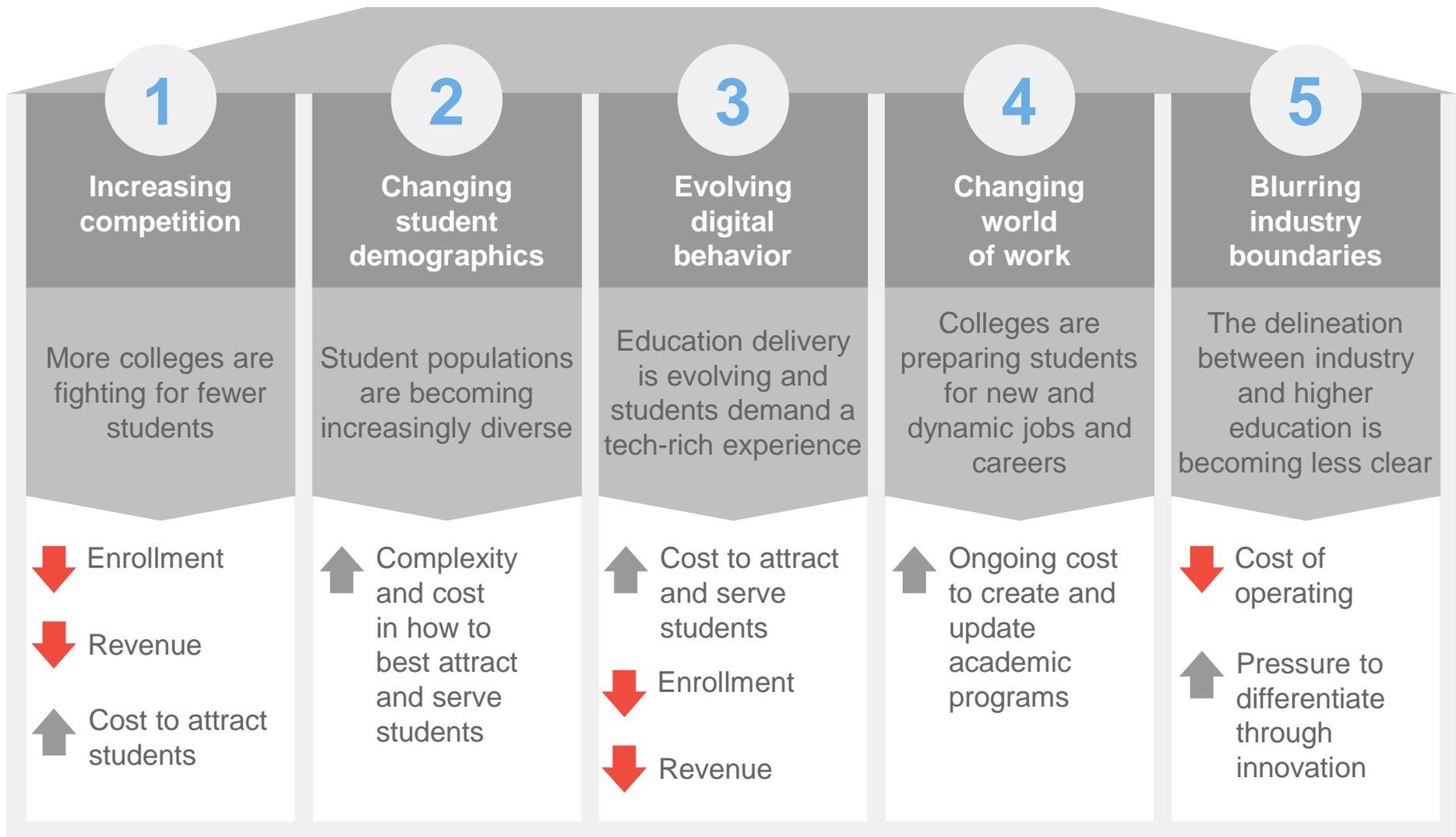
Employing former educators to lead corporate L&D

- ▶ Companies are hiring former professors to develop corporate curricula.
- ▶ Learning and development (L&D) teams build programs, classes and tools to train employees.

Higher education landscape today

Collectively, the higher education megatrends are placing increased pressure on institutions, forcing them to rethink how they operate and serve students

Five megatrends in higher education



Agenda

- ▶ Higher education landscape today
- ▶ **Measuring financial pressure**
- ▶ Strategies in the face of increased pressures

Measuring financial pressure

Given this context, EY-Parthenon experimented with new ways of measuring institutional financial health

We developed a metric that assesses, at a given point in time, an institution's ability to meet its obligations to currently enrolled students – that is, the institution's ability to provide the resources required to allow all currently enrolled students to complete their degrees over a four-year period.

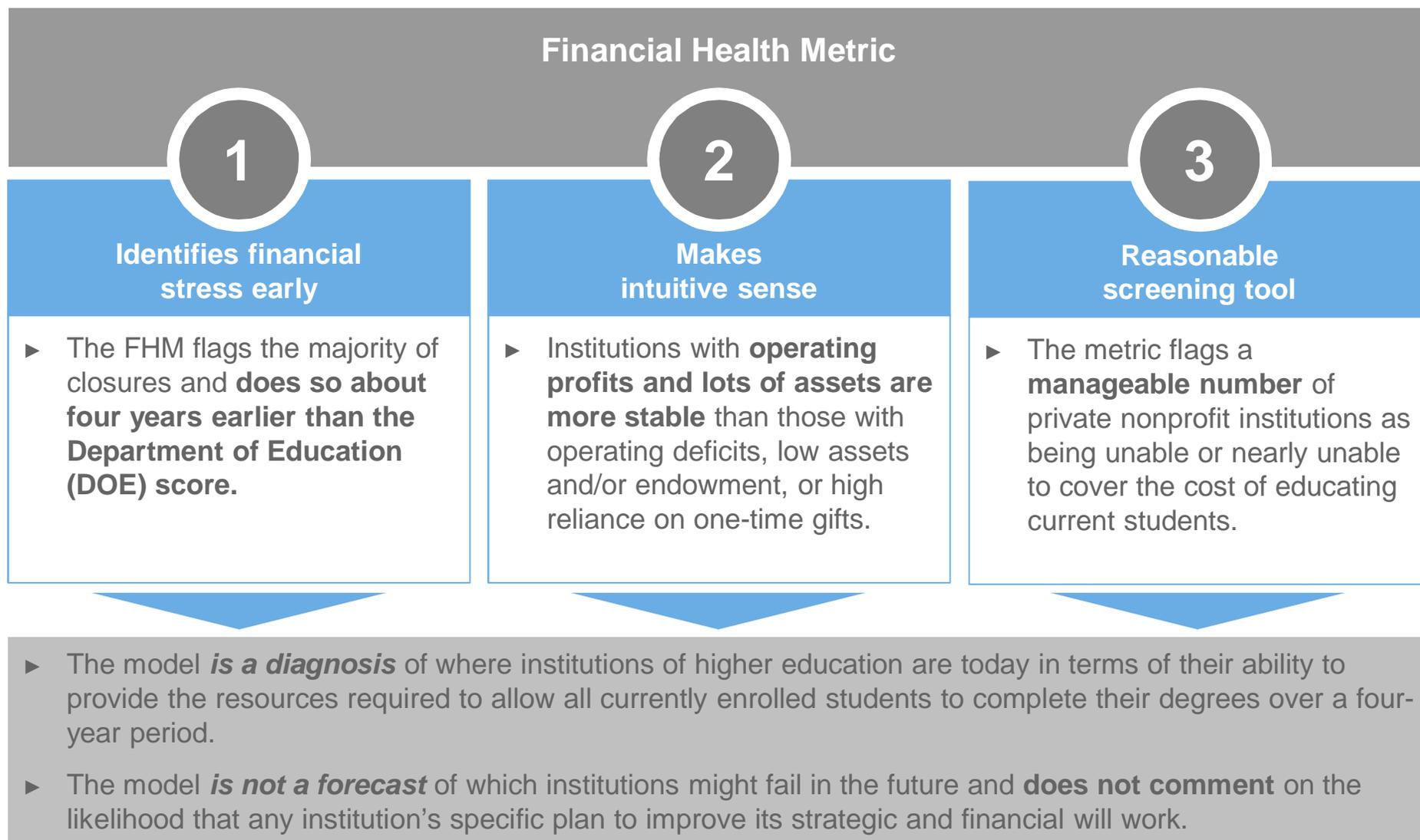
The metric asks a simple question:

“Given its sources of revenue, cost structure, assets and financial obligations, can the institution teach its students all the way through graduation?”

Financial Health Metric (FHM)

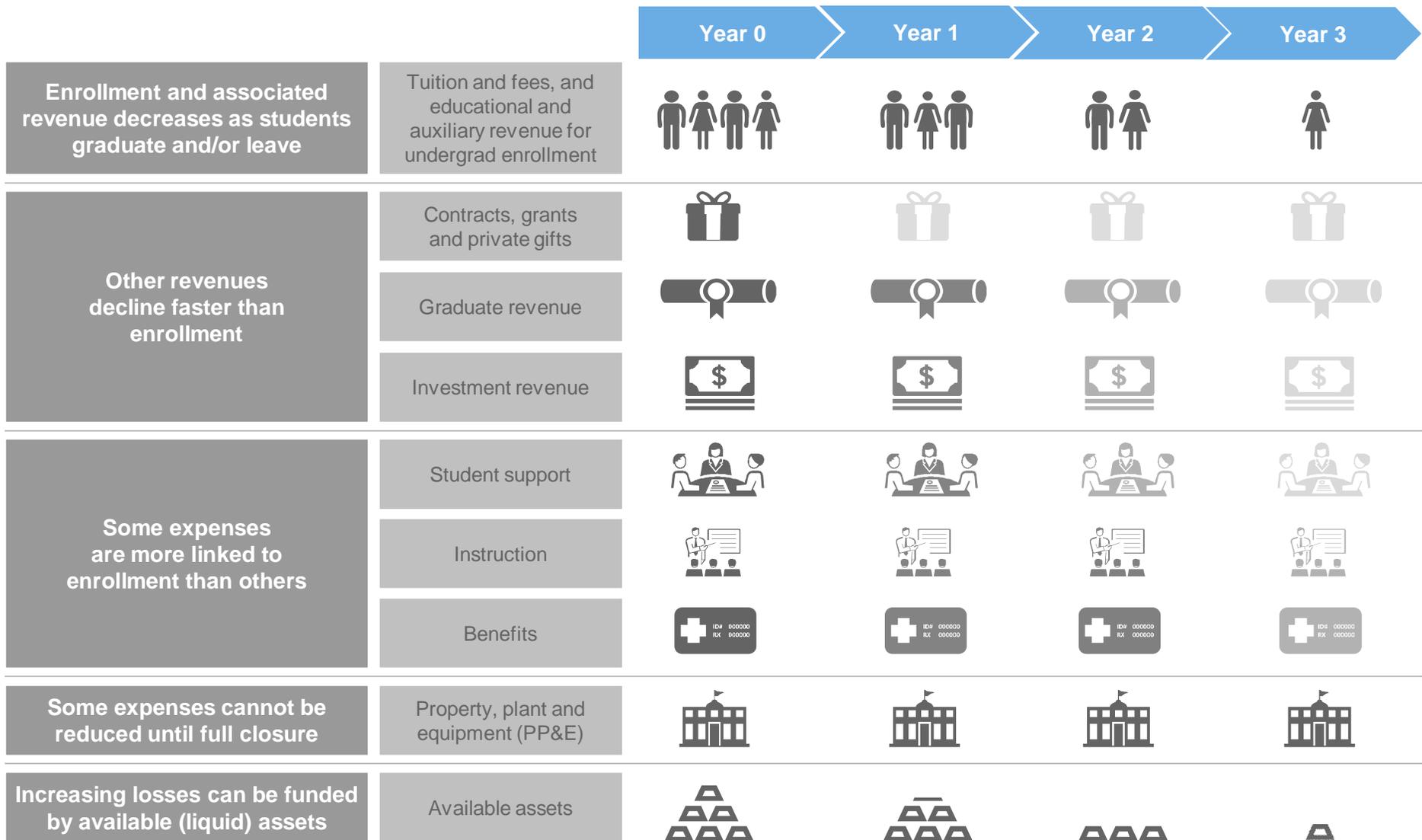
Measuring financial pressure

Preliminary results of the FHM indicate that it could be used as a proactive screening metric



Measuring financial pressure

The FHM leverages public data to determine the risk of higher education institutions not being able to provide degrees to current students



Source: EY-Parthenon analysis

Measuring financial pressure

In a sampling of closed private institutions, the FHM identified financial stress earlier than the DOE score in most cases

	Previously closed institutions of higher education (IHEs)							Financially distressed or probationary IHEs*		
	Saint Joseph's College	Grace University	Memphis College of Art	Mount Ida College	Marylhurst University**	Coleman University	Dowling College	Saint Augustine's University	College of St. Joseph	Newbury College
State	IN	NE	TN	MA	OR	CA	NY	NC	VT	MA
Date closed	February 2017	October 2017	October 2017	April 2018	May 2018	July 2018	June 2016	Still open	Still open	Still open
2016 DOE score	1.4	0.6	2.1	2.1	2.2	1.2	Already closed	2.1	2.2	1.7
2012 DOE score	2.2	2.1	2.1	1.5	2.8	3.0	1.3	2.8	2.6	2.6
DOE score in the fiscal year of FHM warning	2.2	1.6	2.1	1.5	N/A	1.2	1.3	2.1	2.2	2.6
Fiscal year of FHM warning	2012	2014	2016	2012	N/A	2016	2012	2016	2016	2014

Like the DOE scores, **FHM warning status** lags due to reliance on publicly available data.

DOE financial responsibility composite score		
-1.0 to 0.9	1.0 to 1.4	1.5 to 3.0
Not financially responsible	Flagged for monitoring	Financially responsible

*Financially distressed or probationary nonprofit IHEs have been flagged by accreditors for probation or monitoring.

**Marylhurst University generates an operating surplus per student, so the model predicts high ability to teach out its students.

Source: IPEDS; Inside Higher Education, "Too Late for a Fix?" August 8, 2018.

Measuring financial pressure

Four-year institutions that exhibit lower levels of risk are, on average, larger, more selective and have a larger endowment per student

		Level of risk			
		Highest risk <i>5% of institutions</i>	High risk <i>19% of institutions</i>	Medium risk <i>17% of institutions</i>	Low risk <i>59% of institutions</i>
Descriptive characteristics	Average size	990	2,800	3,300	3,300
	Average acceptance rate	68%	67%	66%	62%
	Average yearly enrollment growth ('05-'16)	-2.2%	1.4%	0.5%	0.7%
	Median endowment per full-time equivalent student	\$0	\$7,600	\$16,500	\$23,500
	First-time students awarded Pell Grants (med)	51%	39%	34%	34%
	Liabilities as a percentage of total assets	95%	43%	36%	27%

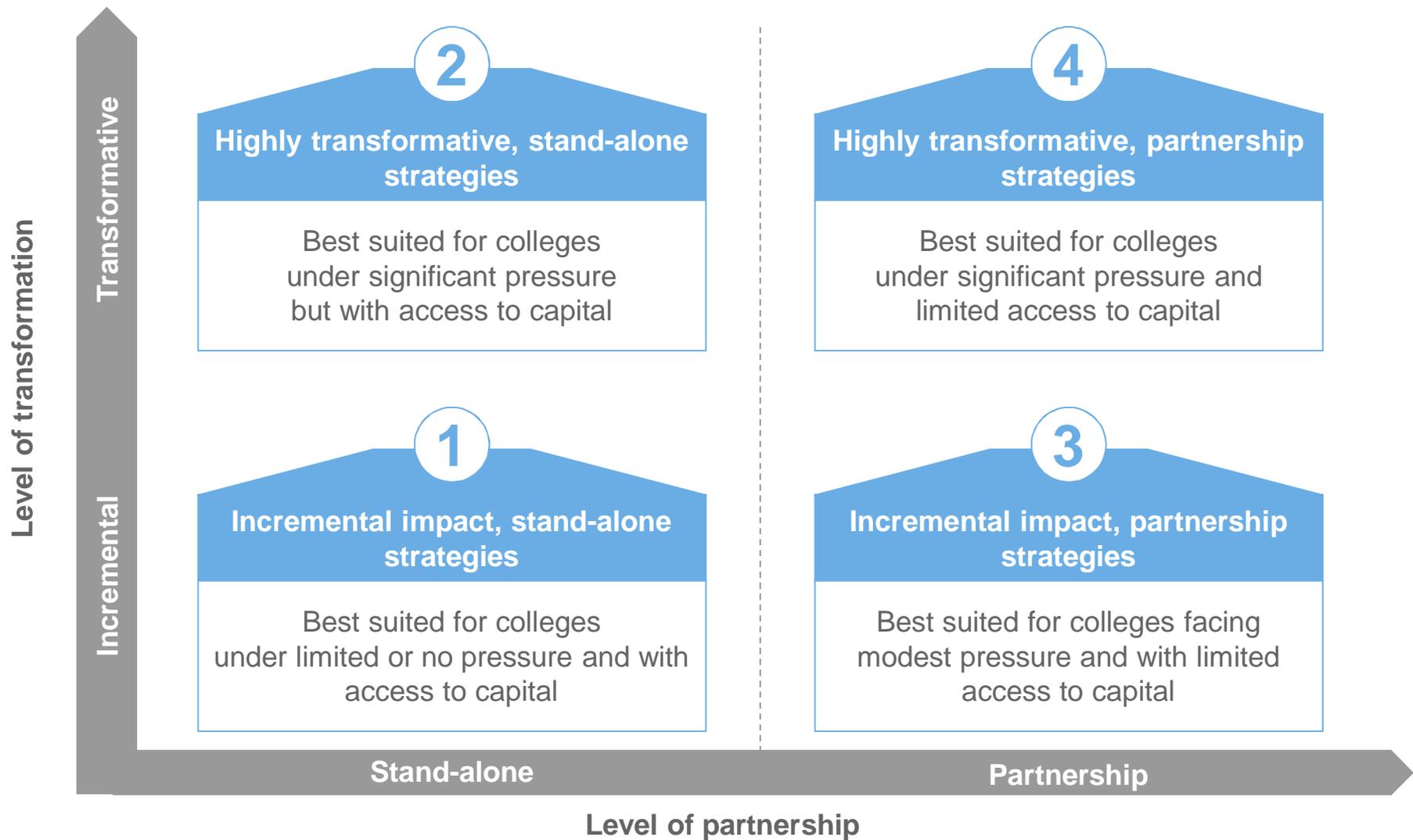
Note: All sample sizes are greater than 60 institutions. Schools without undergraduate students or with no recorded first-time enrollment have been removed from this analysis. Excludes two-year institutions. Tuition and fees includes auxiliary revenue, such as dorm and dining, as well as federal student aid.
Source: IPEDS

Agenda

- ▶ Higher education landscape today
- ▶ Measuring financial pressure
- ▶ **Strategies in the face of increased pressures**

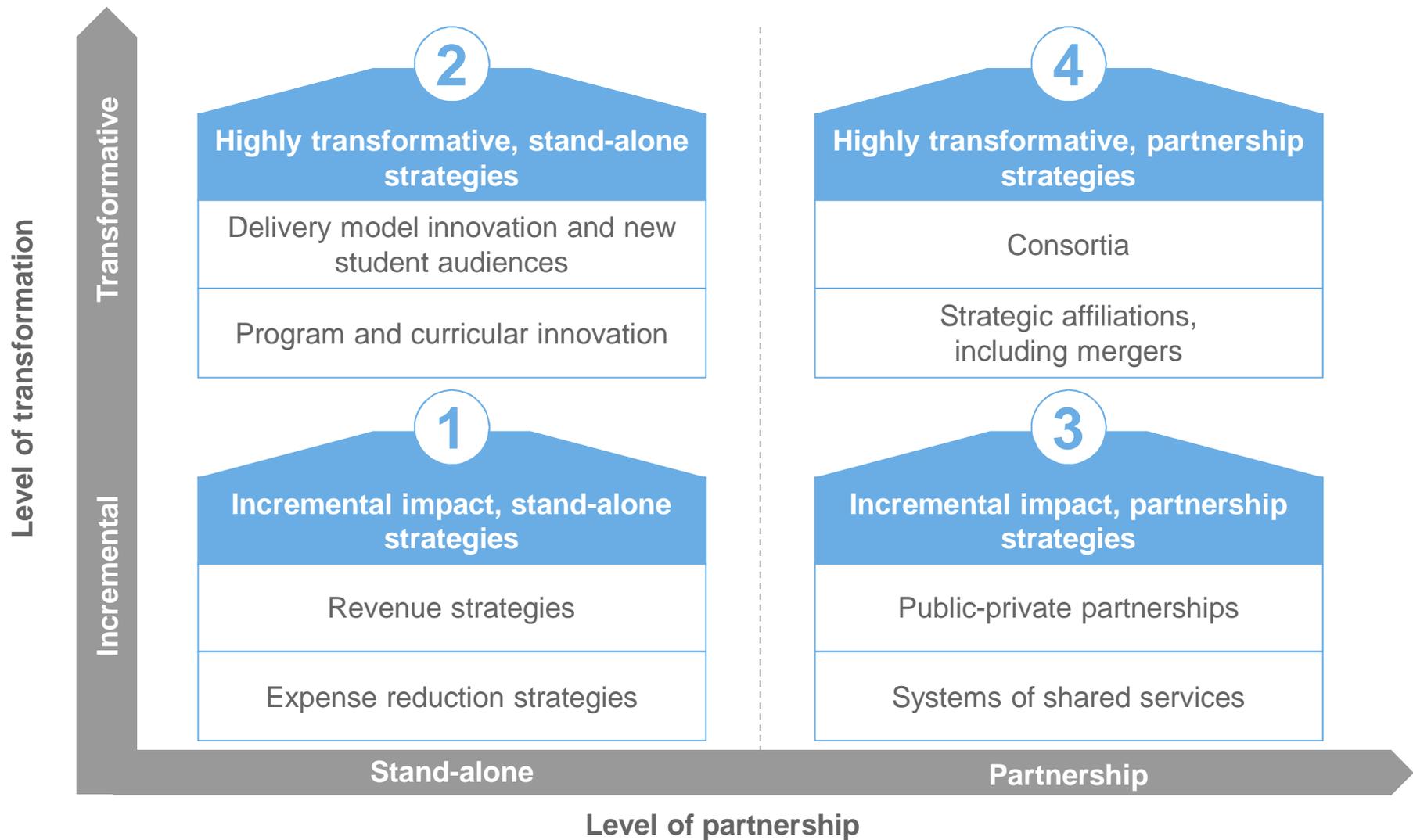
Strategies in the face of increased pressures

Facing financial pressure, institutions need to consider which strategic options are available to them given the extent of the pressure and their access to capital



Strategies in the face of increased pressures

There are a range of potential strategies available to improve an institution's financial position. We provide some examples below



Strategies in the face of increased pressures

1 Examples of incremental, stand-alone strategies

Revenue strategies		Expense reduction strategies	
Enrollment strategies	Social media; third-party recruitment relationships; innovative tuition pricing strategies	Administrative efficiencies	Engaging in a public-private partnership to reduce expenses related to food services or outsourcing online program development
Pre-college programs	E.g., Smith Summer Science and Engineering Program for young women in grades 9-12	Academic program cuts	Following an academic prioritization process
Post-bac programs	E.g., Bryn Mawr post-bac premed program that enrolls students in a yearlong, nonresidential program	Teaching loads	Increasing teaching loads
Retirement communities	E.g., Lasell Village at Lasell College . Developed and operated by a third party		

Source: EY-Parthenon analysis

Strategies in the face of increased pressures

② Examples of transformative, stand-alone strategies: online program delivery can result in substantial enrollment growth

Delivery model innovation

Simmons College

Delivering courses online via partnership with online program manager (OPM)

- ▶ In Fall 2012, Simmons College partnered with 2U to offer graduate degrees online; programs include nursing, public health, social work and business (among others).
- ▶ Simmons' overall enrollment has grown 5% annually from 2012–17, with **fully online enrollments nearly doubling every year** over the same period.
- ▶ “[In] 2014, Simmons’ online graduate programs generated \$5.4 million in total tuition revenue. Last fiscal year, the college collected nearly 10 times that amount – \$45 million.”
– *Inside Higher Ed*

Delivery model innovation

Campbellsville University

Expanding program offerings and growing enrollment through online delivery

- ▶ In Fall 2014, Campbellsville University, a private liberal arts school, expanded its partnership with Learning House to deliver all aspects of online learning, including marketing, enrollment and retention strategies.
- ▶ Campbellsville University expanded its number of online programs from less than 10 (2013) to nearly 40 (today), resulting in total **enrollment growth of 150% over the same period.**
- ▶ Prior to the partnership, online enrollment growth had been flat across undergraduate and graduate programs.

Strategies in the face of increased pressures

② Examples of transformative, stand-alone strategies: curricular reform around a mission or pre-professional offerings can boost enrollment and tuition revenue

Program and curricular innovation

Agnes Scott College

Realigning around a distinctive mission

- ▶ In Fall 2015, Agnes Scott revamped its liberal arts curriculum to center on **leadership and global awareness**, based on results of an in-depth market study.
- ▶ The SUMMIT curriculum mandates that every student design an individualized course of study and cocurricular experiences that develop leadership and an understanding of global complexities.
- ▶ **Enrollment increased 14% between Fall 2015 and Fall 2018.**
- ▶ In a post-launch survey, two-thirds of freshman rated SUMMIT as important or very important in their decision to enroll.

Program and curricular innovation

Mary Baldwin University (MBU)

Expanding preprofessional curriculum

- ▶ MBU launched the Murphy Deming College of Health Sciences in 2014 and is launching new degrees in 2019.
- ▶ MBU reorganized its preprofessional degrees into a business and professional studies school and added an MBA and certificate.
- ▶ Some liberal arts programs were cut.
- ▶ While the school experienced an enrollment dip in Fall '17 after becoming co-ed, in Fall 2018, it welcomed its largest class in history.
- ▶ **Revenue from tuition grew 28% from 2013–17**, even while enrollment fell, due to high-dollar graduate programs, particularly in Health Sciences.

Strategies in the face of increased pressures

④ Examples of transformative partnerships: consortia can improve efficiencies or bolster the academic offerings of the institutions involved

Consortia: in geographic proximity

Claremont Colleges

Shared academic, student and administrative services and cross-school enrollment

- ▶ Includes The Claremont Colleges Services (TCCS) organization and partnerships to deliver coordinated academic, student and administrative services to member schools.
- ▶ TCCS provides 28 services and programs for the colleges, reducing cost via centralized student services (e.g., transportation), IT, safety, libraries and admin for 7 institutions.
- ▶ Students are able to cross-enroll in courses across the other consortia schools.
- ▶ Academic centers, like the Keck Science Department, provide courses and resources to three sponsor schools.

Consortia: geographically dispersed

TCS Education System

Access to common consulting and administrative services

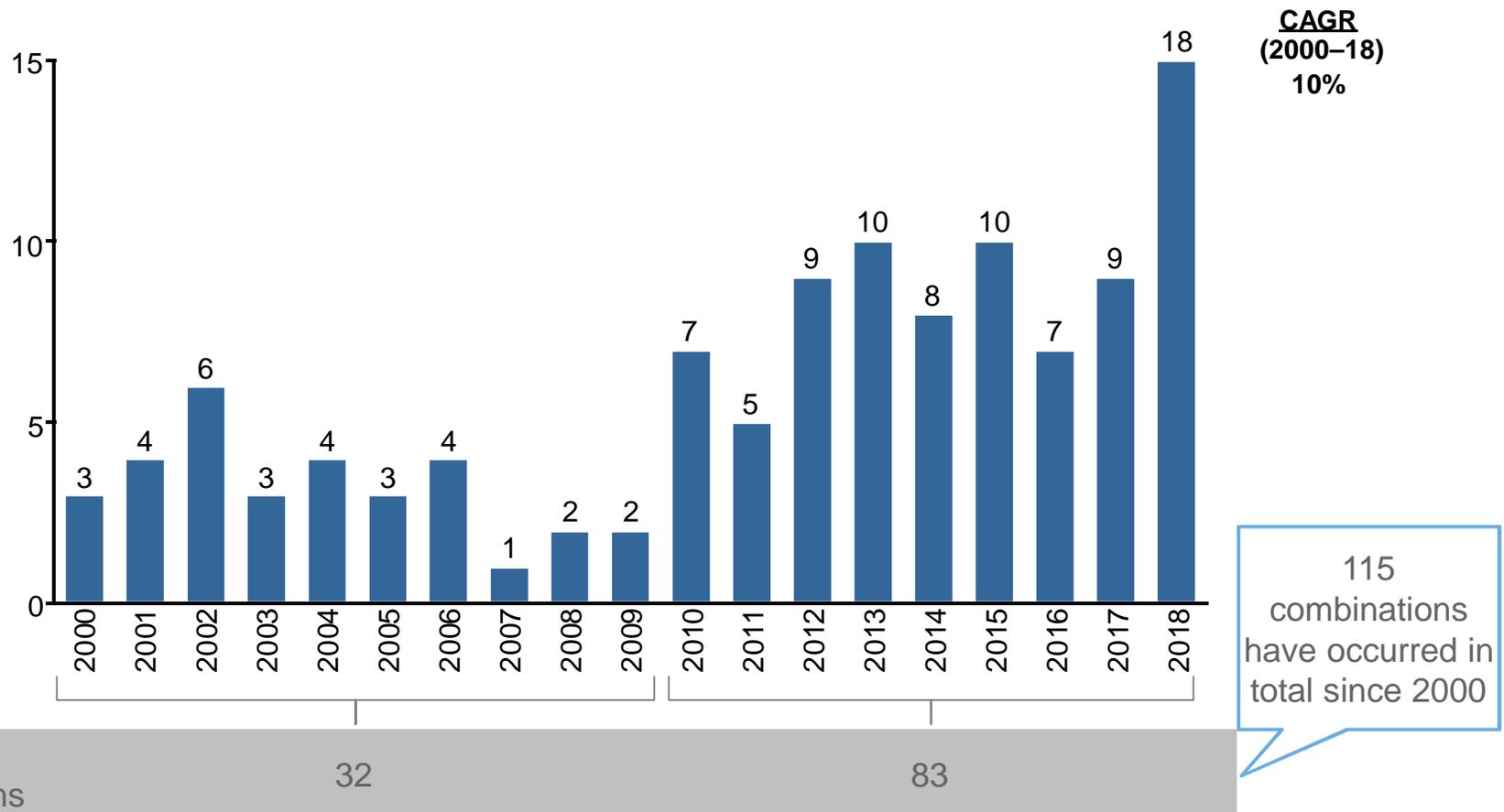
- ▶ A nonprofit system of five geographically dispersed institutions (7k students and 11 campuses in total) that provides a common set of resources and consultative services to member schools.
- ▶ Partner institutions include a school of psychology, a law school and an undergraduate nursing program.
- ▶ The TCS System provides support services, including advising on academic strategy and structure, marketing support, admissions and enrollment training and support, human resources and IT support, among others.

Strategies in the face of increased pressures

④ Examples of transformative partnerships: institutions are increasingly seeking out mergers and combinations to offset pressures and gain access to capital

Merger and combinations

Count of combinations of higher education institutions, by year of completion, 2000–18



Source: IPEDS; EY-Parthenon analysis

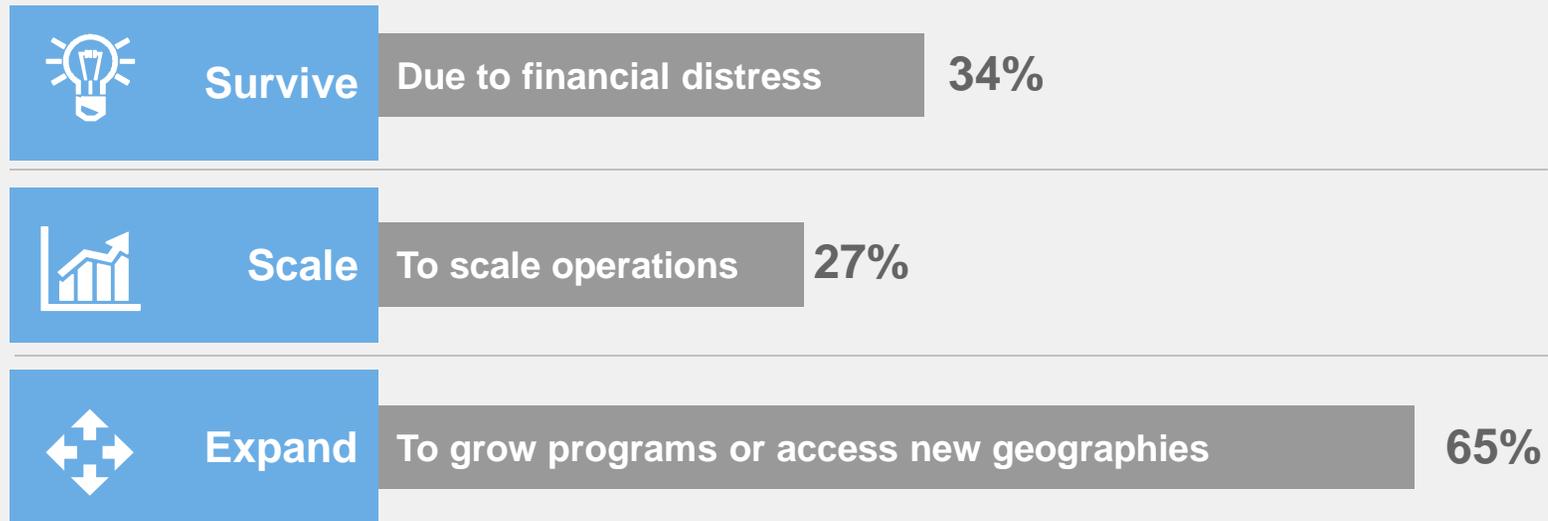
Strategies in the face of increased pressures

④ Examples of transformative partnerships: our analysis of mergers and combinations identified three primary motivations

Merger

Merger rationale

(Percentage of respondents citing various rationale as merger motivation total adds up to more than 100%, since some mergers have multiple reasons)



Note: Transactions were marked "yes" for Expand, Scale or Survive motivations if news articles or press releases stated such motivation.
Source: EY-Parthenon analysis

Strategies in the face of increased pressures

④ Examples of transformative partnerships: mergers can enhance and expand program offerings, in addition to relieving financial or enrollment pressures

Merger

Wheelock College of Education + Boston University (BU)

Merger to ensure continuance of mission (Wheelock) and expand program depth and quality (BU)

- ▶ In 2017, Wheelock College, despite a strong reputation, was facing financial challenges and sought transformative ways to continue the school's program and mission, including a potential strategic combination with another institution.
- ▶ BU sought to expand its program offerings and enrollment in education-related programs.
- ▶ In 2018, Boston University acquired and merged with Wheelock College of Education to create the **BU Wheelock College of Education & Human Development**.

Merger

Middlebury College + Monterey Institute

Merger to expand program offerings

- ▶ In 2005, Middlebury formed a partnership with Monterey Institute of International Studies, and in 2010, it formally acquired it.
- ▶ The Institute offers several accelerated dual-degree programs allowing students to earn a BA and an MA in 5 years.
- ▶ Middlebury now offers nine masters-level degrees with international focus through Monterey.

Agenda

- ▶ Introduction to EY-Parthenon and presenters

Introduction to EY-Parthenon and presenters

We frequently contribute to the field through thought leadership publications

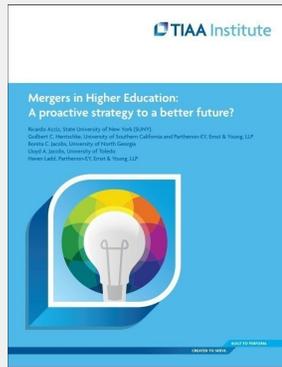
Our recent thought leadership publications include:

Public-private partnerships in higher education



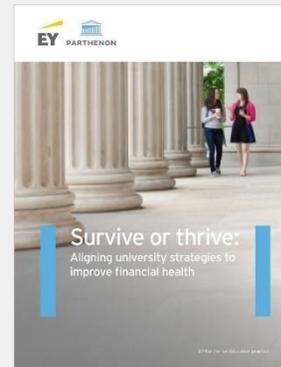
Schools now have the opportunity to reduce their role in non-core functions through partnership. If undertaken properly, partnership can reduce cost, transfer risk and enhance long-term budget uncertainty.

Mergers in Higher Education: A proactive strategy to a better future?



The decision to consolidate or merge is never an easy one. Institution leaders should consider mergers as a serious tactic, especially before resources become too scarce and morale falls. Mergers should also be part of a broader strategic plan.

Survive or thrive: Aligning university strategies to improve financial health



Institutions are in the midst of a challenging financial period, with a subset already finding themselves in financial distress. What strategic and operational changes can a university make to correct its financial health?

University strategy in a digital world: Can digital approaches help improve student outcomes?



Institutions are adopting digital to drive outcomes. They are succeeding with a variety of tools for teaching and learning, but are not quite meeting student needs as they relate to student success, advising and career.

University strategy in a digital world: Online and hybrid programs



As online has become increasingly mainstream, it is also the new “table stakes” for colleges and universities in an era of increasing competition. Online and hybrid have been two of the few bright spots in higher education enrollment over the past decade.

University Capital Strategies: Leadership perspectives on transformation in higher education



Colleges and universities are among the most venerable institutions in the Western world. Because of their hallowed tradition, it is easy to conclude that these institutions are timeless and unchanging.

Introduction to EY-Parthenon and presenters

Presenters



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