

COMPANY PROFILE

Apollo Education Group, Inc.

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TABLE OF CONTENTS

Company Overview	3
Key Facts	3
SWOT Analysis	4

COMPANY OVERVIEW

Apollo Education Group, Inc. (Apollo or "the group") is a provider of higher education programs for adults. The group offers educational services, educational support services, consulting services and technical support services to institutions offering post-secondary education. The group primarily operates in the US where it is headquartered in Phoenix, Arizona.

The company reported revenues of (US Dollars) US\$2,101.9 million for the fiscal year ended August 2016 (FY2016), a decrease of 18.1% over FY2015. The operating loss of the company was US\$65.6 million in FY2016, compared to an operating profit of US\$114.9 million in FY2015. The net loss of the company was US\$84.6 million in FY2016, compared to a net profit of US\$29.8 million in FY2015.

The company reported revenues of US\$484.5 million for the first quarter ended November 2016, a decrease of 1.6% over the previous quarter.

KEY FACTS

Head Office	Apollo Education Group, Inc. 4025 South Riverpoint Parkway PHOENIX Arizona PHOENIX Arizona USA
Phone	1 800 9902765
Fax	
Web Address	www.apollo.edu
Revenue / turnover (USD Mn)	2,101.9
Financial Year End	August
Employees	19,000
NASDAQ Ticker	APOL

SWOT ANALYSIS

Apollo Education Group, Inc. (Apollo or "the group") is a provider of higher education programs for adults. Wide portfolio of education programs allows Apollo to drive synergies between different offerings as well as enable it to expand into other markets. However, intense competition in the post-secondary education market could adversely impact Apollo's business, financial condition, results of operations and cash flows.

Strength Focus on International Expansion Broad Portfolio of Education Programs	Weakness High Dependence on the Title IV Financial Aid Programs Continuous Weak Performance of University of Phoenix Dependence on the US for Majority of Revenues
Opportunity Growing Online E-Learning Market Privatization of Apollo	Threat Intense Competition Stringent Regulatory Environment

Strength

Focus on International Expansion

The group has been focusing on expanding its business globally. As part of this strategy, in 2016, the group acquired all the outstanding shares of Career Partner, a provider of education and training programs in Germany. Further in 2016, Apollo partnered with Genesis Rehab Services, a provider of rehabilitation services to develop scalable rehabilitation therapy training programs in China. Earlier in 2015, Apollo acquired 62% interest in TIY Academy, a provider of non-degree information technology bootcamp programs in the US. Also in 2015, the group acquired 75% stake in Sociedade Tecnica Educacional da Lapa, a company offering educational programs under the name Faculdade da Educacional da Lapa (FAEL), for approximately \$28.9 million. This acquisition was in line with the group's diversification strategy and expanded its presence in Brazil.

The group has been able to see strong growth in its global revenues through these initiatives. For instance, Apollo Global, the international focused business segment of the group recorded revenues of \$433.7 million in FY2016, an increase of 10.9% over FY2015. Moreover, Apollo Global's revenue grew at a compound annual growth rate (CAGR) of 13% from \$338 million in 2014 to \$433.7 million in 2016. The group's strong focus on international expansion is expected to diversify its business risks and enhance its topline performance.

Broad Portfolio of Education Programs

Apollo offers a broad range of educational programs through its subsidiaries. The group offers educational programs and services at the high school, undergraduate and graduate levels, both online and on-campus. The group's subsidiary, University of Phoenix offers undergraduate and graduate degrees in a range of program areas, including business, education and nursing. In addition, it offers a range of non-degree education programs for lifelong learners. Similarly, Western International University offers undergraduate and graduate degrees in a variety of program areas, including business, information technology and behavioral science. The group's College for Financial Planning Institute provides online financial services education programs, including graduate degrees in three majors, certificate programs, Financial Industry Regulatory Authority securities license training, and continuing education courses.

The group offers its educational programs outside the US through its subsidiary, Apollo Global which includes BPP Holdings (BPP) in the UK; Open Colleges Australia (Open Colleges) in Australia; Career Partner in Germany; Universidad Latinoamericana (ULA) in Mexico; Milpark Education in South Africa; Faculdade da Educacional da Lapa (FAEL) in Brazil; Apollo Global Chile in Chile and India Education Services. BPP offers training and exam preparation programs in a variety of areas and qualification training, undergraduate and graduate degrees through BPP University, which includes BPP Law School and BPP Business School. Open Colleges provide nationally recognized and government approved certificates, diplomas and other qualifications in a range of disciplines and industries, including health and wellness; business management and services; and community services. Career Partner offers undergraduate and graduate degrees primarily in business, and nondegree programs. ULA offers graduate and undergraduate degrees, high school and executive education in various program areas and disciplines. Milpark Education provides postsecondary education, including undergraduate and graduate degrees in business, and non-degree programs. FAEL offers undergraduate and graduate degrees, primarily in the areas of business, education and technology. Apollo Global Chile includes Universidad de Artes, Ciencias y Comunicacion (UNIACC) and Instituto Superior de las Artes y Comunicaciones (IACC). UNIACC offers undergraduate and graduate degree programs in a range of areas. IACC offers degree and non-degree programs virtually. India Education Services is a joint venture that comprises of non-degree management and business programs offered online and through on-ground teaching.

Broad portfolio of educational programs allows Apollo to drive synergies between different offerings as well as enable it to expand into other markets.

Weakness

High Dependence on the Title IV Financial Aid Programs

The group's operations are highly dependent on the Title IV financial aid programs. Apollo's subsidiaries, the University of Phoenix and the Western International University, are eligible and certified to participate in Title IV programs. In FY2016, the group generated a significant portion of its revenues from receipt of Title IV financial aid program funds. The University of Phoenix which accounted for approximately 77.6% of the group's revenues in FY2016, generated 79% of its cash basis revenue for eligible tuition and fees from receipt of Title IV financial aid program funds, as calculated under the 90/10 Rule. As a result, continued Title IV eligibility is critical for continuity of the group's business.

Further, to remain eligible to participate in Title IV programs, educational institutions must maintain an

appropriate student loan cohort default rate. To remain eligible to participate in Title IV programs, an educational institution's student loan cohort default rates must remain below certain specified levels. An educational institution loses eligibility to participate in Title IV programs if its three-year cohort default rate equals or exceeds 40% for any given year or 30% for three consecutive years.

Dependence on the Title IV programs increased the group's business risk, as ineligibility of its subsidiaries to participate in the Title IV programs will adversely impact its overall operations.

Continuous Weak Performance of University of Phoenix

The group's University of Phoenix segment witnessed a decline in its performance in the last few years. Revenues from the University of Phoenix declined from \$2,632.9 million in FY2014 to \$1,631.4 million in FY2016, representing a compound annual rate of change (CARC) of -21% during that period. In FY2016, the University of Phoenix's revenues declined by 24.1% as compared to FY2015. The decrease was primarily attributable to the University of Phoenix's lower enrollment during the year. Further, this segment accounted for 77.6% of the total revenues in FY2016. As a result of such declining performance, Apollo's overall revenues were impacted. The group's revenues declined from \$2,996.9 million in FY2014 to \$2,101.9 million in FY2016.

Declining performance of the University of Phoenix will further put pressure on the other profit making segments of the group and hinder with the growth plans of Apollo.

Dependence on the US for Majority of Revenues

Apollo derives majority of its revenues from the US region. During FY2015, the group generated 84.8% of its total revenue from the US. High dependence on a single market may restrict the group's growth to the local economy and makes it susceptible to changes associated with the economic and political situation of the country. Overdependence on a single market makes Apollo substantially vulnerable to the market condition in that region, increasing its business risk.

Opportunity

Growing Online E-Learning Market

The demand for online education programs has been growing at a rapid pace over the last few years. According to industry estimates, the online learning market in the US is expected to grow at a CAGR of 5% during 2016-23 to reach \$240 billion in 2023 from \$165 billion in 2015. The online enrollments are expected to increase further driven by the ease of accessibility along with improvised effectiveness due to animated learning and also low cost involvement accompanied by flexibility in learning.

The group's University of Phoenix offers its educational programs in associate's, bachelor's, master's and doctoral degrees through its online education delivery system. Also, Western International University offers a variety of program areas as well as certificate programs through online platforms. Growth of online enrollments in the US education will enhance the group's student base and thereby its revenues.

Privatization of Apollo

The privatization of Apollo is expected to enhance its growth prospects. In 2016, the group entered into a definitive agreement to be acquired by a consortium of investors, including Vistria Group, funds affiliated with Apollo Global Management, and the Najafi Companies for approximately \$1.1 billion. The transaction was completed in February 2017. Apollo is expected to benefit immensely from this privatization. This transaction is expected to provide financial stability for the group which has reported losses in FY2015 and was struggling to maintain its enrollments and market share. The new structure will also allow Apollo the flexibility it needs to complete the transformational plan at University of Phoenix, which will enable it to serve its students more effectively. The group will also continue to expand its international operations and remain committed to driving principles of operating excellence. Thus, the privatization of Apollo is expected to enhance the group's financial stability and also provide incremental growth opportunities in the medium to long term.

Threat

Intense Competition

The group operates in the highly competitive post-secondary education market. Apollo competes with traditional public and private degree-granting regionally accredited colleges and universities, other degree-granting regionally accredited schools and alternatives to higher education. Some of the group's competitors, both public and private, have greater financial and other resources compared to Apollo. The group's key competitors include Career Education, DeVry, ITT Educational Services, and Strayer Education.

In addition, an increasing number of Apollo's competitors, including traditional four-year and community colleges, are offering distance learning and other online education programs. Companies providing online learning systems have enabled a greater number of traditional colleges and community colleges to offer online courses, in some cases at lower tuition levels and/or for a variety of reasons, including the availability of direct and indirect government subsidies or government and foundation grants or large endowments, tax-deductible contributions and other financial resources not available to proprietary institutions, or by providing fewer student services or larger class sizes. As the online and distance learning segment of the post-secondary education market matures, the intensity of the competition the group faces will continue to increase further.

Such intense competition could make it more challenging for the group to enroll students, which could adversely impact Apollo's enrollment levels and put downward pressure on its tuition rates. Such high competition could adversely impact Apollo's business, financial condition, results of operations and cash flows.

Stringent Regulatory Environment

The group is subject to extensive US regulation on both the federal and state levels. In particular, the Higher Education Act, as reauthorized by the Higher Education Opportunity Act, and related US Department of Education regulations impose significant regulatory scrutiny on the University of Phoenix

and the Western International University, and all other higher education institutions that participate in the various federal student financial aid programs under Title IV of the Higher Education Act. These regulatory requirements cover virtually all phases of Apollo's operations in the US, including educational program offerings, branching and classroom locations, instructional and administrative staff, administrative procedures, marketing and recruiting, financial operations, payment of refunds to students who withdraw, maintenance of restricted cash, acquisitions or openings of new schools, commencement of new educational programs or cessation of existing educational programs and changes in the group's corporate structure and ownership.

The regulations, standards and policies of these regulatory agencies frequently change and are subject to interpretation, particularly where they are crafted for traditional, academic term-based schools rather than the group's non-term academic delivery model. Changes in, or new interpretations of, applicable laws, regulations, or standards could have a material adverse impact on Apollo's accreditation, authorization to operate in various states, permissible activities, receipt of funds under Title IV programs, or costs of doing business. In addition, in some circumstances of noncompliance or alleged noncompliance, the group might be subject to qui tam lawsuits under the Federal False Claims Act. In these actions, private plaintiffs could seek to enforce remedies under the Act on behalf of the US and, if successful, are entitled to recover their costs and to receive a portion of any amounts recovered by the federal government in the lawsuit.

Any of the penalties, funding delays, injunctions, restrictions or other forms of censure listed above could have a material adverse effect on Apollo's business, financial condition, results of operations and cash flows.

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