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Taking the long view

The future is looking bright for Cognita's 70 schools after the group was bought by Swiss family office Jacobs Holding, which takes a sustainable approach to growth, as head of investments Andreas Tolpeit tells **Josh O'Neill** in an exclusive interview

Global schools group Cognita has seen rapid growth in the 14 years since it opened with one school in England and now runs 70 schools across Europe, Asia and Latin America. But the group faces a change of approach after it was bought by a Swiss family office that works to a far longer investment horizon than its former private equity owners.

In September, Zurich-based Jacobs Holding announced it would acquire the UK-headquartered group from Bregal Investments and KKR in a deal that market sources then confirmed was worth £2 billion – 26-times Cognita's earnings before interest, tax, depreciation and amortisation (EBITDA).

While Cognita chief executive Chris Jansen said at the time that "on a day-to-day basis, nothing will change", the acquisition could spur a strategic shift for the group over coming years, as Jacobs looks far beyond the holding periods typical of private equity investors.

"We don't have a particular investment horizon in mind," says Andreas Tolpeit, head of investments at Jacobs. "Our shortest investment period, historically, was 10 years, but – and this is a big but – we've held companies in the past for many decades, sometimes two- or three-plus.

"We don't have the luxury of being able to offload a problem to a future buyer. We don't buy stuff, play the market for arbitrage and then find the next investor to take on the challenge. That's not our game. As long as we see value-creation potential in our assets, we like to stay invested."

Cognita was founded in 2004 by Bregal Investments and the late Chris Woodhead, a former head of the Office for Standards in Education (Ofsted), and one of the most controversial figures in the UK education sector due to his outspoken hardline views on school policy.

The group's global suite of 70 private schools now teach more than 40,000 children and employ some 7,000 teachers. KKR acquired a 50% stake in the business for an undisclosed price in 2013 and, according to reports, is set to generate a return of more than three times invested capital.

In many ways, family offices make for ideal owners of private school groups: they aren't afraid of illiquidity, they tend to have reserves of deployable capital and they usually place bets with a long-term view. Tolpeit confirms that Jacobs fits this mould.

"We basically have permanent capital, which is both an advantage and disadvantage," Tolpeit says. "On the one hand, you're not under any pressure to make changes quickly or prepare for an exit in just a few years' time. The challenge, though, is finding a market that offers enough value-creation potential for the long term." In 1996, Jacobs founded Adecco, now the world's largest temporary staffing firm. Some 18 years later, the group offloaded its remaining 1.9% stake for around $250 million.

Amir Tayebi, a corporate financier at M&A boutique Adam Street Advisers, outlines two key factors that would have given Jacobs Holding the upper hand over private equity firms throughout the Cognita bidding process.

"Many private equity houses have an investment horizon of three-to-five years," says Tayebi, who worked for a Swiss wealth manager earlier in his career. "This, combined with their high cost of capital, makes it difficult to outbid a family office with long-term investment objectives. Education is still a niche market and, as such, family offices are just starting to realise the enormous potential of the sector.

"We have been approached by a number of family offices regarding the education sector and expect to see more bidding on assets in this space from them in the medium term." He adds that "the price paid [for Cognita] makes sense, given the uniqueness of Cognita's portfolio, its spread across multiple continents and the rarity of school assets for sale".

Jacobs looks for four factors when weighing investments in a new market: size, fragmentation, growth potential and resilience. "The K12 market ticks all those boxes for us," Tolpeit says. "It's very valuable globally, highly fragmented, sees growth that exceeds GDP, and is super resilient." ▶

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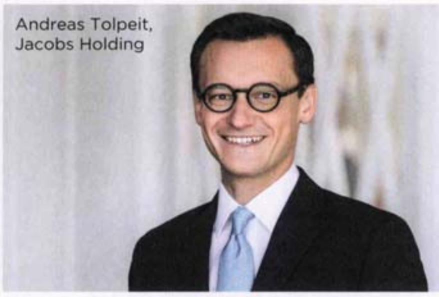
Downsend School, UK

Cognita


Andreas Tolpeit, Jacobs Holding

But although Jacobs' pockets are deep, the firm won't be making any rash decisions when it comes to growing Cognita. When asked what the next step is, Tolpeit says "we have some ideas, but we're reluctant to share those at the moment".

"New market entries are not ruled out," he says. "For us, though, it's about what any given move unlocks when we're contemplating the next step. We won't go and buy a single school in some small country where we see very limited growth potential. It's about growing sustainably and one step leading to the next."

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Jacobs began looking at the K12 market around a year ago, Tolpeit says. Aside from Cognita, Jacobs has just two other holdings: Barry Callebaut, the world's largest cocoa and chocolate manufacturer; and Colosseum Dental Group, which operates close to 300 clinics across Europe. Tolpeit draws parallels between Colosseum Dental Group and Cognita, despite obvious sectoral differences.

"Fundamentally, they're both local businesses, they're people's businesses, and both markets are very large and fragmented," he says.

And it's no accident that Jacobs' portfolio is concentrated – it mirrors the investment strategy of founder Klaus Jacobs. "He chose very long-term bets, focused on a very restricted number of investments and built them into global market leaders," Tolpeit says. "This is the same philosophy we apply when investing."

There's another string to Jacobs' bow which made it the perfect candidate to take over Cognita: its sole beneficiary is the Jacobs Foundation, a charity focused on child development and learning founded by Mr Jacobs. Jansen elaborates on Cognita's dovetail alliance with Jacobs in comments provided exclusively to *EducationInvestor Global.*

He says: "They are an excellent 'owner-partner' to help take our global organisation forward and there are two key reasons for this: Firstly, both Jacobs and Cognita believe that education represents a very long-term endeavour. The Jacobs family is known for its heritage and strong track record in owning and investing in companies – often for decades – to help them grow into globally-respected leaders. They have done this with great success in the chocolate, coffee and recruitment sectors, and this is their ambition for Cognita as well.

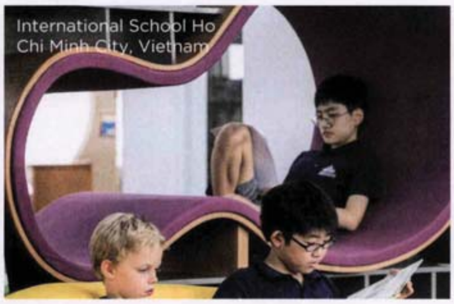
"Secondly, and quite critically, Jacobs has a passionate conviction for education and for the benefits of developing young minds. Together, Jacobs and Cognita share an ambition to help shape the future by educating young minds to think globally, act responsibly and achieve their


North Bridge House Preparatory School, London

Cognita


Instituto GayLussac, Brazil

Cognita


International School Ho Chi Minh City, Vietnam

Cognita


Colegio Pumahue Huechuraba, Chile

Cognita

full potential. With Jacobs by our side, we look forward to continuing to improve and expand the opportunities for young people within our schools – and beyond."

While Jacobs Holding is a for-profit investment vehicle, "whatever we pay out in terms of dividends goes to the foundation," Tolpeit explains. Jacobs Holding is a closed vehicle and, therefore, only invests the family's money, which amounts to around CHf6 billion (£4.6 billion). Some 90% of voting rights lie with the family, Tolpeit adds, noting that it is also responsible for appointing the board of Jacobs Holding.

"The family controls what we are doing," he says.

Jacobs was "very hands-on" when carrying out "thorough and intense" pre-deal due diligence on Cognita, Tolpeit says. He and his team visited schools in seven out of eight countries the group operates in, which collectively account for more than 80% of total revenues. Financials aside, which Tolpeit declines to discuss, what impressed Jacobs most was the "human capital" behind the business.

"As we learned more about the company, we have come to know one of the best management teams we have come across in years," Tolpeit says, flagging Jansen and Asia CEO Michael Drake as exemplary leaders. "It's rare to find such management capabilities and strengths in a company of this size.

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"It's quite striking how everyone is really signed up for this journey... and we're comfortable the company will deliver on its targets."

And deliver it must. In today's market, Cognita faces stiff competition from industry incumbents and newer, smaller school groups, which have grown at a rapid pace thanks to aggressive M&A strategies. Dubai-based rival GEMS, which has over 70 schools in more than 12 countries, recently acquired Bellevue Education, a group of 15 schools across the UK, Switzerland and Qatar.

Nord Anglia, another leading contender, now has nearly 60 schools situated in 27 countries. Market participants are also keeping a keen eye on the rise of the UK's Inspired Schools, which since launching just five years ago has built a network of over 42 sites after most recently acquiring the K12 unit of ACG, New Zealand's largest private school operator. Families including the Oppenheimers and the Mansours have invested in Inspired.

Last year, Cognita logged revenues of £385.2 million and operating profit of £40.7 million, according to FastTrack.com. But a market source recently told *EducationInvestor Global* that Inspired is logging EBITDA of around £100 million, underlining the enormous earnings potential of global school groups, no matter how new to the market they are. ■

Cognita's Early Learning Village in Singapore

Cognita