

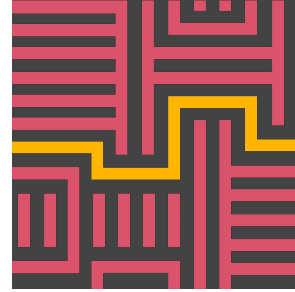
Harnessing Education in the New Economy

Private Higher Education Investments in Malaysia

May 2020



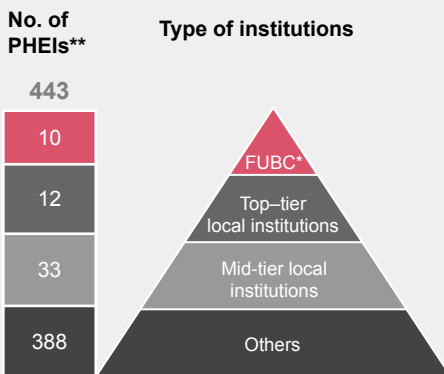
Academic reputation, Employment prospects and Cost are top 3 drivers of choice of students



Our views on the private higher education landscape in Malaysia

With education and the need for future skills evolving at a rapid pace, it is paramount for educators and investors to understand the key levers in this industry; customers' purchasing criteria and how value can be unlocked in this highly competitive sector.

The market is highly fragmented today and poised for consolidation



*FUBC – Foreign University Branch Campus

Key highlights of the private higher education market in Malaysia

- **Growing market:** The market is expected to grow to c.RM17 billion in 2024 at a CAGR of 4.5%. The Malaysia tertiary participation rate is still relatively low at 35% in 2015, and is expected to increase to 53% by 2025.¹
- **Favourable underlying drivers:** This include a growing population base, rising household income and supportive higher education policies
- **Oversupply of institutions:** At 14 private higher education institutions (PHEI) per million population in Malaysia (vs. 5 in Singapore and Taiwan), the market appears to be ripe for consolidation

Based on our analysis, many PHEIs are currently struggling financially, with only a handful of key players dominating the market with strong brand positioning and customer value proposition

"Studying at a British university in Malaysia was a great decision for me. I am close to home but still getting world class education."

– Nottingham University Student from India²

Malaysian students prioritise academic reputation as a key criteria when selecting a tertiary institution

Findings from a student survey and primary interviews conducted by PwC Malaysia in August 2018 indicate that **academic reputation of a PHEI**, **future employment prospects** and **cost of education** are top 3 factors considered by prospective students when evaluating their choices.



Of respondents indicated that parents influenced their choice of education



Students typically reinforce their decision through consultation with relatives and friends



Campus location is key. Campus life and student experience matter

What should institutions focus on to win prospective students?

1. Academic reputation
2. Employment prospects
3. Cost of education
4. Enriched learning and campus experience

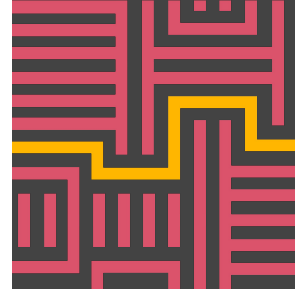


Industry partnerships and international affiliations with foreign universities enhance the value proposition of the education provider

Based on our interviews, recurring themes impacting students' choice of higher education are the cost of education and academic reputation. PHEIs that offer courses with foreign partner universities are more highly sought after, as the accreditation from foreign universities is perceived to increase the marketability and prospects of employment.

¹Malaysia Higher Education Blueprint 2015-2025; for comparison - 2018 tertiary participation rate in Singapore and Taiwan is c.85%, ²University of Nottingham
Sources: PwC Analysis 2020, Ministry of Education Malaysia, Singapore Department of Statistics, Ministry of Education Taiwan

Strategic partnerships and clear brand positioning will drive success



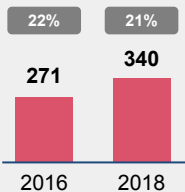
Case study – A leading private university in Malaysia, “Harvard of the East”

A leading university in Malaysia

Established in the 1980s, this leading private university shows a strong commitment to the pursuit of education through scholarship, research and enterprise

Achievements

Revenue (RM mil) & EBITDA Margin



- 12% CAGR from 2016 to 2018, with strong EBITDA margins
- Placed top 2% of Universities in Asia, QS Asia Rankings in 2018
- Won several national awards for educational excellence
- Established new partnerships with leading international universities

Source: PwC Analysis 2020, MergerMarket 2020, Company Financials

Key success factors

- 1 A clear vision and strong passion** for education by management, to enrich students' learning
- 2 Strong strategic partnerships and international affiliations** with prestigious institutions
- 3 Strong branding and marketing strategies** to attract students locally and internationally

Regulatory snapshot of Malaysia's private higher education industry

The industry is regulated by the Ministry of Higher Education (MOHE). To strengthen competitiveness, MOHE has put in place certain foreign restrictions on equity participation.

Establishing a new higher education institution

- Courses for FUBCs in Malaysia will have to **mirror that of the main campus, for quality assurance**
- Applicants need to submit a **comprehensive concept paper to MOHE**, including details on the business plans, operations and branding
- **Malaysian Qualifications Register accreditation is required before the commencement** of any programme

Equity transaction guidelines

- Equity holding and transaction structures are typically **reviewed and approved on a case-by-case basis** by MOHE, with broad guidelines as follows:

Equity holding guidelines

Institution	Max foreign equity	Min Bumiputera* equity
University	100%	-
University College	51 - 70%	30%
College	51 - 70%	30%

*Ethnic Malays or indigenous people of Malaysia

Maintenance of higher education institution

Accreditation

- Courses must be audited by The Malaysian Qualification Agency (“MQA”) **once every 5 years**

Fees

- A revision of fees will only be considered **3 years after the previous fee approval** by MOHE
- Institutions are also allowed to have a **higher fee structure for international students**

Status upgrade

- Colleges that have operated for **at least 5 years** may apply for an upgrade (to university college or university status)

Source: PwC Analysis 2020, Ministry of Higher Education, Ministry of International Trade and Industry

Leverage global trends to unlock value within the higher education segment

Can the universities of today prepare talents for the workforce of tomorrow?

The need for innovation and reform is imperative, requiring universities and institutions to **develop workforce ready graduates with relevant skill sets for the future**. As leading organisations are upskilling their employees for the future of work, higher education institutions will need to ensure its curriculum and delivery are suitably adapted to equip graduates with necessary skills for the workforce. Essentially, developing courses which are aligned to industry needs today.

 **New world. New skills.**

Over the next 4 years, we at PwC are committing USD 3 bil to upskilling our people to better support clients and communities. [Read more here](#)

Universities will have to change their game and transform - by leveraging on global trends to stay relevant

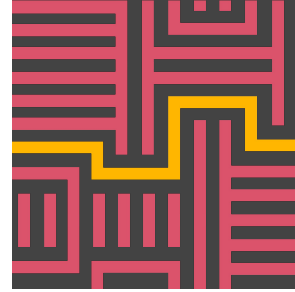
Growth upside for investors – Further opportunities to create value in the private higher education industry

Revenue growth levers		Partnerships with renowned institutions	<ul style="list-style-type: none"> Local institutions who partner with renowned international universities globally will have a competitive edge; from research to student mobility A number of universities in Malaysia have partnered with some of the world's best institutions such as Harvard and Oxford University
		Integration and collaboration with industry players	<ul style="list-style-type: none"> Closer industry collaboration is crucial to equip students with the necessary skills, mindset and readiness for employability Industry players can contribute through action learning programmes, development of curriculum and content
		Reinventing education: Digital learning	<ul style="list-style-type: none"> Universities need to adapt their business models to cater to the needs of future learners Online courses, micro-certifications and shorter, more focused courses with an emphasis on flexibility will appeal to today's audience
		Diversification of customer channels	<ul style="list-style-type: none"> New untapped markets for universities to explore, such as corporate organisations and working professionals as new customer segments Significant opportunity to tap into the international student market through foreign public university collaborations
Cost savings		Optimising operations	<ul style="list-style-type: none"> Implementation of a value creation plan to address cost improvements to increase operational efficiencies amid rising costs This includes but is not limited to programme redesign, shared courses, timetable and resource management

How can we enhance the value of private higher education providers in Malaysia, for students and investors?

- **Changes in the business model and delivery methods** of universities to be future ready
- **Partnerships** with renowned universities and industry relevant curriculum will attract more local and international students
- **Enhancing operational efficiencies** – from organisational restructuring, to resource management and programme optimisation

The future of Private Higher Education in Malaysia



Potential for further consolidation in the private higher education industry

M&A trends and activity in Malaysia's higher education space (2015 – 2020)*



Larger deals in the private higher education sector **compared to the K12-segment**



Recent deals in 2019-2020 mainly by **large foreign education groups, seeking market entry into Malaysia**



Potential acquisition opportunities - from future exits from PE investments, and underperforming institutions for sale

Target	Buyer	Year	Deal size (USD mil)	Stake
Inti Education	Hope Education Group	2020	140	100%
KDU University & Colleges	University of Wollongong	2019	9	65%, 70%
APIIT	KV Asia	2018	181	100%
APIIT, APIIT Lanka, APU	ILMU Education Group	2016	60	49%, 38%, 49%

*Selected transactions
Source: MergerMarket, Company Financials, PwC Analysis 2020



Our perspectives - What could the private higher education landscape look like in the future?

Given the fragmentation in the private higher education market, we envisage that **consolidation** would be largely driven by **major players within the top to mid-tier market segments**. The institutions that are likely to win will be those with a **clear value proposition and strategy to grow their customer base**.

Furthermore, increased disruption and the need to stay competitive reinforces the significance of Value Creation. How then can education providers stay ahead of the curve?



Structure operations for efficiency

As digital transformation is a key priority for leading universities, optimising operations is imperative to unlock cost efficiencies. This includes programme redesign, shared courses, timetable and resource management.



Rethinking strategy: Revenue diversification

With externalities and rapid changes in consumer behaviour disrupting the traditional university model, a holistic and innovative revenue diversification strategy would lead to value creation in the long term.



Reinventing education through digital learning

Digital pedagogy is driving a transformational change in delivery methods. Upskilling educators, having the right tech infrastructure and a multi-functional learning management system is key for effective learning.

Connect with us



Deals Strategy – Market Entry, Commercial Due Diligence, Business Plan & Value Creation



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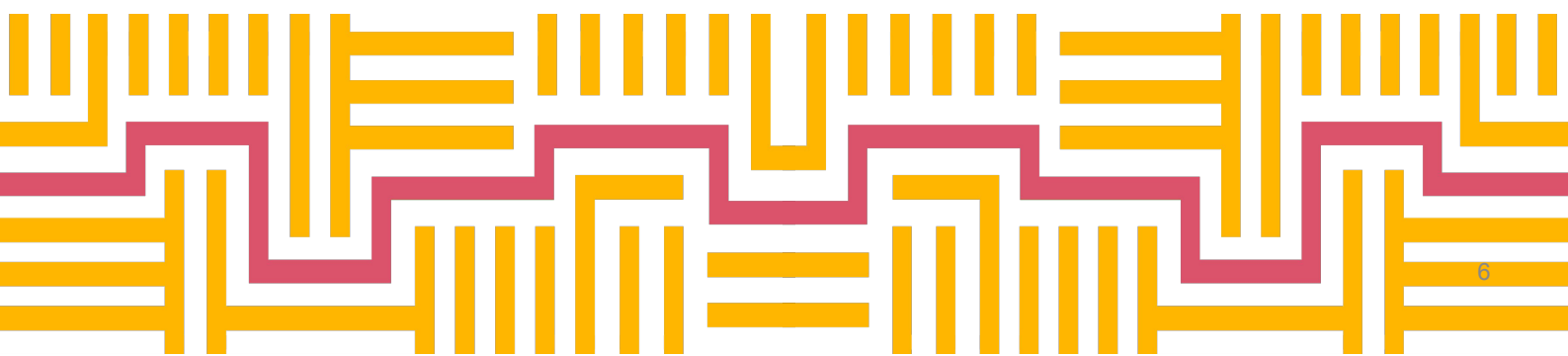
Operational Due Diligence and Post Merger Integration – Education sector



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