



Transforming Education Through Digital Innovation

Private K-12 Education Investments
in Malaysia



EdTech as an enabler for an agile and future-proof workforce



Our views on K-12 education

As the private K-12 education sector¹ reaches a pivot, the next decade will transform education models, to adapt to the new world.

The pandemic has leapfrogged the integration of information technology in education, encouraging innovations in Educational Technology (“EdTech”) to propagate digital learning. However, implementation has been a challenge. The switch to digital learning has happened so quickly, while most educators and students have had limited training and exposure in this new mode of learning.



pwc New world. New skills.

The discrepancy between the skills people have and those needed for jobs in the digital world is one of the most critical problems of our time.

Upskilling needs to be a priority so we don't exclude great swathes of society from the workplace. [Read more here](#)



Emerging global trends shaping K-12 education



Interactive education models of EdTech through platforms, emerging technologies, data analytics, AR, and more



Innovating pedagogy by creating a classroom environment that fosters collaboration, application and student-led learning



Holistic learning combining leadership training, teaching of life skills (social and vocational) and workforce preparation (financial literacy)

¹ The K-12 sector is comprised of preschool, primary school and secondary school education
Source: Primary interviews, Press search, PwC analysis

New World. New Skills. New opportunities for educators



Key market trends and developments in private K-12 education in Malaysia



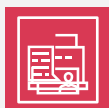
Healthy enrolment growth

- Enrolment in international K-12 schools has grown at c.11% CAGR¹, outpacing the overall private K-12 sector at c.3% CAGR¹ over the last 5 years



Favourable underlying drivers

- Along with a rising population, growth is driven by increasing affluence, shifting parent preferences towards holistic education and a favourable policy environment



Rapid rise of digital learning

- The pandemic has accelerated adoption of remote learning through digital platforms
- However, home-based learning poses its own challenges due to lack of student engagement and inconsistent network bandwidth, which have impacted its efficacy



Saturation of private schools

- Growth in student enrolment has slowed in recent years with saturation in major cities, e.g. Kuala Lumpur, Johor Bahru, Penang
- There is a high likelihood of consolidation amongst K-12 players who will need to compete to stay relevant in the market

What would the future of K-12 schools look like?

Beyond conventional academia, equipping students with future-proof skills to succeed in workplaces is key. Educators need to invest in adequate tools, technology and skills to embrace new education models. Key areas for K-12 schools to consider:

1

Digital learning will complement traditional education

2

Design of new education models through more advanced technologies and platforms

3

Greater emphasis on whole leadership, critical thinking and life skills

¹ 5 year CAGR (2013-2018)

Source: Primary interviews, Press search, PwC analysis

Embracing the paradigm shift in the delivery of education



An interview with Dr. Goh Chee Leong, CEO of R.E.A.L Education, Prestigion K-12 Education (June 2020)

Prestigion K-12 Education owns two well-known brands, Sri KDU Schools and R.E.A.L Education, established 20 and 30 years ago respectively.

Together, they have over 20,000 students and have become one of Malaysia's leading K-12 groups¹. We spoke to CEO, Dr. Goh, to seek his views on the current and future outlook of Malaysia's K-12 education landscape.



On enhancing education through digital innovation

R.E.A.L Schools recently embarked on a rebranding and curriculum transformation. According to Dr. Goh, "Education tends to be sheltered and conservative. We bring the real world into our schools through projects and digital challenges, from coding to robotics, VR and digital marketing."

On strategic partnerships

It is Dr. Goh's view that "Sri KDU Klang, which is the first Microsoft Flagship School in South East Asia, will be positioned as a pioneer in digital leadership."

Sri KDU will receive support and resources from Microsoft and its partners to transform and optimise the curriculum. Such "**strategic partnerships with corporates, top universities, and incubator programmes**" aim to increase market penetration within the K-12 sector.

On the value of e-learning

The recent adoption of the APPLE iPad programme has enabled R.E.A.L to **leverage e-learning especially during these uncertain economic times**. Dr. Goh observed that "parents and students are realising the power of technology to deepen ways of learning."

On the future market outlook

According to Dr. Goh, "The saturation of schools began over a year ago. It has become competitive, and many will likely struggle in the medium-term. However, there is still room for growth for those with a unique offering and value proposition."

"Covid-19 will likely speed up consolidation of K-12 private schools. With increasing emphasis on technology, those who are more agile in adapting to remote learning will survive and thrive."

-Dr. Goh Chee Leong, CEO of R.E.A.L Education, Prestigion K-12 Education

¹Group portfolio includes: R.E.A.L Schools, R.E.A.L Kids, Sri KDU and Cambridge English for Life, comprised of 34 preschools, 6 international and national schools and 60 centres

Ensuring agility and adaptability through digitisation



An interview with Dr. Iskandar Rizal, Chairman of Cempaka Schools (May 2020)

The emphasis on education has long evolved past paper qualifications.

Established in 1983, Cempaka Group of Schools has been a leading private K-12 institution, pioneering classroom digitisation since 2002. The school places significant emphasis on holistic development for the mind, body and soul.

We spoke to current Chairman, Dr. Iskandar Rizal, about the key trends he sees in the future of the K-12 sector and the steps institutions are taking to stay agile in an uncertain digital age.



How do we prepare students for the future?

Outside academia, Cempaka supports **student-led learning**, which fosters student curiosity, exploration of new disciplines and grit.

He explains that, “Besides our hive of extra-curricular activities, we included a programme called ‘Genius Hour’ where students take full responsibility for their own learning, beyond having a strong academic track record. The key to excellence is about learning how to learn, and not just about having aptitude.”

“One of the most invaluable lessons Cempaka has taught me was preparedness in facing and solving real-world problems.”

- A former Cempaka student

What matters more to parents?

All parents want the best for their children, but what this looks like varies from one parent to another depending on their own values and priorities. The quality of education is a reflection of how strongly schools are able to deliver a learning environment that supports this.

However, **price and affordability** remain a major factor in determining the right school for their children.

Dr. Rizal shares, “Based on what we observe among parents who have sent their kids to Cempaka, **trust and fit** between the parents and the school is crucial. The key to a successful relationship is to ensure our beliefs and values are aligned.”

What do schools need in order to effectively facilitate a digitised education?

As an **early adopter of the Virtual Learning Environment (“VLE”)** and **the region’s first Apple Distinguished School**, Cempaka displays foresight and innovation in the delivery of classroom education.

The current economic environment has undoubtedly accelerated the need for digital enablement nationwide. In order to prepare for this, Dr. Rizal identifies 3 core elements that need to be in place immediately:

1. Technology and infrastructure of platforms
2. Upskilling teachers through training and facilitation
3. Access to internet connectivity and mobile devices

Will digital learning eventually displace physical classrooms?

Dr. Rizal opines that **the physical classroom can never be truly replaced by its digital counterpart**.

He shares that, “students in a physical classroom build bonds with teachers and each other, participating in lessons in a way that cannot be achieved by mere teleconference.”

“Increasingly, delivery of online learning is a contingency that all schools must have, particularly in times of economic uncertainty. However, this will not replace the face-to-face learning experience that we provide in school.”

- Dr. Iskandar Rizal, Chairman of Cempaka Schools

Brand recognition and academic quality drive choice of K-12 schools



Regulatory snapshot of Malaysia's private K-12 education industry

In the last decade, the Ministry of Education (MoE) has introduced favourable policies for international school operators, encouraging growth in the number of private international schools nationwide.

Equity conditions: 100% foreign ownership is allowed.

Tax incentives: Newly-established private schools are eligible for 70% income tax exemption for 5 years.

Tuition fees: Any fee increase thereafter (from its submission plan), is capped at 30% and requires prior government approval from the Registrar General. This increase may only be considered 3 years after its previous approval.

School operations: International schools need to provide Islamic studies for Muslim students and Malaysian social studies for local students. Bahasa Melayu needs to be offered as an additional language for local students. Required class to student ratio is 1:25 students per class.

Accreditation: Re-accreditation from the Private Education Division is mandatory every 3 years.

Note: Policies stated are not exhaustive, refer to MoE/Education Act 1996 for full guidelines



Building future leaders: Attributes of leading private K-12 schools in Malaysia



Industry observations

Leading K-12 schools have strong brand heritage and notable academic standing in the market. Their achievements are a strong testament to their commitment in delivering holistic education and employing innovative teaching methods.



Key success factors of leading K-12 institutions

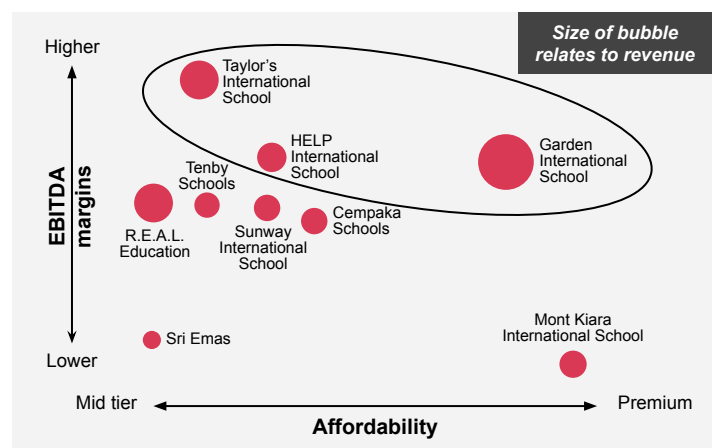
1 Well-known brand, with top-tier academic performance driven by **dedicated and high quality educators**

2 Added synergies from their Education Group ecosystems, which allow for sharing of resources and expertise, enabling cost optimisation

3 Attractive tertiary opportunities by leveraging their College and University partnerships and transfer programmes with top global universities



Market position of leading K-12 schools



Notes:

- 1) EBITDA margins are extracted from FYE18 financial statements
- 2) Dividends received from subsidiaries have been deducted from revenue (Sunway International School)

Key highlights:

- High-performing schools (as circled above) have achieved **EBITDA margins averaging between c.30-40% (2018)**
- They have been **able to capture the mid- to high-income segment and maximise student enrolment**, while optimising operating cost
- They are typically recognised as technology-enabled schools with global recognition through numerous international awards

Strategic expansion to drive deals in private K-12 education



Potential M&As in the private K-12 education market

Key observations from recent M&A activity in Malaysia (2017 – 2020)



K-12 deals have attracted strong interest from education operators and private equity investors



Transacted EV/EBITDA multiples for K-12 schools typically ranged from 10x-15x



International players are seeking to expand local footprint. Growing interest in acquisition opportunities in online education platforms and private learning centres

Target	Buyer	Year	Deal size (USD mn)	Stake
Scholastic IB	MAA Group Berhad	2019	6	90%
R.E.A.L Education Group, Paramount Education, Sri KDU	TPG Capital	2019	130	80%
Asia Pacific Schools	International Schools Partnership	2019	Not Disclosed	Majority
Regent Int'l Schools	Horizon Education Asia Limited	2019	6	32%
Tenby Educare	International Schools Partnership	2018	Not Disclosed	100%
R.E.A.L Education Group	Paramount Corporation Berhad	2017	41	66%

Note: Selected transactions identified

Source: MergerMarket, Company financials, PwC analysis

How is the private K-12 education landscape expected to change in the future?

With the growing number of private K-12 schools in the country, **the K-12 market segment is poised for consolidation.** Amidst increasing competition in a challenging economic climate, operators have to cross-leverage their brand, reputation and expertise to remain competitive.

There is still untapped demand for good quality and affordable private education particularly among the growing middle-to upper-income segment. In order to capture future growth opportunities, education providers should focus on:



Innovative classroom & learning enrichment

Application, collaboration and digitisation are fundamental aspects of the education curriculum.

Uncovering pathways to enhance holistic learning is critical to close the demand gap for future business leaders.



Brand development and partnerships

Parents highly value academic quality and a future-proof curriculum.

Developing a reputable brand by leveraging partnerships with tertiary institutions and leading professional firms will generate demand and instil confidence among parents.



Business sustainability and value creation

A sustainable business model and clear strategic positioning are key to competing in a saturated market.

Creating value through strategic partnerships and digitisation can help further strengthen a school's value proposition and student appeal.

Connect with us

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



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