

L.E.K.

Special Report

The Private K-12 Opportunity in the Middle East



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About L.E.K. Consulting

L.E.K. Consulting is a global management consulting firm that uses deep industry expertise and rigorous analysis to help business leaders achieve practical results with real impact. We are uncompromising in our approach to helping clients consistently make better decisions, deliver improved business performance, and create greater shareholder returns. The firm advises and supports global companies that are leaders in their industries — including the largest private and public-sector organizations, private equity firms and emerging entrepreneurial businesses. Founded in 1983, L.E.K. employs more than 1,200 professionals across the Americas, Asia-Pacific and Europe.

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Introduction

Since the early 2000s, the Middle East's private K-12 sector has presented tremendous prospects for growth. Education operators and investors were quick to capitalize on these opportunities, ushering in an age of expansion and consolidation.

The Middle East continues to be a high-growth region. In the past three years alone, private K-12 in the region has grown three times faster on average than GDP. L.E.K. Consulting values the private international K-12 education market across the Middle East at c. \$6.8b, larger than higher education at c. \$3.7b (see Figure 1).

The Middle East has benefited from the entry of large global chains such as Nord Anglia as well as prestigious independent school brands (e.g. NLCS, Brighton College) alongside the growth of homegrown private operators such as GEMS and Taaleem.

There are three key factors that continue to make the region's K-12 opportunity highly attractive:

1. Favourable regulatory environments: Governments across the Middle East are prioritizing education in a bid to diversify economies that have typically been resource-dependent. Education is a key priority to support the development of knowledge-based economies, and private sector growth to meet growing educational needs has been encouraged through more favourable regulations. In geographies such as the UAE, the regulatory environment is already conducive to private education growth,

while in countries such as Saudi Arabia, these policies are rapidly transforming.

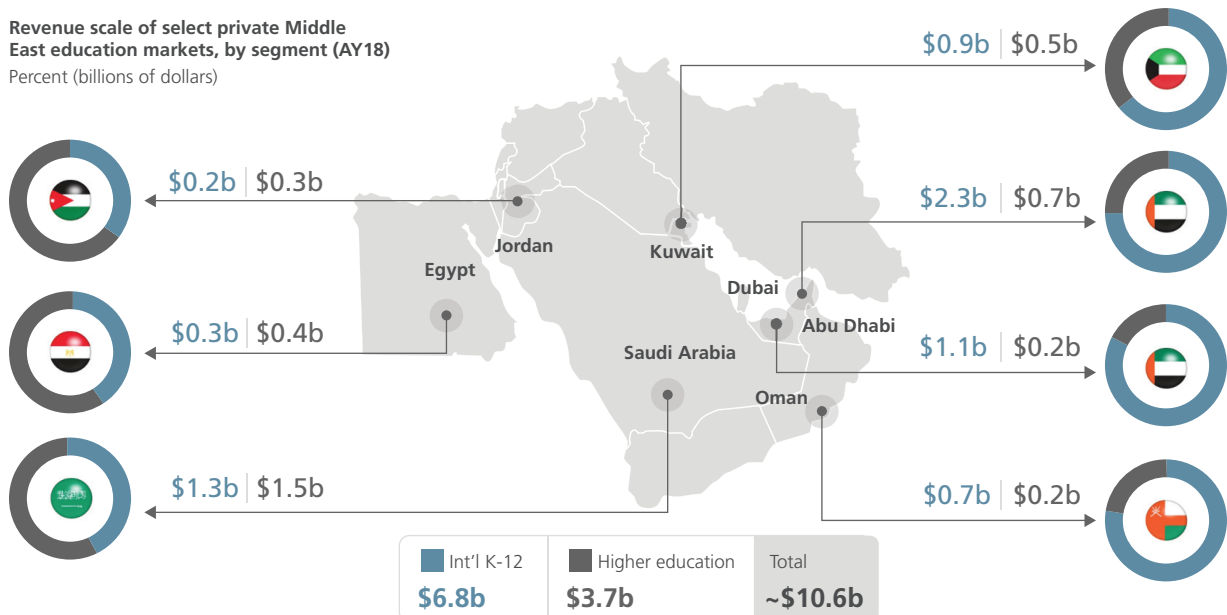
2. Ability and willingness to pay for international education: Household incomes in the region have increased significantly in the last decade, with 19% of households in the Middle East earning more than \$25,000 per year in 2017, up from 9% in 2005. As affluence increases, so does demand for high-quality, international K-12 education.

3. Thriving local and expat populations: The Middle East is among the youngest regions in the world, with the highest population growth rates globally. The percentage of the population under the age of 25 in the region ranges from 34% in the UAE to 50% in Saudi Arabia. Realising the potential of this demographic boom is a key goal of regional governments. Expat populations are also on the rise; Dubai projects that its expat population will double by 2030.

The UAE has led the region's private K-12 growth to date and continues to experience unparalleled market expansion. However, emerging trends in Saudi Arabia suggest that K-12 investors and operators should broaden their focus.

This report seeks to inform investors and operators about why the private K-12 market in the UAE remains attractive and why it is at an inflection point in Saudi Arabia.

Figure 1
Revenue scale of private Middle East education markets, by segment



¹ Refers to disposable income, source: Euromonitor

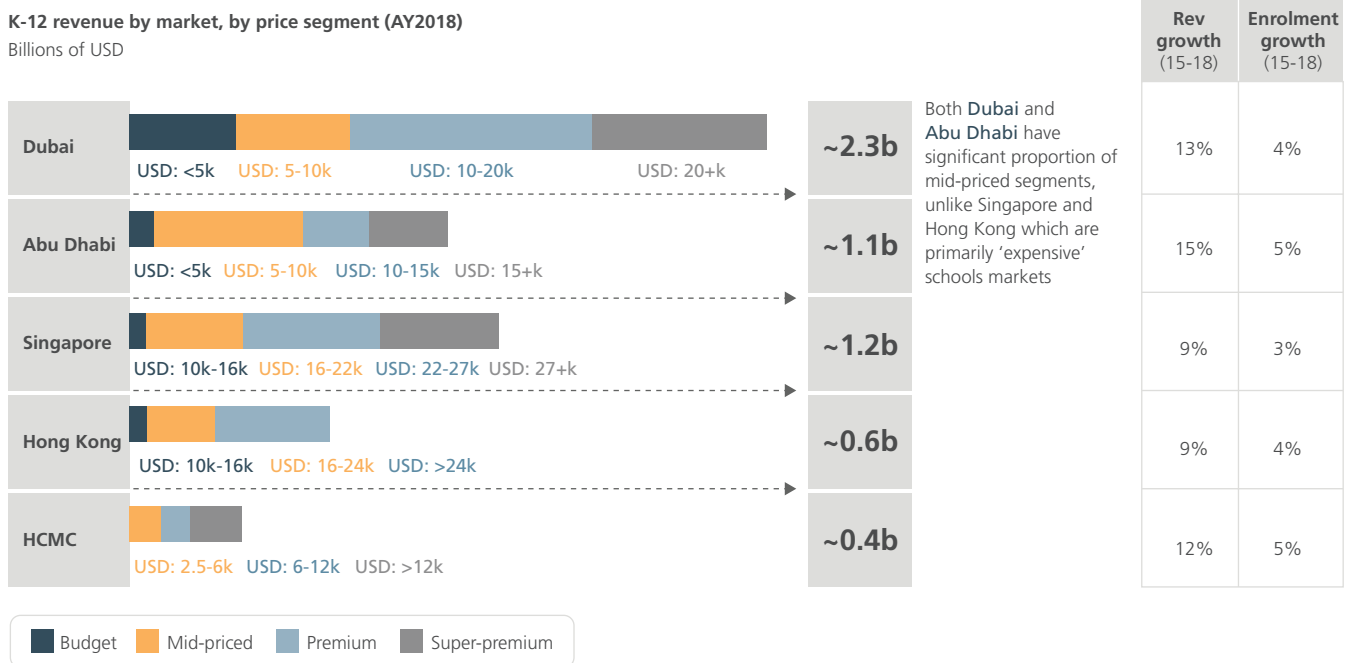
United Arab Emirates

The UAE has led the region's private education sector growth

The UAE has historically led the wave of growth in the region's education sector and still represents an attractive market opportunity. Dubai and Abu Dhabi are among the largest and

have been popular with investors (such as Singapore and Hong Kong) often focus on serving wealthy expats. The availability of options in the UAE enables parents to move across price segments as household income changes. This broad coverage has given rise to strong, high-quality mid-priced *and* premium K-12 markets, contributing to the UAE's higher overall tuition revenue.

Figure 2
K-12 revenue by market, by price segment



fastest-growing private K-12 education markets in terms of K-12 tuition revenue globally (see Figure 2).

In the region, Dubai and Abu Dhabi account for 60% of the private K-12 market and continue to grow faster than their regional peers.

Private K-12 — the gift that keeps giving

The UAE private K-12 market has a number of attractive features for private education investors and operators. These include:

1. Diverse mix of expats: Dubai's private K-12 market is bolstered by socioeconomically diverse expats with a range of curriculum needs and tuition ranges from as low as \$1k to \$25k. In contrast, the strongest private K-12 segments in other geographies that

2. Locally-driven demand: In the case of Abu Dhabi, demand for private international K-12 education is also being driven by its local population, who are migrating from the public system.

3. Resilient demand: The private K-12 sector in the UAE has grown year-on-year despite economic downturns. When the UAE's economy slowed down in 2016-17, the private K-12 education market continued growing at 14% in Dubai and 16% in Abu Dhabi. The market was also resilient to the 2008 global economic downturn, when it grew by 9% in Dubai.

4. Supportive regulations: The UAE's regulatory environment is highly supportive of the private K-12 market. In fact, the Knowledge and Human Development Authority is frequently cited as a best-in-class regulator globally.

5. Land parcel availability: The UAE offers large land parcels to private operators to build world-class school facilities. In contrast, substantial land parcels are increasingly scarce in cities such as Singapore and Hong Kong.

What market entrants should watch out for

However, the private K-12 market is increasingly competitive as a result of government efforts to broaden supply. Nearly 24,000 seats were added in the super premium (fees >\$20k) and premium schools (fees >\$10k) segment between 2015 and 2018 (see Figure 3).

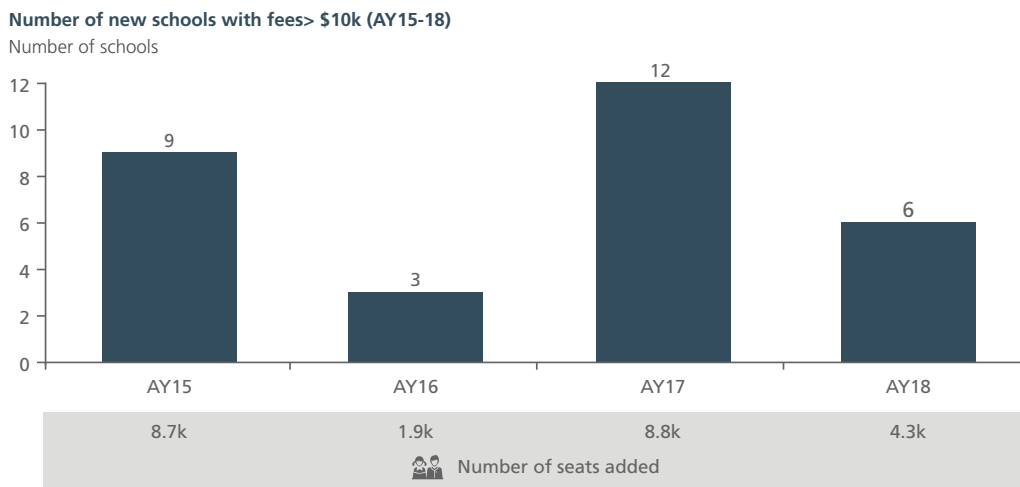
To ensure success going forward, new entrants will need to prioritize the following factors:

1. Invest in understanding the market and competitive landscape: It is imperative that new entrants have an in-depth understanding of the local market and competition at a catchment level to determine the most appropriate price point and curriculum to offer.

2. Develop a clear understanding of evolving parent needs: New entrants must invest in extensive primary research (including parent surveys) to develop the most appropriate school configuration and establish real differentiators to win in the market.

3. Engage with regulators: Market entrants should continuously engage with the local regulator to understand how best to deliver education that is in line with the quality assurance frameworks in place.

Figure 3
Number of new schools with fees > \$10k



Saudi Arabia

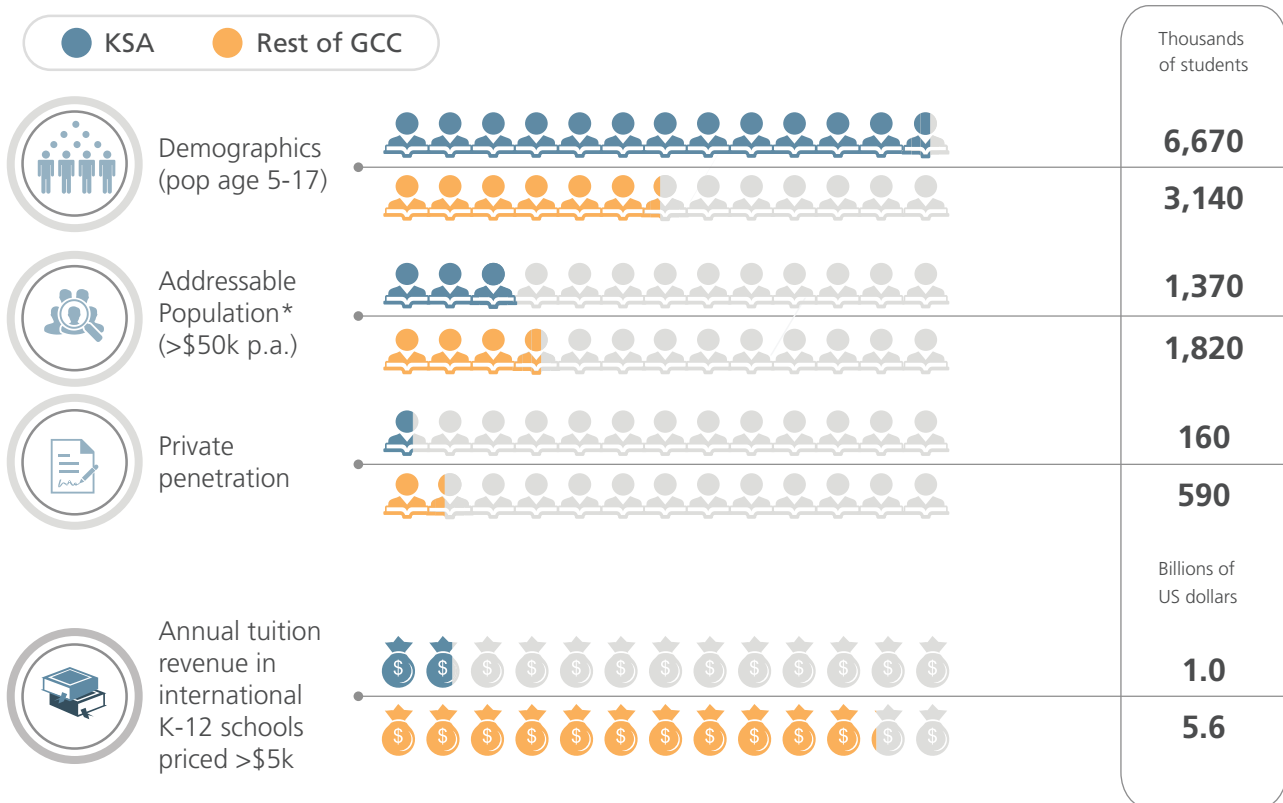
Optimal conditions for private growth in Saudi Arabia

A high-income country recovering from 2014's slump in oil prices, Saudi Arabia is undergoing a number of reforms under its "Vision 2030" programme, which aims to reduce the country's resource-dependence and diversify the economy. The education sector, historically dominated by public provision, is primed to reap the benefits of a more attractive investment environment. Moreover, with 6.7m students, the country has the largest school-age population in the region by far (see Figure 4), and it is expected to grow to 7.6m by 2030. However, despite the strong underlying demographics, Saudi Arabia's adoption of private international K-12 has historically been smaller than that of its neighbours.

The proportion of private K-12 enrolments in Saudi Arabia is still only 16%, compared to regional peers such as Kuwait (40%) and the UAE (75%). However, Saudi's private K-12 segment is a c. \$3b market and tailwinds are strong: Vision 2030 articulates an aspiration to increase share of private education to 25%. By doing so, the government will reduce the cost burden on the public purse while also leveraging private provision to deliver higher quality. Saudi Arabia's government also plans to allow 100% foreign business ownership by 2019, which will attract global private K-12 providers, while local initiatives will cement the role of private provision in Saudi's education sector. If Saudi Arabia were to reach the level of private provision accessed in Kuwait, the market could be worth ~\$14b.

Figure 4
Kingdom of Saudi Arabia (KSA) and rest of GCC, enrolment in international K-12 schools priced >\$5k

Enrolment in international K-12 schools priced >\$5k,
KSA vs. rest of GCC (AY18)



Note: Household disposable income >\$50k p.a.

Rising demand for international curriculum (especially American curriculum)

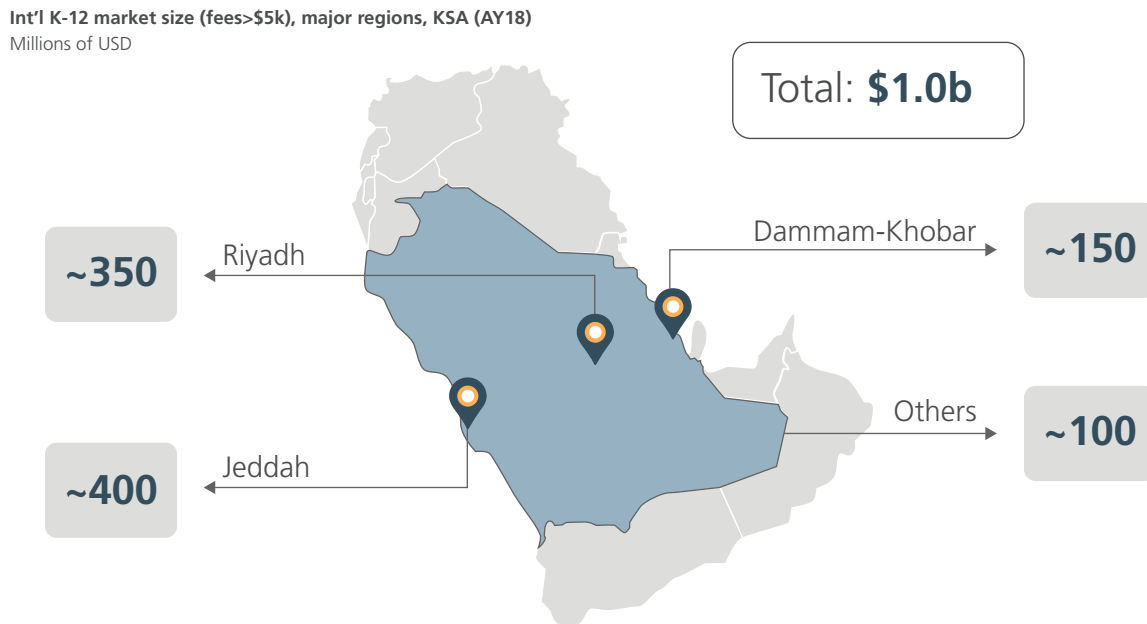
International K-12 curriculum has emerged as a leader in Saudi Arabia's private K-12 market. Although the country has an even split of private international and national curriculum schools, tuition revenue of international curriculum schools grew by ~8% p.a. between 2015-2018, reaching \$1.3b, while national curriculum schools grew by ~3%, reaching \$1.7b in revenue size (see Figure 5). American curriculum is in particularly high demand, with 50+ out of the 65+ international schools in Riyadh and Jeddah with fees above \$5k offering American curriculum.

Enrolment in the premium international K-12 segment grew by 4% between 2015 and 2018, despite the economic slowdown and subsequent decline in the overall private K-12 market. This resilience demonstrates the strength of the local population's demand and ability to pay for high calibre private international education.

Opportunities for new entrants

While neighbouring countries such as the UAE have attracted a multitude of global K-12 brands, Saudi Arabia remains untapped by large international K-12 operators. Between 2018 and 2025,

Figure 5
International schools by segments, by city



Changing tides — locals outpace expats in demand for international K-12

In contrast to many neighbouring GCC markets, the driving force behind Saudi Arabia's growth in private international K-12 education is its local population, rather than its expat population. Between 2015 and 2018, the share of local participation in private international K-12 grew from 33% to 39%. Growing local demand for high-quality international education is evident in the premium (fees > \$5k) international K-12 segment's resilience in the face of recent economic and regulatory challenges.

155,000 students need to be served through 170 premium international curriculum schools. However, large regional operators are increasingly attracted by the KSA opportunity. Investors have scope for both green-field investments and M&A.

In the absence of global providers, a number of national curriculum schools in Saudi Arabia have seized the opportunity to meet the marked increase in demand by branching out to also provide an international curriculum in newly established campuses or in existing schools.

Select national private K-12 operators also providing international curriculum in Saudi Arabia



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Challenges for new entrants

Realizing the full potential of Saudi Arabia's K-12 opportunity hinges on overcoming several challenges. These include:

1. Complex regulatory landscape: Regulatory changes have already been set into motion, but more could be done to create a truly investor-friendly environment, particularly in the approach to licencing and operations. Saudi regulators may benefit from adopting best practice towards K-12 investors that are present in the region, most notably in Dubai.

2. Human capital: A careful balance must be struck between the hiring requirements outlined in the Saudization policy and the need for high-quality international teachers. It is critical to make Saudi Arabia an attractive work destination.

3. Knowledge gaps: Global investors considering the Saudi market lack access to accurate and reliable market data. The K-12 market is both fragmented and short on meaningful information from secondary sources to augment investment decisions.

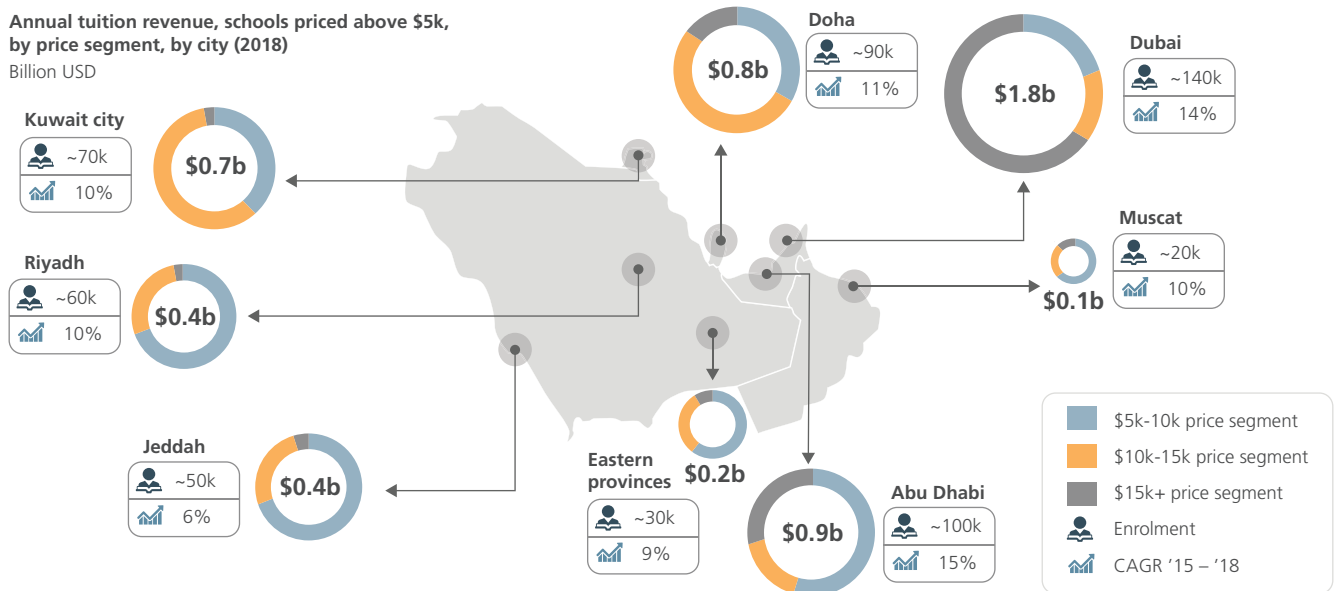


Conclusion

Private K-12 in the Middle East has attracted significant attention from international investors and operators. The leadership at L.E.K. Consulting's global education practice has observed resilient market growth through periods of global economic turbulence as well as local downturns caused by a declining oil price. In the Middle East, the two most promising private K-12 markets are the UAE and Saudi Arabia, with international private K-12 markets of these regions (priced >\$5k) growing between 6%-15% (see Figure 6).

The UAE continues to present an attractive K-12 market for education operators, and market entrants who do their research will be best positioned to succeed. Saudi Arabia's private K-12 market is comparatively nascent. However, the market is primed to capitalize on a surging youth population and wider economic recovery. K-12 education investors and operators, particularly those willing to enter the market ahead of the curve, will reap the benefits.

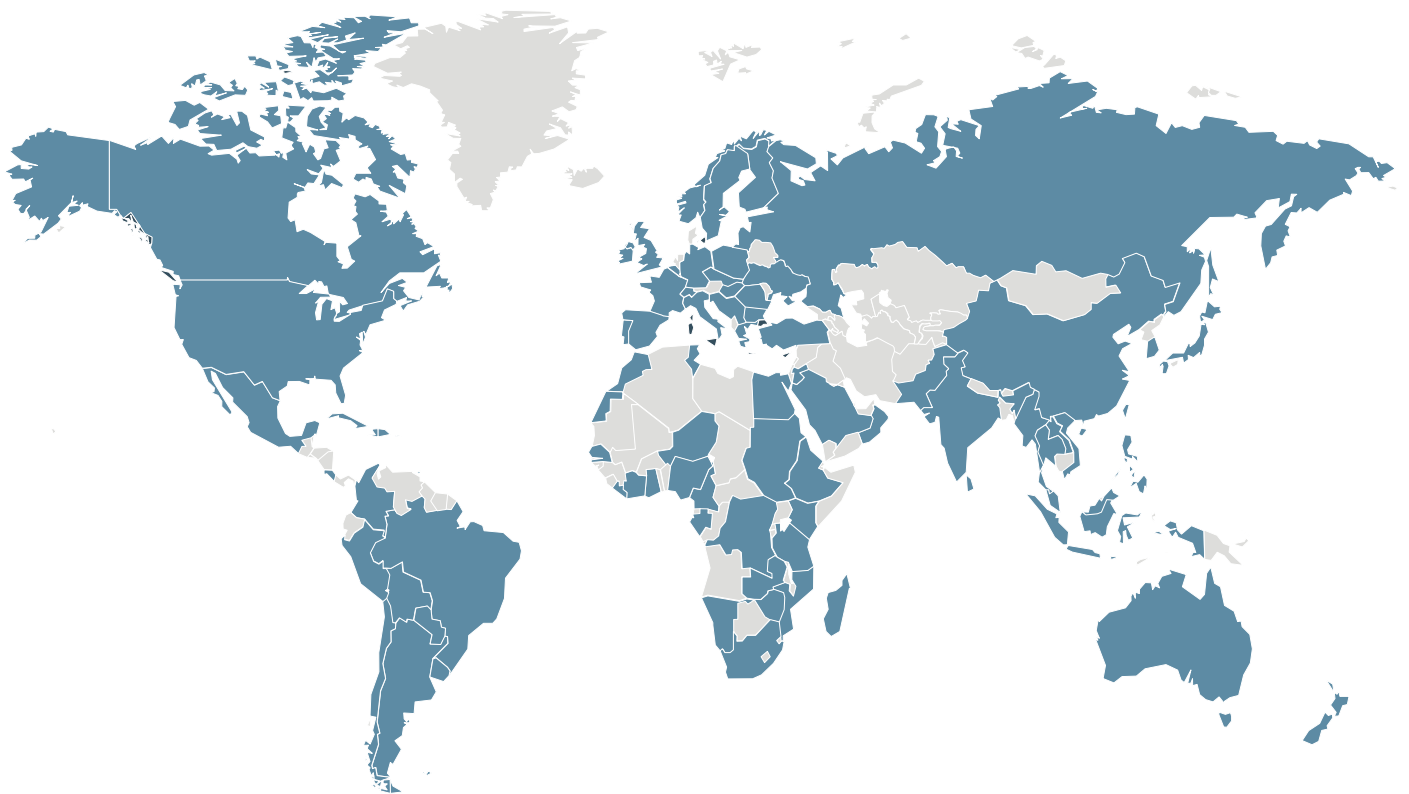
Figure 6
Annual tuition revenue, international K-12 schools priced >\$5k, by price segment, by city



About the Global Education Practice

The L.E.K. Global Education Practice (GEP) is a specialist international team whose members bring experience in more than 600 education sector engagements across 90+ countries. This dedicated group of 70+ consultants, three partners and five principals / senior managers is based in Singapore and serves a global client base from China to Chile. Our experts bring

insights on education businesses, investment opportunities, market dynamics, and impact across education sub-sectors from K-12 to edtech. GEP leaders bring experience serving CXOs and boards of some of the world's largest education sector businesses and advising on most investment deals over \$200m since 2010.



■ Education cases led on-ground by members of L.E.K. Global Education Practice

Leadership, Global Education Practice

Ashwin Assomull

Partner

E: a.assomull@lek.com

Danish Faruqui

Partner

E: d.faruqui@lek.com

Anip Sharma

Partner

E: anip.sharma@lek.com

Report authors

Ashwin Assomull

Partner

E: a.assomull@lek.com

Danish Faruqui

Partner

E: d.faruqui@lek.com

Sankalp Gourisaria

Associate

E: s.gourisaria@lek.com

Vinit Hase

Associate

E: v.hase@lek.com

Chinmay Jhaveri

Senior Manager

E: c.jhaveri@lek.com

Vikas Panjwani

Manager

E: v.panjwani@lek.com

Priyanka Thapar

Senior Associate

E: p.thapar@lek.com

