EQUITY RESEARCH

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Sector: Business, Information & Professional Services

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Nord Anglia Education, Inc.

Solid Q1; is M&A catalyst looming?

Our view: On Tuesday, NORD reported a solid Q1, maintained FY17 guidance (net income/EPS were nudged higher), and indicated continued optimism around its growth strategies. M&A in the near term sounds likely, and is needed as a catalyst for the shares. We continue to see significant growth potential over the next few years. Outperform.

Key points:

Solid Q1/F17 results. Revenues rose 8.7% Y/Y constant currency (6.9% reported) and slightly missed consensus. By segment, SEA and the ME were a bit stronger, while North America and China were a bit below. Adjusted EBITDA margins fell ~200bps Y/Y due to heavy investments in start-up schools and incremental costs related to the FY16 sale-leaseback (rent, property taxes, etc.) and met our estimate. Adjusted EPS of $0.25 was flat Y/Y, and compared to our/consensus $0.24/$0.27 estimates.

M&A on the horizon? Management stated it is actively engaged in a number of advanced negotiations and hopes to be in position to announce several transaction in the coming months. NORD continues to target ~ $200MM for M&A in FY17, including the ~$167MM in sale leaseback proceeds that per the terms of its credit facility must be committed (though not technically spent) by May.

China dual curriculum (DC) and greenfield updates. NORD remains confident in its China DC strategy, and highlighted the growth/demand in its start-up in Shanghai (NACIS). It continues to plan for a second start-up this fall, and is optimistic that it will receive needed regulatory approval to do so. This would be incremental to NORD's planned September 2017 greenfield start-ups in Bangkok, Hong Kong, and Abu Dhabi.

FY17 guidance benefits from debt refinancing. NORD reiterated its FY17 guidance for revenue (~6.5-8.5% Y/Y growth) and adjusted EBITDA (0-5%) while raising adjusted net income/EPS by ~3% to incorporate a December debt refinancing (interest rates fall ~50 bps). As a result, the adjusted EPS guide rises by $0.02 to $0.66-$0.71 (+2-10% Y/Y). Recall the modest profit growth results from heavy investments in start-up schools and incremental Y/Y costs related to the sale-leaseback without any assumption for use of proceeds (i.e., future M&A).

Estimates/PT. Our estimates are little changed, and our PT remains $27, or an unchanged 22.5x CY18E FCF/share of $1.22 (vs. prior $1.21).

Bisbee's Bottom Line: Our positive thesis on NORD remains in place after uneventful Q1 results. The M&A commentary is encouraging, and we believe that future announcements are likely to be the next catalysts for the stock. Looking further out, we believe NORD's large addressable market, solid competitive advantages, profitable and predictable business model, and strong cash flow (and ample dry powder today) position it to drive strong growth and share price appreciation over time. Outperform.

Outperform

NYSE: NORD; USD 22.12

Price Target USD 27.00

WHAT'S INSIDE	
☐ Rating/Risk Change	☐ Price Target Change
☐ In-Depth Report	☑ Est. Change
☐ Preview	☐ News Analysis

Scenario Analysis*

Downside Scenario	Current Price	Price Target	Upside Scenario
16.00	22.12	27.00	32.00
↓ 28%		↑ 22%	↑ 45%

*Implied Total Returns

Key Statistics

Shares O/S (MM):	104.3	Market Cap (MM):	2,303
Dividend:	0.00	Yield:	0.0%
Float (MM):	32.5	Tr. 12 ROE:	16.81%
		Avg. Daily Volume:	85,000
		3-Yr. Est. EPS Growth:	22.00%

RBC Estimates

FY Aug	2015A	2016A	2017E	2018E
Revenue	573.1	856.0	909.3	1,092.8
Prev.			916.4	1,099.6
EPS, Adj Diluted	0.42	0.65	0.67	0.90
Prev.			0.65	0.89
P/AEPS	52.9x	34.1x	32.9x	24.7x
FCFPS	0.24	0.30	0.76	1.09
Prev.			0.66	1.07
P/FCF	nm	74.8x	29.0x	20.3x
ROE, Adj	12.7%	21.4%	15.0%	19.7%
Prev.			14.8%	18.2%

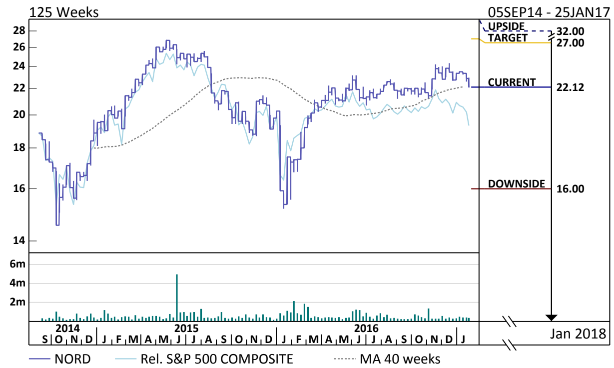
Revenue	Q1	Q2	Q3	Q4
2016	244.2A	243.2A	253.5A	115.1A
2017	261.0A	260.0E	270.3E	118.0E
Prev.	263.4E	262.5E	272.1E	118.5E
2018	312.5E	314.4E	326.1E	139.7E
EPS, Adj Diluted				
2016	0.25A	0.27A	0.27A	(0.14)A
2017	0.25A	0.27E	0.29E	(0.14)E
Prev.	0.24E			(0.16)E
2018	0.32E	0.35E	0.37E	(0.15)E

All values in USD unless otherwise noted.

For Required Conflicts Disclosures, see Page 9.

Target/Upside/Downside Scenarios

Exhibit 1: Nord Anglia Education, Inc.



Source: Bloomberg and RBC Capital Markets estimates for Upside/Downside/Target

Target price/base case

Our base case calls for Nord Anglia to deliver high-single-digit or better organic revenue growth, driven by same-school growth and new start-up schools, with acquisitions likely to drive upside over time. We assume modest adjusted EBITDA margin expansion over time to drive 20%+ annual adjusted EPS growth.

Our $27 price target applies a 22.5x multiple to our CY18 free cash flow per share estimate of $1.22. We believe this premium valuation is justified by the company's strong business model and growth potential.

Upside scenario

Nord Anglia continues to reinvest all of its free cash flow in M&A and the China dual curriculum expansion proves successful, which leads revenue and profits to grow ~3% ahead of our estimates in the next few years.

In this scenario, Nord Anglia could earn CY18 free cash flow per share of ~$1.40 (vs. $1.22E). Assuming a 23x multiple, our upside case is $32.

Downside scenario

Profit growth decelerates more than expected due to slower M&A and rising organic capacity expansion (which weighs on margins).

In this scenario, Nord Anglia could earn CY18 free cash flow per share of ~$1.00 (vs. $1.22E). Assuming a 16x multiple, our downside scenario is $16.

Investment summary

In our view, Nord Anglia has a strong growth outlook with many positive aspects to its business model that make it an attractive investment. Positives to the story include:

Strong growth outlook with diversified strategy. We believe that over the next three to five years, Nord Anglia is likely to generate ~15% revenue growth (8–10% organic and 5–7% from M&A), 15–20% adjusted EBITDA growth, and 20%+ earnings and cash flow growth. The company uses a three-pronged growth strategy that has enabled it to increase its total seat capacity four-fold since FY08. Its three methods of greenfield additions, capacity expansions, and acquisitions have enabled it to take advantage of different growth prospects and varying risk levels. We believe Nord Anglia has strong potential to continue its rapid pace of growth.

Leading market position in fragmented market. The English-language premium school market is large (~$58B) and highly fragmented, with ~9,000 operators. 88% of the market is run by single-school operators. With FY16 revenue of ~$850MM and 43 schools, Nord Anglia is nearly three times as large as the next biggest operator, but still has a vast addressable market to pursue.

Premium education, competitive advantages. Nord Anglia solely operates premium schools, giving it a well-respected reputation. This reputation has enabled it to become a partner of choice with three important constituents: operators of schools looking to sell, property developers looking for partners, and governments looking to attract foreign direct investment. We believe this creates competitive advantages for Nord Anglia and acts as a barrier to entry for other, less reputable schools.

Attractive financial model. Nord Anglia has a strong financial business model featuring high revenue and earnings driven by long-term leases, ~97% persistence rate, and a 4.4-year average student tenure. NORD has healthier margins (adjusted EBITDA >20%) and relatively price inelastic consumers. Lastly, the company has a capital-efficient model that combines with tuition pre-payments to generate strong cash flows and healthy financial returns.

Risks include: 1) risks associated with the company's M&A and greenfield strategies; 2) China risks with this geography generating ~35% of profit with margins well above the corporate average; and 3) limited liquidity amid high sponsor ownership.

Exhibit 2: NORD Q1/F17 earnings scorecard

Q1/F17 Earnings/Guidance vs. estimates	Below	Inline	Above
Revenue	✓	✓	
Adj. EBITDA Margin		✓	
EPS		✓	
FY17 Guidance		✓	✓

Implications of Q1/F17 Results on:	Negative	Neutral	Positive
Investment Thesis		✓	
Earnings Estimates		✓	✓
Price Target		✓	

Source: Nord Anglia Education, RBC Capital Markets

FY17 guidance updated for refinancing, otherwise unchanged

Nord Anglia left its FY17 guidance largely unchanged, maintaining the revenue ($910-$930 million, or +6.5-8.5% Y/Y growth) and adjusted EBITDA ($207-$217 million, or 0-5% Y/Y growth) outlooks. The company raised its adjusted net income/EPS outlook by ~3% to incorporate the benefit from a December refinancing (term loan and revolver interest rates lowered by 25-50 basis points and 50 basis points, respectively). As such, the guidance now calls for adjusted EPS of $0.66-$0.71 (+$0.02 vs. prior $0.64-$0.69) and implies 2-10% Y/Y growth (vs. prior 0-8%).

Recall that the modest profit growth results from heavy investments in recent start-up schools (Chicago in Sep. 2015 and Houston and Shanghai in Sep. 2016) and incremental Y/Y costs related to the May 2016 sale-leaseback (rent, property taxes) without any assumption of use of proceeds. However, we believe the guidance could prove conservative as NORD has earmarked ~$200+ million for M&A during FY17. While the timing of M&A remains difficult to peg, the FY17 guidance is somewhat punitive as it assumes all costs related to the sale-leaseback, but no use of proceeds. When this capital is put to work (M&A, growth capex, or debt reduction), we would expect accretion to the forward twelve months estimates.

M&A on the horizon?

Following 18+ months of M&A inactivity (and amid investor frustration), management stated it was actively engaged in a number of advanced negotiations and that it hopes to be in position to announce several transactions in the coming months. Though NORD has often cited the strength and quality of its M&A pipeline, this was the company's most explicit update on likely near-term activity.

As part of NORD's FY17 capital allocation plans, the company continues to earmark ~$200 million of capital for M&A. This includes putting the ~$167 million of FY16 sale-leaseback proceeds to work. If these funds are not committed by May, the terms of its credit facility indicates that they would need to be used to pay down debt. While we expect the company to utilize much (if not all) of the sale leaseback proceeds for M&A, management also stated it is permitted to designate the proceeds for capital expenditures, thus providing added timing and capital flexibility.

NORD continues to have dialog with a range of potential sellers varying in size (i.e., single operators, tuck-ins, groups) and despite the relative urgency, expects to remain disciplined on price (historically 7-10x EBITDA).

We model 2-3 acquisitions at the end of FY17 (to benefit FY18 financials) and in each year thereafter (~1,500 students/year), though we believe that the company is likely to exceed this target over time if it can execute against its pipeline and reinvest its free cash flow and incremental borrowings.

China dual curriculum (China DC) and greenfields on track

NORD remains confident in its China DC strategy, and continues to highlight the demand in its September 2016 start-up in Shanghai (NACIS), which it sold out immediately. The school is expected to be EBTIDA break-even and cash flow positive in its first year and reach ~80% utilization maturity (~1,800 students) with margins that approximate the China expat market (~40%) in its third year.

Management also stated that it is making solid progress toward opening a second Chinese local school for September 2017. Though it still needs to secure the proper licensing/ regulatory approval from the local authorities, the company is optimistic that it will receive the needed approvals to open a second school this September as long as it secures the licensing approval by early summer (vs. prior ~February timeline). This implies that most (if not all) other planning/strategy targets/requirements (i.e., land/building, financing, partners, etc.) have been met, in our view.

Furthermore, management stated that its three start-ups remain on track to open in September 2017, including its school in Bangkok (1,500-seat capacity), Hong Kong (520), and Abu Dhabi (400).

Thesis, estimates and price target largely unchanged

Our positive investment thesis on Nord Anglia Education is unchanged after the solid, though uneventful, Q1 results. We have tweaked our model to incorporate the results, updated guidance and commentary, though estimates only change slightly.

We maintain our $27 price target, which applies a 22.5x multiple to our new CY18 free cash flow per share estimate of $1.22 (vs. prior $1.21). We believe the premium valuation is justified by the company’s strong business model and growth potential. Our price target supports our Outperform rating.

Q1/F17 detailed review

Exhibit 3-4 below show our earnings scorecards for overall and segment results.

Exhibit 3: NORD Q1/F17 breakdown ($ in millions)

	Q1/F17E	Q1/F17A	Difference vs. Ests $	Difference vs. Ests %	Q1/F16A	Change Y/Y (%)
Revenue	**263.4**	**261.0**	**(2.4)**	**(0.9%)**	**244.2**	**6.9%**
Cost of Sales	159.2	163.9	4.7	2.9%	148.1	10.7%
Gross Profit	104.2	97.1	(7.1)	(6.8%)	96.1	1.0%
Selling, general, & administrative exp.	56.0	51.7	(4.3)	(7.6%)	45.9	12.6%
Depreciation	0.3	0.1	(0.2)	(60.0%)	0.2	(50.0%)
Amortization	5.5	4.6	(0.9)	(16.2%)	4.6	0.0%
Amortization	-	(20.8)	(20.8)	-	0.1	-
Exceptional expenses (income)	-	0.5	0.5	-	2.4	(79.2%)
Operating (loss)/profit	**42.5**	**61.0**	**18.5**	**43.6%**	**42.9**	**42.2%**
Finance Income	0.8	1.1	0.4	46.7%	1.0	10.0%
Finance Expense	(17.0)	(10.0)	7.0	(41.2%)	(3.2)	-
Profit before taxes	26.2	52.1	25.9	98.6%	40.7	28.0%
Income tax	7.0	12.1	5.1	72.4%	8.4	44.0%
Net Income	19.2	40.0	20.8	108.1%	31.8	25.8%
EPS (IFRS), Diluted	$0.18	$0.38	$0.20	108.0%	$0.31	25.7%
Shares Outstanding - Diluted	104.2	104.3	0.1	0.1%	104.2	0.1%
Adjusted EBITDA and Net Income						
EBITDA - reported (before Exceptionals)	60.0	57.2	(2.8)	(4.6%)	62.0	(7.7%)
Adjusted EBITDA - NORD Definition	**63.9**	**63.3**	**(0.6)**	(0.9%)	**64.2**	(1.4%)
Adjusted Net Income - NORD Definition	**25.5**	**26.0**	**0.5**	**2.0%**	**25.9**	**0.4%**
Adjusted Diluted EPS - NORD Definition	**$0.24**	**$0.25**	**$0.00**	**1.9%**	**$0.25**	**0.3%**
Margin Analysis						
Cost of Sales	60.4%	62.8%	235 bps		60.6%	215 bps
Gross Margin	39.6%	37.2%	(235) bps		39.4%	(215) bps
SG&A as a % of revenues	21.2%	19.8%	(144) bps		18.8%	101 bps
Operating Margin (IFRS)	16.1%	23.4%	724 bps		17.6%	580 bps
Pretax Margin	10.0%	20.0%	1,000 bps		16.7%	330 bps
Tax Rate	26.8%	23.2%	(353) bps		20.6%	259 bps
Adj. EBITDA Margin - NORD Definition	**24.2%**	**24.3%**	**0 bps**		**26.3%**	**(204) bps**
Other Financial Data						
Net Debt / LTM Adj. EBITDA Nord Definitic	3.76x	3.96x	0.20x		6.22x	(2.26x)

Source: Nord Anglia Education, RBC Capital Markets estimates

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Exhibit 4: NORD Q1/F17 breakdown by segment ($ in millions)

	Q1/F17E	Q1/F17A	Difference vs. Ests $	Difference vs. Ests %	Q1/F16A	Yr./Yr. Change Reported	Yr./Yr. Change Constant $
Revenues							
China	54.8	54.2	(0.6)	(1.0%)	55.3	(2.0%)	3.5%
Europe	64.4	63.0	(1.4)	(2.1%)	61.8	1.9%	2.3%
Middle East	27.4	27.5	0.1	0.5%	25.2	9.1%	9.3%
Southeast Asia	39.9	40.6	0.7	1.8%	34.7	17.0%	15.5%
North America	72.5	71.5	(1.0)	(1.3%)	66.1	8.2%	9.4%
China Dual Curriculum	3.3	3.3	(0.0)	(0.3%)	-	-	-
Revenue - IFRS	**263.4**	**261.0**	**(2.4)**	**(0.9%)**	**244.2**	**6.9%**	**8.6%**
Adjusted EBITDA							
China	22.8	22.9	0.1	0.5%	23.3	(1.7%)	4.2%
Europe	15.4	14.9	(0.5)	(3.1%)	14.5	2.8%	3.2%
Middle East	6.8	6.7	(0.1)	(0.8%)	5.5	21.8%	22.4%
Southeast Asia	13.4	13.2	(0.2)	(1.4%)	10.4	26.9%	25.7%
North America	16.3	16.4	0.1	0.5%	20.1	(18.4%)	(17.7%)
China Dual Curriculum	(0.0)	0.2	0.2	-	-	-	-
Central & Regional Costs	(10.5)	(11.0)	(0.5)	4.8%	(9.4)	17.0%	-
Adjusted EBITDA - NORD Definition	**63.9**	**63.3**	**(0.6)**	**(0.9%)**	**64.2**	**(1.4%)**	**0.4%**
Adjusted EBITDA Margin							
China	41.6%	42.3%	65 bps		42.1%	12 bps	
Europe	23.9%	23.7%	(23) bps		23.5%	19 bps	
Middle East	24.7%	24.4%	(33) bps		21.8%	254 bps	
Southeast Asia	33.6%	32.5%	(104) bps		30.0%	254 bps	
North America	22.5%	22.9%	42 bps		30.4%	(747) bps	
China Dual Curriculum	(1.4%)	6.1%	751 bps		-	-	
Central & Regional Costs	(4.0%)	(4.2%)	(23) bps		(3.8%)	(37) bps	
Adjusted EBITDA - NORD Definition	**24.2%**	**24.3%**	**0 bps**		**26.3%**	**(204) bps**	

Source: Nord Anglia Education, RBC Capital Markets estimates

- **China.** Sales in China rose +3.5% Y/Y constant currency (-2.0% reported), as modest enrollment and tuition increases were largely offset by a stronger USD and an unfavorable mix of enrollment growth from lower-priced schools in the regions (i.e., Hong Kong, Guangzhou and Chengdu). Adjusted EBITDA margins were largely unchanged (+12 basis points Y/Y to 42.3%).

- **Europe.** On a constant currency basis, European revenues grew +2.3% (vs. +1.9% reported), driven by enrollment and tuition increases. Margins improved modestly Y/Y as enrollment growth, tuition increases, and lower start-up losses at its Aubonne (September 2014 start-up, Switzerland) school were partially offset by recent costs of capacity adds and a less favorable mix of enrollment growth from lower-priced schools.

- **Middle East.** Middle East sales rose 9.3% constant currency (+9.1% reported) driven by strong organic enrollment growth in the region. Adjusted EBITDA margins rose 254 basis points Y/Y to 24.4% driven by the strong growth, favorable mix of enrollment growth from higher-priced schools, and improved utilization.

- **Southeast Asia.** Sales in Southeast Asia grew 15.5% Y/Y constant currency (17% reported), driven by enrollment growth (namely among its Vietnam Schools) and tuition increases. Margins rose sharply Y/Y, driven by the enrollment and utilization improvement in Vietnam.

- **North America.** North American sales rose 9.4% Y/Y, driven by enrollment and tuition growth. Margins fell sharply Y/Y due to the incremental costs resulting from the FY16 sale-leaseback (additional rent and taxes) and the recent Houston expansion (September 2016).

- **China dual curriculum (China DC).** Nord reported $3.3 million of revenues (446 average FTEs) from its recently opened school in Shanghai, which met our expectations and was in line with management's bullish commentary. The school was slightly profitable, and is expected to be adjusted EBITDA break-even and cash flow positive for FY17.

Exhibit 5: Nord Anglia Education earnings model, FY15A – FY2019E

	FY'15A*	Nov-15*	Feb-16*	May-16*	Aug-16	FY'16A	Nov-16	Feb-17E	May-17E	Aug-17E	FY'17E	Nov-17E	Feb-18E	May-18E	Aug-18E	FY'18E	FY'19E
Revenue	**573.1**	**244.2**	**243.2**	**253.5**	**115.1**	**856.0**	**261.0**	**260.0**	**270.3**	**118.0**	**909.3**	**312.5**	**314.4**	**326.1**	**139.7**	**1,092.8**	**1,278.7**
Cost of Sales	355.8	148.1	144.9	152.6	76.6	522.2	163.9	154.4	162.2	78.3	558.8	196.0	186.1	195.0	92.4	669.5	782.1
Gross Profit	217.3	96.1	98.3	100.9	38.5	333.8	97.1	105.6	108.1	39.7	350.6	116.5	128.4	131.1	47.3	423.3	496.5
Selling, general, & administrative exp.	129.8	45.9	46.4	48.5	51.9	192.7	51.7	55.2	53.9	49.5	210.3	56.2	64.1	63.4	57.0	240.8	247.5
Depreciation	0.7	0.2	0.2	0.2	0.2	0.8	0.1	0.3	0.3	0.3	1.0	0.3	0.3	0.3	0.3	1.0	1.1
Amortization	13.9	4.6	4.6	4.6	4.9	18.7	4.6	5.5	5.5	6.4	22.0	6.3	6.3	6.3	6.3	25.3	26.3
Other losses (gains)	(12.4)	0.1	(5.4)	10.1	(17.2)	(12.4)	(20.8)	-	-	-	(20.8)	-	-	-	-	-	-
Exceptional expenses (income)	18.8	2.4	2.5	6.1	(2.2)	8.8	0.5	-	-	-	0.5	-	-	-	-	-	-
Operating (loss)/profit	**66.5**	**42.9**	**50.0**	**31.4**	**0.9**	**125.2**	**61.0**	**44.6**	**48.4**	**(16.4)**	**137.6**	**53.7**	**57.6**	**61.1**	**(16.3)**	**156.1**	**221.6**
Finance Income	2.4	1.0	0.7	0.6	-	2.3	1.1	0.8	0.9	1.1	3.8	0.8	0.7	0.9	1.3	3.7	6.0
Finance Expense	(48.7)	(3.2)	(23.6)	(19.8)	(19.3)	(65.9)	(10.0)	(16.7)	(16.3)	(16.2)	(59.2)	(17.0)	(17.1)	(17.5)	(17.8)	(69.4)	(74.0)
Profit before taxes	20.2	40.7	27.1	12.2	(18.4)	61.6	52.1	28.7	33.0	(31.6)	82.2	37.5	41.2	44.5	(32.8)	90.5	153.6
Income tax	12.5	8.4	5.7	9.6	(11.3)	12.4	12.1	7.7	8.8	(8.4)	20.2	10.1	11.1	12.0	(8.9)	24.4	43.0
Minority Interests	1.2	0.5	0.4	0.5	0.7	2.1	0.6	0.5	0.6	0.8	2.5	0.7	0.6	0.7	1.0	2.9	3.2
Net Income	6.5	31.8	21.0	2.1	(7.8)	47.1	40.0	20.5	23.6	(24.0)	59.5	27.4	29.5	31.8	(24.9)	63.1	110.6
EPS (IFRS), Diluted	$0.07	$0.31	$0.20	$0.02	($0.07)	$0.45	$0.38	$0.20	$0.23	($0.23)	$0.57	$0.26	$0.28	$0.30	($0.24)	$0.60	$1.05
Shares Outstanding - Basic	99.4	104.1	104.1	104.1	104.1	104.1	104.1	104.2	104.3	104.4	104.3	104.6	104.4	104.7	104.5	104.5	105.1
Shares Outstanding - Diluted	99.5	104.2	104.1	104.1	104.1	104.1	104.3	104.4	104.6	104.7	104.5	104.8	105.0	105.1	105.3	105.1	105.8
Adjusted EBITDA and Net Income																	
Depreciation in Cost of Sales	33.9	11.8	11.0	12.4	10.5	45.7	11.8	12.0	12.3	12.5	48.6	13.2	13.2	13.2	13.2	52.7	41.0
EBITDA - reported (before Exceptionals)	121.4	62.0	62.9	64.8	(2.9)	186.8	57.2	62.4	66.4	2.8	188.8	73.5	77.4	80.9	3.4	235.2	290.0
Adjustments:																	
Share-Based Compensation Expense	2.3	1.6	1.6	1.5	2.0	6.7	2.2	2.2	2.2	2.2	8.7	2.5	2.5	2.5	2.5	9.9	11.4
Greenfield Pre-Opening Costs	4.0	0.3	1.7	1.7	4.0	7.7	1.5	1.0	1.0	4.0	7.5	0.3	0.5	0.5	4.0	5.3	5.0
Program/Facility Roll-Out Expenses	0.7	0.3	0.9	1.8	1.0	4.0	1.7	0.8	0.5	0.3	3.2	-	-	-	-	-	-
Other Non-Recurring Expense (Income)	2.3	-	(0.2)	(0.3)	2.6	2.1	0.7	0.5	0.5	0.5	2.2	0.5	0.5	0.5	0.5	2.0	2.0
FX loss / (gain)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted EBITDA - NORD Definition	**130.7**	**64.2**	**66.9**	**69.5**	**6.7**	**207.3**	**63.3**	**66.8**	**70.6**	**9.7**	**210.3**	**76.7**	**80.9**	**84.4**	**10.4**	**252.4**	**308.4**
Adj. EBITDA, less SBC, Greenfield, Ed Exp.	123.7	62.0	62.7	64.5	(0.3)	188.9	57.9	62.9	66.9	3.3	191.0	74.0	77.9	81.4	3.9	237.2	292.0
Adjusted EBITDA Less:																	
Depreciation	(34.6)	(12.0)	(11.2)	(12.6)	(10.7)	(46.5)	(11.9)	(12.3)	(12.5)	(12.8)	(49.5)	(13.4)	(13.4)	(13.4)	(13.4)	(53.7)	(42.1)
Net financing expense	(46.3)	(2.2)	(22.9)	(19.2)	(19.3)	(63.6)	(8.9)	(16.0)	(15.4)	(15.2)	(55.4)	(16.2)	(16.4)	(16.6)	(16.5)	(65.7)	(68.0)
Financing expense adjustments	9.7	(14.0)	6.0	2.0	1.3	(4.7)	(7.0)				(7.0)					-	
Income tax expense	(12.5)	(8.4)	(5.7)	(9.6)	11.3	(12.4)	(12.1)	(7.7)	(8.8)	8.4	(20.2)	(10.1)	(11.1)	(12.0)	8.9	(24.4)	(43.0)
Tax adjustments for Amort./Exceptionals	(4.2)	(1.2)	(5.0)	(1.1)	(3.2)	(10.5)	3.2	(2.6)	(2.6)	(3.6)	(5.6)	(2.6)	(2.7)	(2.7)	(3.6)	(11.5)	(12.5)
Non-controlling interest	(1.2)	(0.5)	(0.4)	(0.5)	(0.7)	(2.1)	(0.6)	(0.5)	(0.6)	(0.8)	(2.5)	(0.7)	(0.6)	(0.7)	(1.0)	(2.9)	(3.2)
Adjusted Net Income - NORD Definition	**41.6**	**25.9**	**27.7**	**28.5**	**(14.6)**	**67.5**	**26.0**	**27.8**	**30.6**	**(14.2)**	**70.2**	**33.7**	**36.7**	**39.0**	**(15.2)**	**94.2**	**139.6**
Adjusted Diluted EPS - NORD Definition	**$0.42**	**$0.25**	**$0.27**	**$0.27**	**($0.14)**	**$0.65**	**$0.25**	**$0.27**	**$0.29**	**($0.14)**	**$0.67**	**$0.32**	**$0.35**	**$0.37**	**($0.15)**	**$0.90**	**$1.32**

Margin Analysis	FY'15A*	Nov-15*	Feb-16*	May-16*	Aug-16	FY'16A	Nov-16	Feb-17E	May-17E	Aug-17E	FY'17E	Nov-17E	Feb-18E	May-18E	Aug-18E	FY'18E	FY'19E
Cost of Sales	62.1%	60.6%	59.6%	60.2%	66.6%	61.0%	62.8%	59.4%	60.0%	66.4%	61.4%	62.7%	59.2%	59.8%	66.2%	61.3%	61.2%
Gross Margin	37.9%	39.4%	40.4%	39.8%	33.4%	39.0%	37.2%	40.6%	40.0%	33.6%	38.6%	37.3%	40.8%	40.2%	33.8%	38.7%	38.8%
SG&A as a % of revenues	22.6%	18.8%	19.1%	19.1%	45.1%	22.5%	19.8%	21.2%	20.0%	41.9%	23.1%	18.0%	20.4%	19.4%	40.8%	22.0%	19.4%
D&A as a % of revenues	2.5%	2.0%	2.0%	1.9%	4.4%	2.3%	1.8%	2.2%	2.1%	5.7%	2.5%	2.1%	2.1%	2.0%	4.7%	2.4%	2.1%
Operating Margin (IFRS)	11.6%	17.6%	20.6%	12.4%	0.8%	14.6%	23.4%	17.2%	17.9%	(13.9%)	15.1%	17.2%	18.3%	18.7%	(11.7%)	14.3%	17.3%
Pretax Margin	3.5%	16.7%	11.1%	4.8%	(16.0%)	7.2%	20.0%	11.0%	12.2%	(26.7%)	9.0%	12.0%	13.1%	13.7%	(23.5%)	8.3%	12.0%
Tax Rate	61.9%	20.6%	21.0%	78.7%	61.4%	20.1%	23.2%	26.8%	26.8%	26.8%	24.5%	27.0%	27.0%	27.0%	27.0%	27.0%	28.0%
Adj. EBITDA Margin - NORD Definition	**22.8%**	**26.3%**	**27.5%**	**27.4%**	**5.8%**	**24.2%**	**24.3%**	**25.7%**	**26.1%**	**8.2%**	**23.1%**	**24.5%**	**25.7%**	**25.9%**	**7.5%**	**23.1%**	**24.1%**
Adj. EBITDA, less SBC, Greenfield, Ed Exp.	21.6%	25.4%	25.8%	25.4%	(0.3%)	22.1%	22.2%	24.2%	24.8%	2.8%	21.0%	23.7%	24.8%	25.0%	2.8%	21.7%	22.8%
Y/Y Growth																	
Revenue	**20.8%**	**61.4%**	**50.4%**	**49.5%**	**27.2%**	**49.4%**	**6.9%**	**6.9%**	**6.6%**	**2.6%**	**6.2%**	**19.7%**	**20.9%**	**20.7%**	**18.3%**	**20.2%**	**17.0%**
Cost of Services	26.9%	59.6%	50.8%	49.9%	17.7%	46.8%	10.7%	6.6%	6.3%	2.2%	7.0%	19.6%	20.5%	20.3%	18.0%	19.8%	16.8%
Gross Profit	11.8%	64.3%	49.8%	48.8%	51.6%	53.6%	1.0%	7.4%	7.2%	3.2%	5.0%	20.0%	21.5%	21.3%	19.1%	20.7%	17.3%
SG&A	34.0%	75.2%	68.1%	71.4%	8.8%	48.5%	12.6%	19.0%	11.2%	(4.7%)	9.2%	8.8%	16.1%	17.5%	15.3%	14.5%	2.8%
Depreciation & Amortization	17.7%	54.8%	41.2%	29.7%	15.9%	33.6%	(2.1%)	20.1%	20.1%	31.0%	17.5%	40.3%	14.4%	14.4%	(1.3%)	15.2%	3.9%
Operating Income (IFRS)	(608%)	82.6%	54.3%	(13.3%)	(104%)	88.3%	42.2%	(10.8%)	54.2%	(1924%)	9.9%	(12.0%)	29.2%	26.3%	(0.5%)	13.4%	42.0%
Pretax Income	(130%)	138.0%	3.4%	(55.1%)	(63.4%)	205.0%	28.0%	5.8%	170.6%	71.6%	33.5%	(28.0%)	43.8%	34.9%	3.8%	10.0%	69.8%
Diluted EPS - IFRS	-	142.7%	6.6%	(89.6%)	-	592.4%	25.7%	(2.6%)	1018.1%	-	26.0%	(31.9%)	43.2%	34.2%	-	5.5%	73.9%
Shares Outstanding, Diluted	16.9%	6.5%	6.4%	5.3%	0.8%	4.6%	0.1%	0.3%	0.4%	0.6%	0.3%	0.5%	0.5%	0.5%	0.6%	0.5%	0.8%
Adjusted EBITDA - NORD Definition	**2.6%**	**58.5%**	**45.8%**	**40.4%**	**n/a**	**58.6%**	**(1.4%)**	**(0.2%)**	**1.6%**	**44.2%**	**1.5%**	**21.2%**	**21.1%**	**19.6%**	**7.8%**	**20.0%**	**22.2%**
Adjusted Net Income - NORD Definition	**82.4%**	**37.0%**	**20.5%**	**24.5%**	**n/a**	**62.3%**	**0.4%**	**0.2%**	**7.5%**	**n/a**	**4.0%**	**29.5%**	**32.2%**	**27.2%**	**n/a**	**34.2%**	**48.3%**
Adjusted EPS - NORD Definition	**56.0%**	**28.6%**	**13.2%**	**18.2%**	**n/a**	**55.1%**	**0.3%**	**(0.1%)**	**7.1%**	**n/a**	**3.6%**	**28.8%**	**31.5%**	**26.5%**	**n/a**	**33.5%**	**47.1%**

**FY14 annual and quarterly/annual FY15-FY16 have been restated for several minor presentation changes and error corrections that were restated with Q4/F16 results.*

Source: Nord Anglia Education, RBC Capital Markets estimates

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Valuation

Our $27 price target equates to 22.5x our CY18 free cash flow per share estimate of $1.22. We believe this premium valuation is justified by the company's strong business model and growth potential. Our price target supports our Outperform rating.

Risks to rating and price target

Key risks to our price target and rating include: 1) China risks with this geography generating ~35% of profit with margins well above the corporate average amid greater economic/ investor uncertainty in the region; 2) risks associated with the company's M&A and greenfield strategies; and 3) high sponsor ownership.

Company description

Founded in 1972, Nord Anglia Education, Inc. is a leading international operator of premium K-12 schools. The company operates 43 schools in 15 countries, which it divides into six operating segments: China, Europe, Middle East, Southeast Asia, North America, and China Dual Curriculum (China DC). Almost all of its schools teach the English National Curriculum, while few others teach the International Baccalaureate Curriculum, American Curriculum, and Chinese Curriculum.

Nord Anglia has over 37,000 students with capacity for 49,000+. In FY16, average revenue per student was approximately $24,400. The company derives all of its revenue from private sources and focuses on geographic markets with high levels of foreign direct investment, large expatriate populations, and rising disposable incomes.

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RBC Capital Markets, LLC makes a market in the securities of Nord Anglia Education, Inc..

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Ratings

Top Pick (TP): Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

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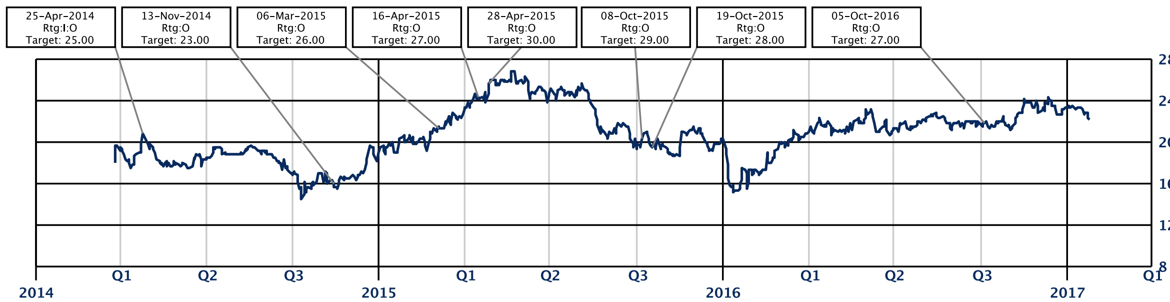
Distribution of ratings
RBC Capital Markets, Equity Research
As of 31-Dec-2016

			Investment Banking Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [Top Pick & Outperform]	**834**	**52.32**	**279**	**33.45**
HOLD [Sector Perform]	**657**	**41.22**	**132**	**20.09**
SELL [Underperform]	**103**	**6.46**	**9**	**8.74**

Rating and price target history for: Nord Anglia Education, Inc. as of 25-Jan-2017 (in USD)



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Nord Anglia Education, Inc.

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