Private Equity Vista to Acquire Cloud Based Online-Education Platform Pluralsight for $3.5B

Mattia Lamonaca

March 2, 2021

"Through this partnership with Vista, we will be able to move faster and be more agile, accelerate our strategic vision and, ultimately, deliver deeper, more powerful solutions that help companies adapt and thrive in the digital age." - A. Skonnard, CEO of Pluralsight

Deal Overview

- Acquirer: Vista Equity Partners
- Target: Pluralsight (NASDAQ: PS)
- Industry: E-Learning, Online Education
- Transaction Amount: $3.5B
- Announcement Date: Dec. 13, 2020
- Target Advisor: Qatalyst Partners

In the year of the COVID-19 pandemic, another big deal in the online education industry has been concluded. The American PE firm Vista Equity Partners, a leader in the enterprise software segment of the technology market, agreed to take over all outstanding shares of the educational software-maker Pluralsight for $3.5B in an all-cash transaction. This deal values the target at $20.26 a share representing a premium of around 25% to the company's volume-weighted average closing stock price for the 30 trading days before the day of the announcement. Investors reacted favourably and Pluralsight's share price rose $1.21, or 6.4%, to $20.19 after the news of the acquisition. Vista thus responds to rival Thoma Bravo, which last March bought Instructure for approximately $2B, one of the leading educational technology providers in the world. The takeover is expected to close in the first half of 2021, subject to customary closing conditions including Pluralsight shareholder approval and receipt of regulatory approvals.

Companies Overview - Acquirer

Vista Equity Partner is an American PE firm established in 2000 by Robert F. Smith, currently CEO and Chairman. It was established to capture a unique market opportunity creating value for companies in the enterprise software segment of the technology market. On the one hand, the unusual decision of focussing exclusively on enterprise software, data, and technology solutions may hinder the possibility of spreading risks across sectors but on the other hand, it allows Vista to develop a unique expertise in this ecosystem. In the past decade, Vista was named US top software investor by Pitchbook based on deal counts, preceding rivals such as Thoma Bravo and KKR. Today Vista counts over 1'600 employees, $31 billion in cumulative capital commitments, and over 60 enterprise software, data, and technology-enabled companies in its portfolio. Having invested in companies like PowerSchool and EAB, and now Pluralsight demonstrates Vista's keen focus on the education ecosystem and its willingness to unlock opportunity and progress in the sector.

Companies Overview – Pluralsight

The general lack of technology-based skills across the workforce, which needs constant updating, is a recognised problem for employers. Pluralsight seeks to solve this problem. Founded in 2004, Pluralsight is a leading cloud-based technology skills development platform committed to bridging the global technology skills gap. With more than 1'600 full-time employees, it offers courses in a variety of areas including cloud, mobile, security, computing, and data. The key components of its platform's products, Pluralsight Skills, and Pluralsight Flow, are used by more than 17'000 customers, including 70% of Fortune 500 companies. Pluralsight's assessment tool uses machine learning and advanced algorithms to measure a user's skills, benchmark that user against others in the industry, and recommend growth opportunities through thousands of on-demand courses. On the financial side, Pluralsight is projected to the future growth of the business, totalling massive investments that hinder profitability. The recorded net loss for the years ended December 31, 2019, 2018, and 2017, was $163.6 million, $146.8 million, and $96.5 million respectively. However, over the same period revenue totalled $316.9 million, $232.0 million, and $166.8 million, respectively, which represents year-over-year (YOY) growth of 37%, 39%, and 27%, respectively.

Plus, such revenue growth is also associated with noticeable employee growth (1 year) of 45.45%.

State of the Industry – E-Learning, Online Education

Technology has changed the possibilities within learning and educational development. Although the trend has been very positive over the last 20 years, the COVID-19 crisis further accelerated the transition towards digital platforms, due to the restricted possibility for businesses and individuals to attend classes and physical courses. From a niche market valued at roughly $7 billion back in 2002, E-Learning has expanded into a global market worth hundreds of billions of dollars today. According to a study of Research and Markets conducted before the outbreak of the pandemic, Online Education Market will reach $350 billion by 2025 globally, due to the introduction of flexible learning technologies in the corporate and education sectors and due to the improvements in the field of AI-driven platforms. Given the current health crisis, however, we expect these estimates to be revised upwards. Various factors encouraging the adoption of E-Learning during the current pandemic include flexibility, accessibility, affordability, and spectre of specializations. When it comes to affordability, studies show that online courses cost around 10 times less than their offline counterparts. With the financial pressure of the pandemic both on companies and families, such a benefit is destined to make a big difference. This shift towards online solutions increased the cash infusion of E-Learning companies to scale their growth. To name a few, Udemy managed to raise $50 million at a $3.25 billion valuation in a Series F recently, whereas the biggest language company Duolingo has raised $35 million on a valuation of $2.4 billion. The market is hot, and it does not seem destined to cool down anytime soon.

Deal Structure

Taking a closer look at the deal we see that not everybody is convinced by the valuation at $20.26 a share of Pluralsight. Eminence Capital, one of the largest shareholders of Pluralsight (owning 6m of shares representing approximately 4.85% of the Company's outstanding shares) considers the offer of Vista grossly inadequate. In a recently released presentation Eminence urges shareholders to vote against the transaction at the special meeting scheduled for March 2. In the table below we present a deal comps analysis based on a future revenue multiple (since Pluralsight is EBITDA negative).

Date	Acquirer	Target	EV / NTM Sales
12.01.2020	Salesforce	Slack	24.2x
08.06.2020	ICE	Ellie Mae	11.1x
06.10.2019	Salesforce	Tableau	10.9x
02.04.2019	Investor Group	Ultimate Software	8.4x
12.24.2018	Vista Equity	Mindbody	6.7x
11.11.2018	Vista Equity	Apptio	7.0x
10.15.2018	Twilio	SendGrid	11.5x
03.20.2018	Salesforce	MuleSoft	15.7x
01.29.2018	SAP	Callidus Software	8.3x
Average			11.5x
Adj. Average[1]			10.4x
12.13.2020	Vista Equity	Pluralsight	7.4x

Figure 1: Source: Eminence Presentation – Own illustration.

According to Eminence valuations if Vista's offer were in line with recent relevant SaaS MA transaction at 10.4x EV / NTM Revenue on average, the implied offer price would be $29, approximately 43% than Vista's offer at $20.26. Another point in favour of Pluralsight being undervalued is the fact that the offer price of $20.26 per share implies virtually zero value creation for shareholders from the time of the IPO since the target closed at $20 the day it went public. However, it must be stressed that the abovementioned comparison does not account for the fact that 5 out of 9 of the peer companies are significantly cash flow positive, which is not true for our target. In addition, Pluralsight argues that in order to arrive at a valuation of $29 Eminence cherry-picked past transactions involving firms with fundamentally different business models, growth rates and profitability profiles. Last but not least, Pluralsight executives argue that measuring the balance of growth and profitability using the rule of 40 metric, as it is usually done for SaaS enterprises, further amplifies the disparity between the peers, resulting in a metric double of that of Pluralsight. Valuation is more of an art than an exact science and the case of Pluralsight is nothing but clear evidence of this.

Potential Risks & Potential Upsides

Through this deal, Vista delivers significant immediate cash to the target's shareholders and positions Pluralsight to continue meeting and exceeding the expectations of its customer base. The competition in the industry is fierce, with the target facing rivals with greater brand name recognition, longer operating histories, larger budgets, established customer relationships, and significantly greater resources for the development of their solutions. Pluralsight's growth strategy is largely dependent upon increasing sales of its platform subscriptions to business customers. By increasing sales to business customers, the company faces upfront sales costs and longer sales cycles, higher customer acquisition costs, more complex customer requirements,

[1] Adj. average excludes the transactions with the highest (Slack) and lowest (Mindbody) EV / NTM Sales multiples

and volume discount requirements. In such a scenario, we believe this strategic acquisition may be rewarding for the target, as this new inflow of cash may allow to both increase sales, and respond more quickly and effectively to changing opportunities, technologies, or customer requirements. In addition, the Utah-based company may benefit from network and industry-knowledge of the acquiring party, which managed to build solid relationships with various potential partners and clients throughout the years. However, we also identify potential risk factors that Pluralsight will have to consider in the upcoming future. As depicted in the table below, despite increasing its portion of foreign sales Pluralsight remains heavily dependent on the US market.

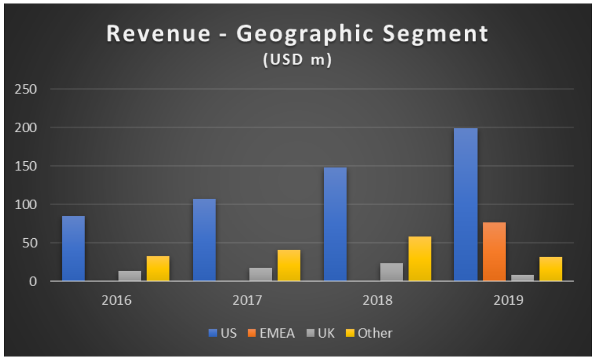

Figure 2: Source: Factiva – Own illustration.

In such respect, it becomes apparent the need for Vista and Pluralsight to join forces in order to scale growth internationally. While this geographic risk is not linked to the acquisition per se, we believe the success of the deal to be extremely dependent on the management of international development. This expansion is subject to a multitude of risks such as the risk of enforcing intellectual property rights in countries with fluctuating laws, the challenges with local data privacy requirements, and, more broadly, the difficulty in adapting to customer desires due to language and cultural differences. The road to becoming a leader in the global E-Learning industry passes through imperative international expansion that is not without its pitfalls.