Leading Research

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A Decade of Opportunity
The Coming Expansion of the Private-school Market in the GCC

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EXECUTIVE SUMMARY

The private-school market is growing rapidly in the countries of the Gulf Cooperation Council (GCC), presenting a significant opportunity for investors and school operators. A combination of demographic factors, a desire for higher quality, and GCC parents' increased willingness to pay for education will all drive private-school enrollment at substantial growth rates over the coming decade. The currently fragmented market offers substantial opportunities in both new investment and consolidation, for both new and existing players. In order to capitalize on these opportunities, the region must overcome several key challenges, chief among them an immature operating environment characterized by a lack of transparency and consistency regarding regulations in the sector. In addition, constraints on financing new schools in the region, fragmented ownership structures that offer few economies of scale, and a lack of information for parents regarding school quality have all inhibited the growth of the private-school market thus far. Although sophisticated investors are expressing clear interest, many are reluctant to take action.

Specific measures can address these challenges. Governments should clarify the regulatory environment, ensuring that rules are stable and consistently enforced. Streamlining the most problematic regulatory issues, such as those regarding property ownership, would attract more education players to the market. Regulators may also reconsider tuition freezes in a way that balances consumer protection with operators' need to access funds. In addition, governments can help raise awareness about market opportunities with more proactive communication to operators and investors, explaining the scope of projected growth in the region's private-school landscape. For operators and investors, the key recommendations are to foster more collaborative relationships with regulators, and to consider consolidation strategies through acquisitions of independent players in order to develop needed economies of scale.

HIGHLIGHTS

- The K–12 public- and private-education market in the GCC could increase from US$36 billion in spending and 6.35 million students in 2010 to US$90 billion and 8.25 million students in 2020.
- A growing population, a desire for quality schools, and increased willingness to pay for education (especially among nationals) will increase private schools' share of the overall education market to almost 20 percent, or nearly $17 billion.
- A balanced approach that takes into account parents' preferred school models and curricula could accelerate the migration of nationals to private schools.
- Governments can attract international and local investors and operators by establishing more transparent and consistently applied regulations and helping facilitate access to financing.

THE CHANGING EDUCATION LANDSCAPE IN THE GCC

The GCC countries are undergoing major reforms across their K–12 education systems. Currently, international assessments such as the Programme for International Student Assessment (PISA) and Trends in International Mathematics and Science Study (TIMSS) indicate that student outcomes in the region fall below international averages, with comparatively high per-student spending compared to other markets. The task of transforming national educational systems to achieve quality in a cost-effective manner will require substantial resources of capital and talent. Private schools can play a key role in K–12 reforms: By increasing student capacity, and enhancing their operational and management capabilities in order to deliver quality education at a fair price, private schools can ease the strain on increasingly overburdened public education systems.

In the next decade, the private-school market in the GCC could undergo a radical—and beneficial—change, driven by demographic changes, new regulations, and other factors that will increase both the size of the market and the quality of private education throughout the region. This presents a substantial opportunity for all stakeholders. Investors will be able to finance projects with solid growth projections. Education operators in the region will be able to develop economies of scale, increase their financial performance, and develop new comprehensive education solutions to serve children of different backgrounds and expectations. Education ministries and other regulators will more efficiently attract private capital to improve the quality of education in their respective countries.

To capitalize on this opportunity, however, stakeholders will need to overcome several challenges. The private-school universe in the GCC is generally fragmented, and most of the schools are stand-alone entities, owned and operated by individual investors. Because they operate in such a diffuse market, schools lack the efficiencies that would come with greater consolidation. In addition, potential new entrants have difficulty accessing suitable land for construction, debt capital for financing, and qualified teachers for their operations. Schools vary widely in quality, ranging from well-established world-class institutions to substandard entities operating in residential buildings. Furthermore, the regulatory systems of the GCC countries are in many cases burdened with a legacy of bureaucracy and lack of transparency.

Overcoming these challenges requires actions from all stakeholders. Governments need to focus on reforming the regulatory system, providing market information, ensuring operators have access to land, and facilitating access to capital. Investors and operators, in turn, should engage regulators in a dialogue, consider consolidation opportunities, and tailor their value propositions to meet the specific needs of GCC parents and students.

Methodology

This Leading Research paper describes a comprehensive mapping of the private-school landscape in the GCC, which Booz & Company conducted through assessments of individual markets, a survey of parental perceptions of education in the region, and interviews with education leaders in both the private and public sectors. We excluded Bahrain and Oman from our research, owing to a lack of publicly available information and the relatively small size of the private-school opportunity in those markets. The survey of GCC parents with school-age children was conducted in July and August 2011 in conjunction with YouGov. A total of 1,016 parents were interviewed (461 expatriate parents and 555 nationals), split between in-person fieldwork and online interviews. The research asked parents to rate 15 school choice attributes on a scale of 1 to 5, with 1 representing "not at all important" and 5 "very important."

We defined private schools as those in which a private provider has full management control, regardless of its funding model. The region has many public–private partnership (PPP) schools—in which a private operator oversees the daily operation of public schools—along with a growing number of charter schools. Although these two categories represent a sizable component of the overall market, we have excluded them from this assessment, due to their management accountability to national ministries of education and other government entities.

A LARGE AND FRAGMENTED MARKET

With US$5.2 billion in annual tuition, the GCC private-school market is already among the largest in the world, comparable with those in the U.K., Australia, and India. Approximately 1.36 million students, the majority of whom are expatriates, are enrolled in roughly 4,400 private schools throughout the region (*see Exhibit 1*). Although this private-school market is relatively large in absolute terms, it nonetheless comprises a small percentage of the overall GCC education system, which has roughly 6.3 million students in 35,000 schools, dominated by Saudi Arabia.

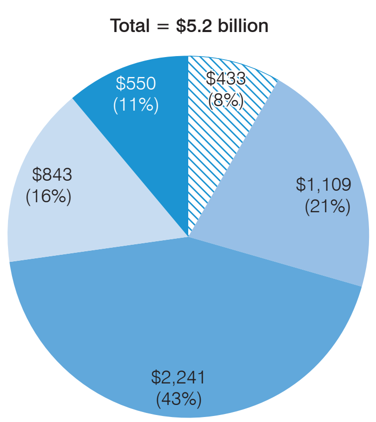
By spending, private education represents about 14 percent of the $36 billion education market in the GCC, despite a relatively high share of private-school enrollment. This discrepancy is due to public schools' high cost of operation. Public schools spend nearly twice the amount per student of their private counterparts (*see Exhibit 2*).

Enrollment in private schools is currently split largely along lines of nationality, due in part to language barriers but primarily to government statutes that capped the number of expatriates in public schools and barred some nationals from attending private schools with international curricula. As a result, public schools in the region are overwhelmingly attended by national students whereas private schools primarily serve expatriate students (*see Exhibit 3*).

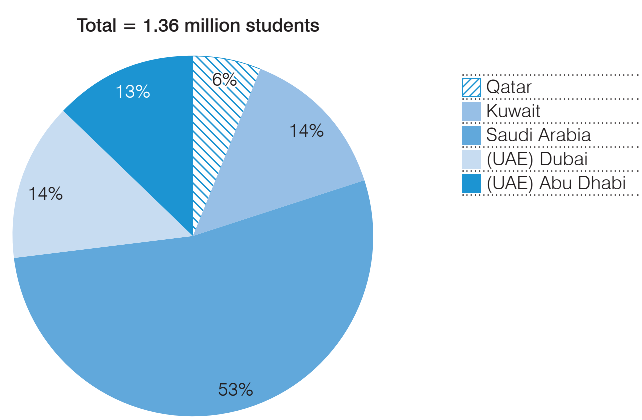
The level of demand varies across the different markets, with the United Arab Emirates (Dubai and Abu Dhabi) having the highest levels of private-school enrollment as a percentage of the total market. Although this trend is driven in large part by the presence of a substantial expatriate population in the UAE, there has also been an acceleration of nationals attending private schools—a trend we will investigate further in this report.

Exhibit 1
The Private-school Market in the GCC Is Sizable, with a Significant Amount of Spending and Number of Students in Saudi Arabia

CURRENT GCC PRIVATE-SCHOOL MARKET SIZE (IN US$ MILLIONS)

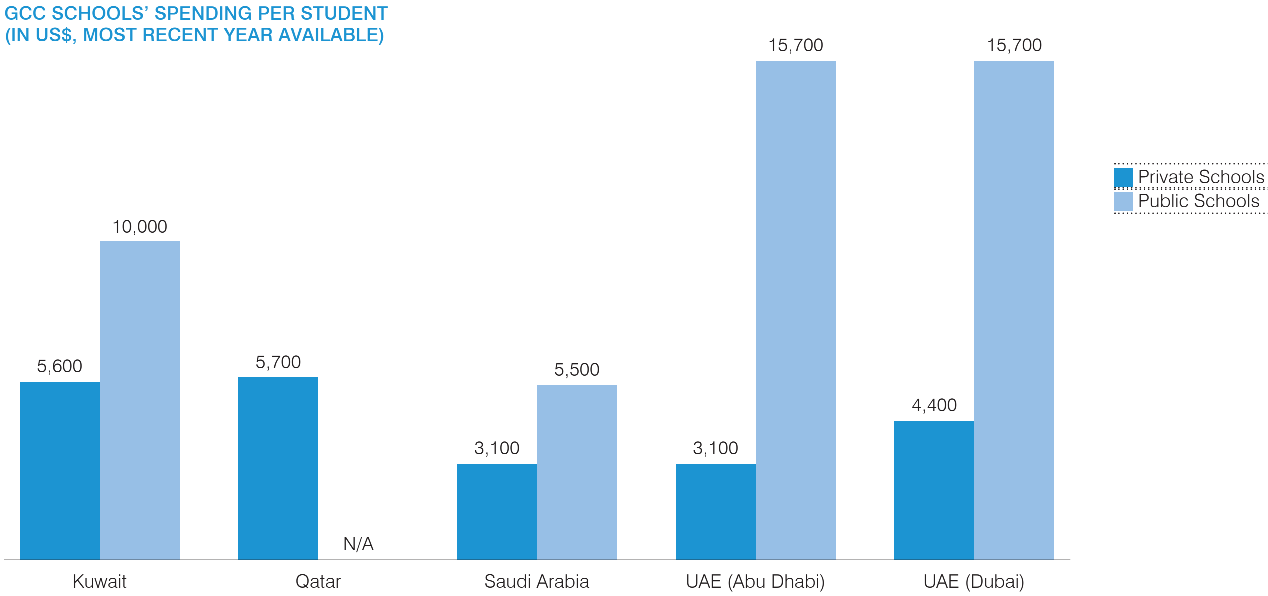


GCC K–12 PRIVATE-SCHOOL MARKET DISTRIBUTION (ENROLLMENT BY COUNTRY)



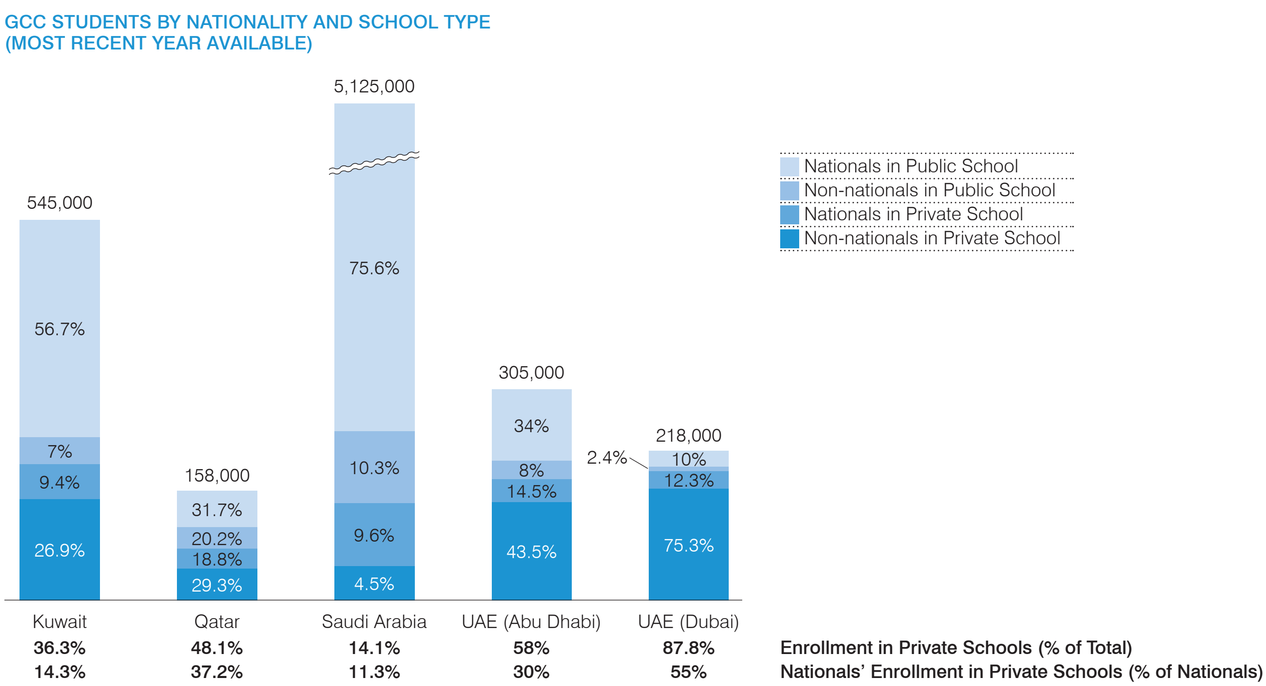
Source: Booz & Company

Exhibit 2
GCC Public Schools Spend Nearly Twice as Much per Student as Their Private-school Counterparts



Source: Relevant government ministries; Booz & Company analysis

Exhibit 3
Outside of Saudi Arabia, Expatriates Dominate the Private-school Population



Source: Relevant government education ministries; Booz & Company analysis

Segmentation by Curricula and Tuition Levels

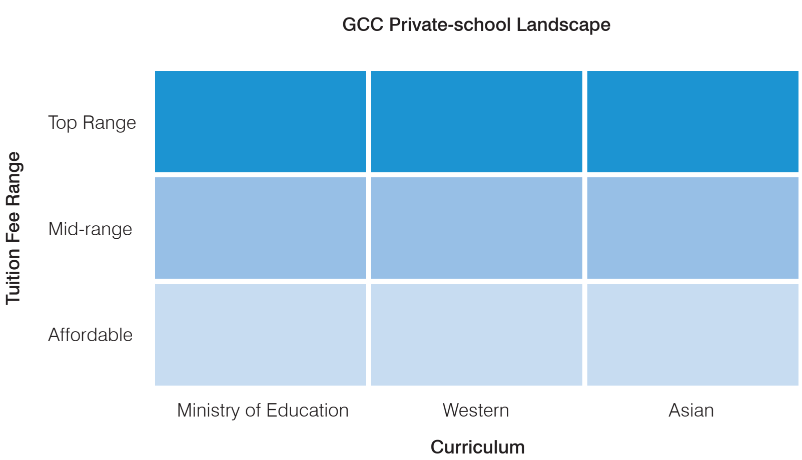
Within the GCC, private schools can be categorized primarily by curricula and tuition fees (*see Exhibit 4*). Different segments, formed by combinations of price points and curricula, serve customer bases with varying income levels and curriculum preferences.

One large category, Arabic-medium schools, primarily teaches the national curriculum in each country, which is established by ministries of education and other government entities. Students at these schools consist primarily of GCC nationals and expatriates from other Arab countries who are often well-established in their host country. The large majority of Arabic-medium schools operate at the bottom half of the tuition fee spectrum. In some countries, such as the UAE, many Arabic-medium schools were established in direct response to government policy changes that capped Arab expatriate enrollment in government schools. These schools often lack sufficient resources to satisfy regulators' quality standards.

The second group consists of Western curricula schools. These usually conduct classes in English and cater to a variety of nationalities, including GCC nationals as well as Western, Asian, and Arab expatriates. Many expatriates prefer the British, American, or International Baccalaureate curricula, which are seen as easily transferrable to other parts of the world. (A smaller subset of schools in this group is aimed at specific national communities, such as Japanese, German, or French, and the schools are subsidized by their respective governments.) Western curricula schools cover a wide variety of price points. High-fee schools typically serve high-income expatriates and nationals. At lower tuition fees, many schools claim to offer advanced Western curricula—such as the national curriculum of England—yet do so in name only, because governments have not yet established enforcement and quality assurance mechanisms. These schools lack the financial resources necessary to effectively implement their advertised offerings.

Last, Asian schools as a group cover a range of Indian, Pakistani, and other Asian curricula. They cater almost exclusively to the needs of expatriate populations from their respective countries and operate almost exclusively in the lowest quartile of the tuition fee range. This segment comprises three distinct subsets. The first is well-established respected community schools operating on a nonprofit basis. The second is large and professionally managed for-profit schools. The third is small, profit-oriented enterprises operating in residential villas.

Exhibit 4
The Private-school Market Is Differentiated by Curriculum Groups and Price Points



Source: Booz & Company

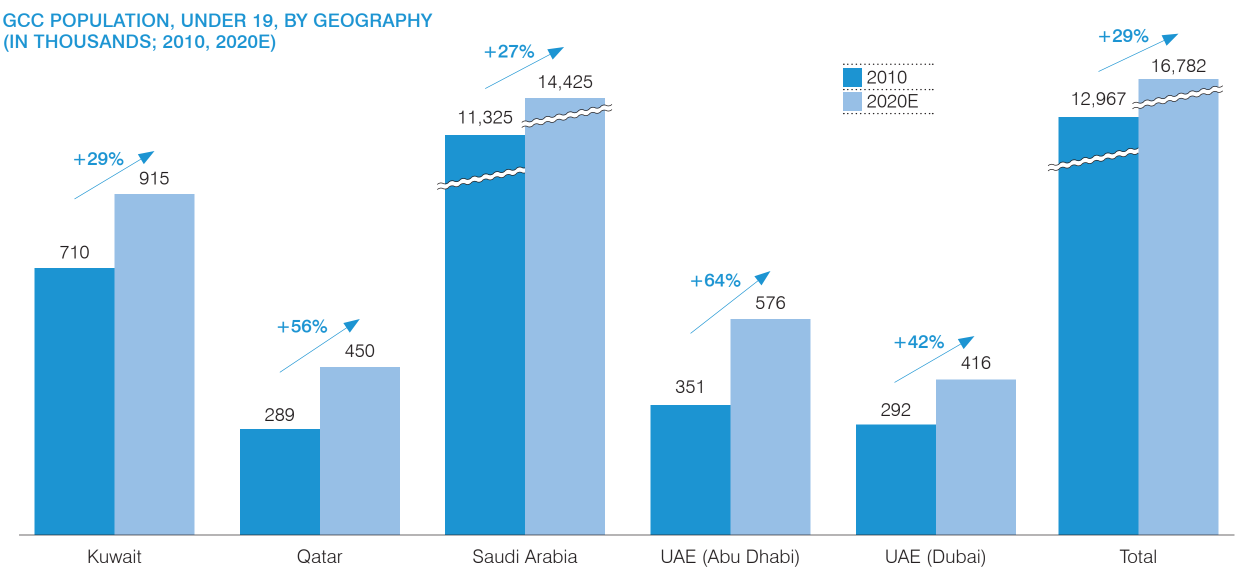
THREE FACTORS DRIVING GROWTH IN PRIVATE EDUCATION

We foresee significant growth for the private-school market across all segments over the coming decade, due to three specific factors: demographics; a flight to quality; and a greater willingness on the part of parents to pay for education.

In terms of demographics, the school-age population (defined as those below age 19) in the region is expected to grow by about 30 percent through 2020, which alone would present greater demand for schools and classroom space (*see Exhibit 5*).

In addition to the sheer volume being driven by demographics, a second key driver leading GCC nationals to consider private education is the assumed higher quality of private schools. There is an emerging public

Exhibit 5
The Under-19 Population Is Growing Quickly



Source: Relevant government ministries; Booz & Company analysis awareness in the region about the current poor quality of education. International student assessments, such as PISA and TIMSS, repeatedly rank national public education systems in the region among the lowest in the world. This lack of quality education is worrisome to many GCC parents, particularly as the world becomes increasingly intertwined and competitive. Although there is scarce data comparing public and private schools, some evidence—such as TIMSS data from Dubai (*see Exhibit 6*) and PISA data from Qatar, where 12 out of the 14 best-performing schools are private (*see Exhibit 7*)—indicates that, in the aggregate, private schools produce measurably better results. (Of course, the performance of individual private schools varies greatly.)

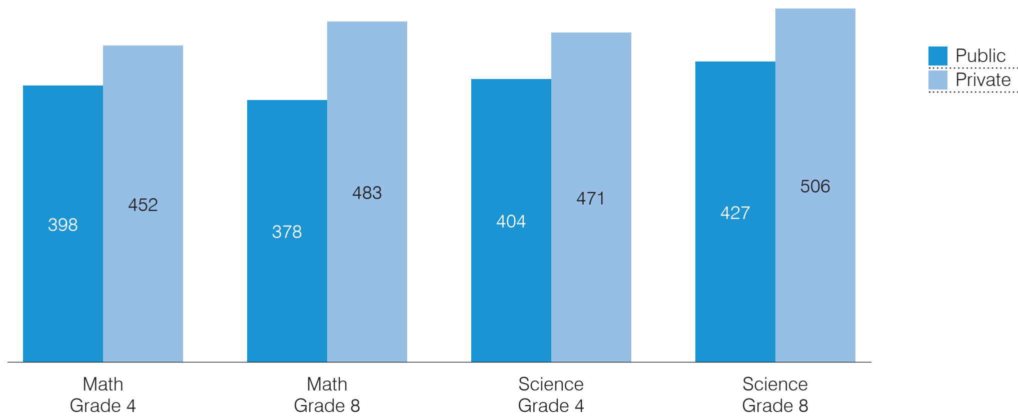
Furthermore, despite a notable lack of transparency regarding school quality and performance in the region, many parents are beginning to see anecdotal evidence of the advantages of private education. For example, admission to federal universities in the UAE is primarily dependent on the student's performance in English and mathematics tests. Private schools, which often teach English-medium curricula, have historically fared better than public schools in these tests, thus offering the students an easier pathway to university-level education. As a result, there is growing interest in private education among GCC nationals. For example, the share of UAE nationals in Dubai who enroll in private schools has been increasing by more than 2 percentage points annually, reaching about 55 percent this year.

As a consequence of this rising interest, we have seen an increased

Private schools have historically fared better than public schools in English and mathematics tests.

Exhibit 6
Dubai Private-school Students Outscored Their Public-school Counterparts on the 2007 TIMSS Exam

DUBAI 2007 TIMSS SCORES
(BY SCHOOL TYPE, SUBJECT, AND GRADE)



Source: Relevant government ministries; Booz & Company analysis

Exhibit 7
Qatar Private Schools Outperformed Most Public Schools on the 2009 PISA Exam

QATAR 2009 PISA RESULTS
(TROPHY AWARD WINNERS)

Rank	School Name	Private	Reading	Math	Science
1	Al-Khor International School (Indian stream)	Y	603.77	591.73	565.98
2	The International School of Choueifat	Y	564.55	562.26	553.85
3	Doha College	Y	562.68	552.87	571.54
4	DPS-Modern Indian School	Y	562.68	537.64	552.34
5	Qatar Academy	Y	561.63	546.51	540.34
6	The American School of Doha	Y	559.45	546.33	552.74
7	Park House English School	Y	552.47	528.28	567.97
8	Birla Public School	N	549.32	539.38	586.05
9	Qatar International School	Y	540.38	528.57	539.43
10	Al-Bayan Preparatory Independent (for girls)	N	516.1	464.1	480.92
11	The Cambridge School	Y	514.58	484.32	531.59
12	Doha Modern Indian School	Y	514.32	525.22	554.11
13	Al-Khor International School (British stream)	Y	503.43	504.84	506.9
14	Dukhan English School	Y	528.58	501.23	500.24

Note: SEC awarded trophies to the 14 top-performing schools: the highest-ranked school received the Excellence Trophy; those ranked second through 14th received trophies.
Source: Supreme Education Council (SEC); Booz & Company analysis

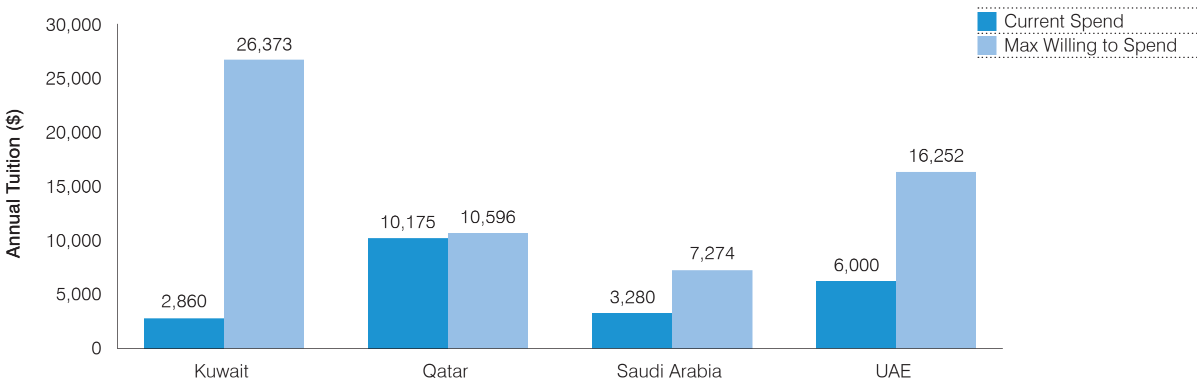
willingness among parents to pay for education—the third factor driving the growth of private schools in the region. Our research shows that a large portion of GCC parents are prepared to increase their investment in the education of their children. On average, parents expressed a willingness to spend far more on private education in all the surveyed countries than the current spending of parents with children in private schools (*see Exhibit 8*).

All three factors interact in ways that will likely increase the scope of private education along multiple dimensions. Demographic shifts will increase the number of students—and thus schools—in the region. A flight to quality will increase the share of private education in the overall landscape. And a greater willingness to pay will increase the potential revenue pool. As a result, we project the GCC K–12 private-school market to grow to between $11 billion and $17 billion by 2020 and enrollment to reach roughly 2.6 million (*see Exhibit 9*).

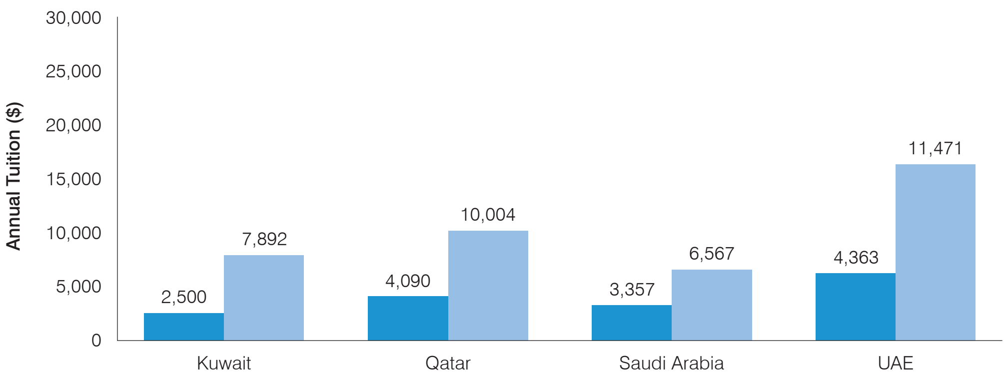
A large portion of GCC parents are prepared to increase their investment in the education of their children.

Exhibit 8
Both National and Expatriate Parents Expressed a Potential Willingness to Devote a Larger Portion of Their Family's Income to Private Education

CURRENT PRIVATE SCHOOL SPEND AND PARENTAL WILLINGNESS TO SPEND (NATIONALS, BY COUNTRY; IN US$)



CURRENT PRIVATE SCHOOL SPEND AND PARENTAL WILLINGNESS TO SPEND (EXPATRIATES, BY COUNTRY; IN US$)



Source: Booz & Company/YouGov survey; Booz & Company analysis

Exhibit 9
Key Drivers Will Increase the Size of the Overall Education Market, the Share of Private Schools, and Tuition Revenue over the Coming Decade

GCC PRIVATE SCHOOL MARKET DRIVERS

	Total K–12 Enrollment		Private-school Share (%)		Total Private K–12 Enrollment		Average Tuition Fee (US$)		Total Market Value (US$ Millions)
2010	6,341,500	x	21.5%	=	1,360,000	x	3,776	=	5,200
2020 (Low)	8,250,000	x	28.3%	=	2,340,000	x	4,909	=	11,470
2020 (High)	8,250,000	x	31.3%	=	2,610,000	x	6,479	=	16,800

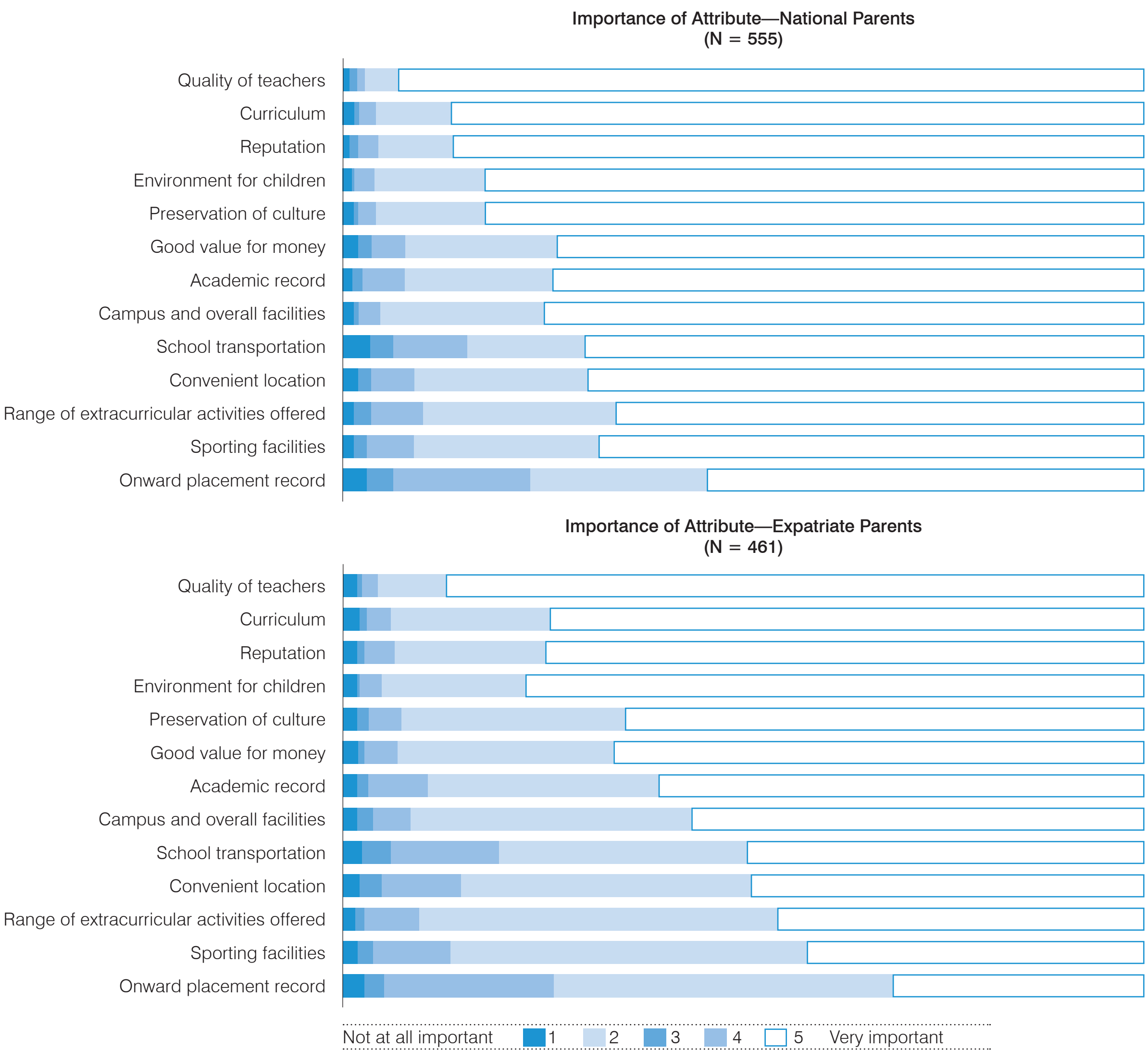
Note: "Low" scenario assumes annual fee inflation of 3% and Saudi Arabian national private school share of 20%;
"High" scenario assumes annual fee inflation of 6% and Saudi Arabian national private school share of 25%, in line with stated policies.
The GCC here is represented by the four GCC countries included in the survey, Saudi Arabia, UAE, Qatar, and Kuwait.
Source: Booz & Company/YouGov survey; Booz & Company analysis

RESPONDING TO DEMAND: WHAT PARENTS WANT

To gauge the preferences and attitudes of GCC parents, and understand how they make decisions regarding their children's education, we have done substantial market research in the region, leading to several significant insights. The first such insight is that parental preferences are largely consistent between nationals and expatriates in the region. Both groups rate quality of teachers, curriculum, reputation, environment for children, and the preservation of culture as the five attributes that are "very important" when evaluating schools (*see Exhibit 10*).

The ratings also show that a clear split exists among national parents regarding the diversity of student

Exhibit 10
National and Expatriate Parents' Priorities Are Aligned



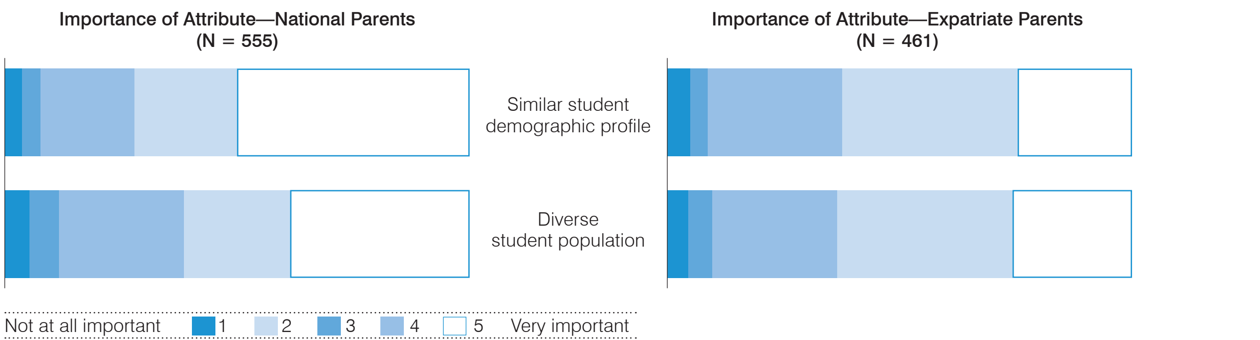
Source: Booz & Company/YouGov survey

demographics (*see Exhibit 11*). A substantial group of national parents wants their children to attend school in a homogeneous learning environment; conversely, another large group desires a heterogeneous learning environment for their children. Although the entire universe of respondents didn't express strong preferences on the demographic profile of their children's classroom or school, our results indicate that a sizable component of the population feels strongly about this.

However, national parents expressed a much clearer preference for segregating classes or schools according to gender. Some 80 percent indicated that their children currently attend schools without mixed classes, and 91 percent report having considered such institutions (*see Exhibit 12*).

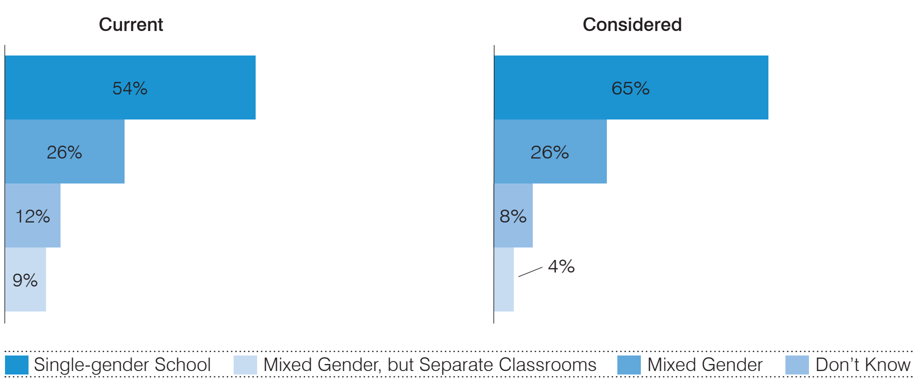
On the curriculum front, national parents expressed a preference for international, English-language curricula. In our market research, 53 percent of parents identified "Western-style" curricula (U.K. curriculum, U.S. curriculum, and International Baccalaureate) as their

Exhibit 11
A Clear Split Exists Among National Parents Regarding Diversity in Classrooms and Schools



Source: Booz & Company/YouGov survey

Exhibit 12
Many GCC National Parents Want Single-gender Schools or Classes



Source: Booz & Company/YouGov survey

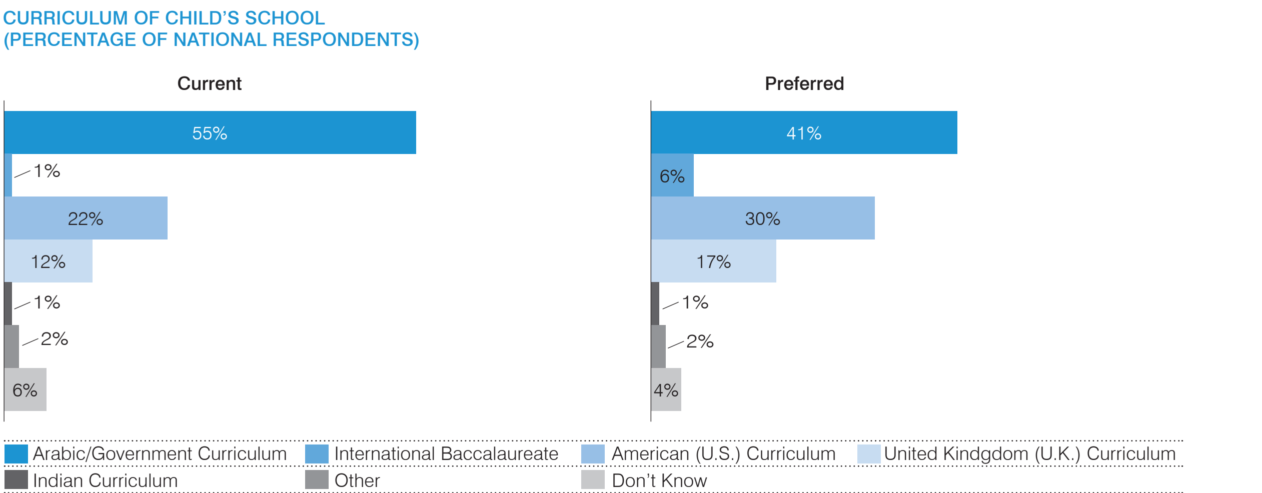
preferred curricula—markedly higher than the 35 percent whose children are currently enrolled in schools offering these curricula (*see Exhibit 13*).

The 18-point gap between parents who prefer schools that offer U.S., U.K., or IB curricula and those whose children currently attend these schools suggests a significant potential market opportunity. The challenge for operators is to determine whether the gap is due to a simple lack of supply or some other aspect of the market. Theoretically, market forces should address a supply shortfall, by increasing the supply of schools offering the desired curricula. However, if this imbalance stems from other attributes—including cultural factors—operators will have to modify their offerings to satisfy consumer preferences.

Finally, despite the promising overall market fundamentals for the sector, some parents remain apprehensive about private education and may be more difficult to persuade. In our research, 34 percent of parents whose children currently attend public schools indicated that free public education was sufficient. Others cited coeducational facilities or classes as a barrier to private education, or inconsistency with their families' cultural or religious values (*see Exhibit 14*). Nonetheless, 25 percent of public-school parents reported that they could be enticed by a product offering that was in line with their values.

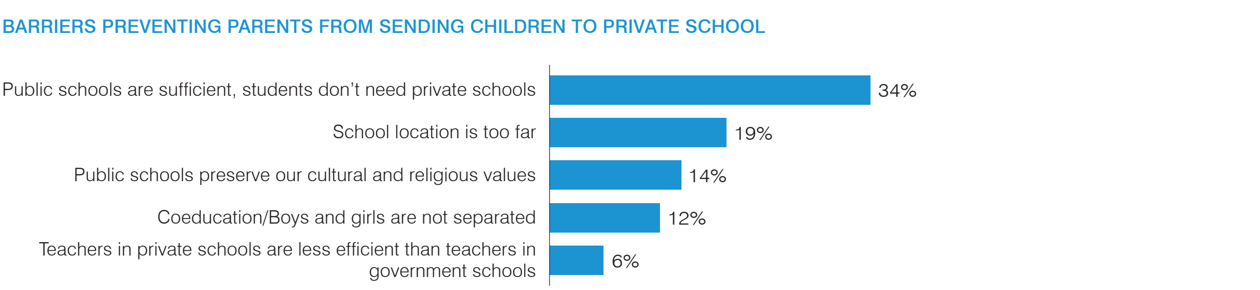
In summary, the parental preference survey reflects the diverse nature of the GCC's populations. Opportunities exist to increase both overall enrollment and market share for operators in tune with consumer preferences.

Exhibit 13
Nationals Indicated a Preference for Western Curricula in Greater Numbers Than Currently Exist in the Market



Source: Booz & Company/YouGov survey

Exhibit 14
Some GCC Parents Are Apprehensive About Private Education



Source: Booz & Company/YouGov survey

POTENTIAL OBSTACLES TO GROWTH

In order to capitalize on the opportunity afforded by the coming growth of private schools in the region, stakeholders will need to address several key challenges. Most fundamentally, the overall operating environment for private schools does not yet attract local and international investors in sufficient scale to develop the market. Some institutional investors have begun to express interest; however, thus far these players have been limited to private equity funds and others with existing connections in the region.

Schools serving different geographies and different socioeconomic segments typically require different solutions. But several broad themes are evident for the entire GCC region. Specifically, the challenges in the operating environment can be broken down into six dimensions: a shortage of qualified teachers; problematic access to land; lack of scale and professional management; difficult financing environment; lack of public information; and opaque regulations.

Shortage of Qualified Teachers
The first challenge for the private-school universe in the GCC is the shortage of qualified teachers. Indeed, the global education sector is currently facing a worldwide shortage of talent, resulting in significant competition for well-qualified educators, particularly in international and Western curricula schools. This competition is likely to intensify in the coming years, due to the expansion of "international" school offerings globally.

GCC operators may not be able to match the lifestyle-related perquisites available to expatriate teachers at international schools in competing markets (such as Hong Kong and Singapore), forcing schools to either increase salaries or hire less-qualified individuals. The recent regulatory changes in Saudi Arabia allowing national students to attend foreign curricula private schools will only exacerbate the shortfall of teachers in that country, and operators will likely have to pay a premium to attract talent, increasing overall costs. Often the teachers who are hired do not stay—some operators estimate average teacher tenure at just two to three years, which disrupts operations, imposes significant recruiting costs on operators, and distracts management from education issues to instead focus on personnel.

The picture for Arabic-medium national curriculum schools is somewhat different. Most GCC markets struggle to train enough national teachers to meet even the needs of their public schools. Expatriate Arab teachers brought in to teach at the Arabic-medium schools come from a variety of educational backgrounds, and many of them may not be equipped to deliver the reforming government curricula as intended by policymakers.

Problematic Access to Land

The GCC's unique regulatory and market structures combine to create a complex set of land-related challenges for potential private-school investors. Most GCC jurisdictions restrict foreign land ownership, requiring prospective private-school operators to secure access to land through the relevant private-school regulator. These processes can be complex and time-consuming, causing undue delays and taking the edge off investor appetite. For example, one GCC country requires the holder of an education plot to obtain a "no objection" letter from all neighbors of the proposed school before construction can start. Furthermore, operators

Most GCC markets struggle to train enough national teachers to meet even the needs of their public schools.

are bound to their awarded land plots, which may or may not be aligned with their proposed project's needs in terms of location or size.

Conversely, in jurisdictions that do allow foreign land ownership, investors have indicated that price inflation has made land prohibitively expensive, undermining the feasibility of new ventures. A positive development on the land front, however, is the increasing cooperation between real estate developers and school operators. For example, in building the Al Raha area of Abu Dhabi, developer Aldar Properties reached out to private-school operator Taaleem to create the Raha International School, based on the expected demographics of the development.

Lack of Scale and Professional Management

The market for private schools in the region is still extremely fragmented, consisting of stand-alone schools with low average school sizes. In all of the markets covered in this report, the large majority of schools are stand-alone entities owned by individual investors, which lack the operational efficiencies associated with greater economies of scale. This relates particularly to support functions outside of the classroom, such as administration, career counseling, medical facilities, transportation, catering, and so on.

Furthermore, some of the individual owners and operators have little experience in education or administration, and their schools lack professional management—resulting in substandard education services and generally "low value for money." Several investors have indicated that these individual owners hold disproportionately high valuation expectations, which will slow any potential industry consolidation.

However, there are examples of emerging regional and national champions. Two operators—GEMS and SABIS—have begun to operate networks of private schools. Similarly, Taaleem (Dubai), Ma'arif (Saudi Arabia), Al Rowad (Saudi Arabia), Sama Educational Company (Kuwait), and Newton Schools (Qatar) have all established themselves as strong competitors, and are backed in part by government investment funds.

Difficult Financing Environment

The fourth challenge—related to the previous two—is that the financing market for private schools remains relatively immature. GCC banking practices make it very difficult to secure financing for new private-school ventures. The absence of land ownership in most instances precludes schools from obtaining mortgage financing to fund construction, while the unpredictable demand (and thus cash flows) for a new school inhibits the kind of project financing more generally associated with infrastructure capital.

As a result, school ventures are restricted to entities with sufficient free cash flow to fund construction on a 100 percent equity basis, or to those with sufficiently strong balance sheets to secure loans against other assets. These financing constraints can have implications for the "value for money" offered by 100 percent equity-funded facilities, given their inherently higher cost of capital. Many investors also note that exit options for education investors are limited. Although there are some publicly listed education companies in the region, many jurisdictions do not allow the listing of such companies in practice. The lack of active institutional investors and scarce access to debt further limit the exit options.

Lack of Public Information

Another unique aspect of the operating model for private schools in the region is the lack of public information regarding school quality. Many jurisdictions do not publish inspection results or other performance indicators, often because they want to ensure that systems are mature and operators are ready before taking this step. This restriction of information effectively leaves education consumers unable to differentiate between high-quality schools and low-quality offerings, and inhibits overall competition by allowing substandard operators to survive.

Governments that have opted to publish inspection results have seen a reorientation of consumer preferences in a relatively short time, with demand for poorly performing schools dropping dramatically, counterbalanced by increased demand for higher-quality institutions. This has been most evident in Dubai, which was one of the first markets in the region to publicly release school inspection results, beginning in the 2008–2009 academic year. This may account in part for the fact that Dubai has such high enrollment in private schools.

Opaque Regulations

Finally, many of the operating challenges facing private schools in the region are driven—or compounded—by a perceived opaque regulatory regime. On the surface, each of the region's regimes operates a relatively similar system of regulations, licensing, and inspections, with one or two main regulatory bodies (*see Exhibit 15*).

In general, these organizations make their regulations, policies, and procedures available to the education community. Education investment is limited by significant but well-defined restrictions to foreign ownership of education companies, especially in Qatar, Kuwait, and, outside of the free zones, the UAE.

Yet there is a notable perception among operators and investors that regulations are not applied or enforced consistently. For example, a new policy decision may significantly alter the business environment with little or no notice. Sophisticated investors outside the GCC express a very low tolerance for regulatory risk—a subject that has come up repeatedly in our interviews.

Again, Dubai offers an example of how changes to investor and operator perceptions can significantly alter the education market. Increased clarity regarding regulations and their application in the emirate has attracted private-equity investors such as Abraaj

Exhibit 15
Each Region Has Its Own Unique Regulatory Regime

PRIVATE SCHOOL REGULATION AND OVERSIGHT (BY GEOGRAPHY)

	Set Regulations	Set Strategies	License	Evaluate/Inspect	Accredit
Kuwait	Ministry of Education	Ministry of Education	Ministry of Education	Ministry of Education	Third Parties (Voluntary)
Qatar	Supreme Education Council	Supreme Education Council	Supreme Education Council	Supreme Education Council	Third Parties (Voluntary)
Saudi Arabia	Higher Council for Education Policy/MOE	Higher Council for Education Policy/MOE	Ministry of Education	Ministry of Education	Third Parties (Voluntary)
(UAE) Abu Dhabi	UAE MOE/AD Education Council	Abu Dhabi Education Council	Abu Dhabi Education Council	Abu Dhabi Education Council	Third Parties (Voluntary)
(UAE) Dubai	UAE MOE/KHDA	KHDA	KHDA	KHDA	Third Parties (Voluntary)

Source: Relevant regulators; Booz & Company analysis

Capital and Evolvence Capital, which have backed private-school ventures in Dubai.

Finally, one of the biggest concerns currently limiting the participation of outside investors is tuition regulation. In most countries of the region, operators can set school fees as they see fit when initially opening the school (within a certain range). However, once operational, they require approval from education regulators to raise tuition, and most jurisdictions have frozen tuition in recent years. Current and prospective private-school investors have indicated that their inability to raise tuition revenues in line with cost increases has a significant chilling effect on their interest.

Exacerbating this situation in the eyes of potential investors is a lack of consistent, transparent information regarding tuition policies, affecting investors' ability to project allowable potential fee increases in the future. This opacity makes solid business plans extremely challenging to develop. Tuition freezes clearly reflect well-intended government attempts to protect consumers. However, once in place they become extremely difficult to unwind, as such action would trigger immediate tuition hikes—and correspondingly negative political ramifications for the responsible authorities.

A few jurisdictions in the region are contemplating tying tuition increases to performance, with high performers permitted larger increases than low performers. However, this is likely to negatively affect the competitive balance in the industry by exacerbating pre-existing resource gaps.

REALIZING THE POTENTIAL FOR SUCCESS: RECOMMENDATIONS

Each of the stakeholders in the GCC education system—governments, investors, and operators—has a significant role to play in realizing the educational and business potential of the region's private schools.

Government Regulatory Reform
As previously described, current regulatory systems create a degree of ambiguity that has kept many sophisticated, international investors from pursuing opportunities within the region. Perhaps even more important, they have prevented some local entrepreneurs from investing in education. Although this may be largely an issue of marketing and perception, governments must take steps to ensure that regulations are clear, stable, and consistently applied, and that all market participants are able to compete on an even footing.

For example, regulators must provide clarity surrounding property ownership requirements and zoning. Past attempts to support school operators through the creation of real estate free zones for schools—while well-intended—may have actually damaged the market, by relegating schools to inconvenient geographic locations. Many private schools today are clustered in these zones, far from any residential neighborhoods, which forces some students to travel several hours between home and school. Education authorities should improve their coordination with urban planning agencies to ensure sufficient quantity, location, and size of plots for education use early in the master planning process.

A second key item for governments to consider is the need to balance consumer needs with operators' right to increase revenue. Although government regulation of tuition fees originated with a justifiable aim—to protect consumers in an imbalanced market in which providers enjoy significantly more power due to insufficient supply—that policy may now effectively perpetuate a supply imbalance by limiting investors' interest. The first step for regulators will be to institute full transparency of tuition fee regulation—regulations that should seek to maintain consumer protection while redressing the supply imbalance.

Finally, governments must take extra caution to avoid steps that could undermine the trust of the market. These steps include decisions that can be interpreted as preferential treatment of any party on the market, or rapid changes in key policies. To further ensure consistency in implementing their regulations, governments should invest in the legal and financial competency of their regulatory officials, as well as in the quality of data and documentation in their regulatory processes.

Government Support for Industry
In addition to regulatory reforms, governments can proactively attract investors and operators to the market. They can help spread awareness of market opportunities by actively engaging with potential investors and operators. Although most investors are aware of the region's growth prospects, many still are not. Equally important, many local investors are not sufficiently aware of the prospects of the education sector. Active efforts to engage the industry—through conference participation, marketing campaigns, and direct engagement—can help.

Government can indeed take a more active approach to disseminating market information. Currently, many operators considering entry into the market have scant data with which to assemble business plans, such as demographic projections, market needs, and policy goals. Making this information public would help investors reduce their risk profile and would facilitate their evaluation and decision-making process for individual markets. Governments can also make school-performance data available, in order to enhance competition in the marketplace. A number of regional governments have started developing monitoring systems, and they should seek to publish these inspection results. However, it is essential for regulators to build the ratings' credibility with operators before publishing results.

The same principle holds true regarding awareness among parents. Many of the region's consumers lack the information and experience necessary to differentiate among offerings in the market. This may be most true among GCC national parents, who have the widest range of choice among education offerings, yet are currently overrepresented in private schools that offer the government curriculum but do not perform well in inspections. A more critical and discerning consumer base would enhance competition in the region, forcing substandard schools to improve their performance or lose business to those that excel.

Another element of support that government can provide is to increase the supply of national teachers. The GCC has difficulty competing for expatriate teachers, which may result in less effective expatriates being brought into the market. Unfortunately, many nationals currently lack the qualifications required to teach in high-quality private schools. Governments can implement measures to improve this, such as establishing new kinds of teacher-training programs for nationals. Recent initiatives—such as exchanges with advanced education systems aimed at spreading knowledge and increasing the teaching capabilities of nationals—are a good first step but do not have sufficient scale to satisfy market needs.

Finally, governments could take specific steps to reduce the capital burden on investors contemplating private-school ventures in the region by facilitating access to debt capital. For example, governments can work with financial institutions to increase access to debt financing for private-school operators, in order to eliminate the burden of 100 percent equity financing, particularly for new developments. Such collaborative efforts can take many forms, such as informal encouragement, mandatory lending, debt guarantees, or the direct provision of capital, as long as these measures do not distort the competitive landscape. One issue to consider is providing opportunities for mortgaging the school plots and facilities.

Investor and Operator Strategies
Although some potential market entrants have expressed frustration regarding the lack of market information, our research indicates that governments are, in many cases, not actively refusing to disclose this data. Rather, they simply do not know that operators need it. The flow of information is a two-way street; operators must engage with regulators to directly communicate their needs

Governments could reduce the capital burden on investors by facilitating access to debt capital.

and challenges. Although different markets have varying mechanisms in place to facilitate such relationships, operators would benefit by establishing a more direct dialogue. Regular communication would help investors lower their risk profile, giving them an opportunity to discuss regulatory concerns and lobby governments to take appropriate action.

Furthermore, given the extremely fragmented nature of the current market, operators should consider consolidation strategies. The large number of small, independent owner-operators at GCC private schools represents ideal acquisition targets. This is especially true as tightening quality requirements posed by the regulators makes many of these schools financially less viable. Consolidating educational, administrative, and support functions offers potential synergies that would be reasonably straightforward to identify and capture, allowing operators to increase earnings while also enhancing the quality of educational services offered, and enhancing the viability of all segments. Executed correctly, industry consolidation would thus benefit not only investors but also parents and regulators.

In addition, operators should choose between two strategic models. One is a comprehensive approach in which operators diversify their service offerings across multiple curricula and price points. Such a comprehensive approach enables operators to rapidly build scale and leverage their brand equity to the widest possible audience. The alternate approach involves specialization—operators focus their offerings on a narrower price point and a single curriculum such as U.S., U.K., IB, or local curriculum. This approach allows the operator to build deeper capabilities in its market segment, concentrating marketing efforts and preventing brand dilution.

Both approaches have proven successful in the GCC. GEMS is the most prominent diversified local player, with more than 40 schools across the GCC offering a range of curricula with price points ranging from around $2,700 to more than $16,000. SABIS and Taaleem have pursued the opposite strategy. SABIS schools deliver instruction through their own proprietary method, “the SABIS system,” which focuses on efficiently delivering high academic outcomes. Taaleem limits its offerings to higher-fee schools providing Western curricula such as U.S., U.K., and IB.

Finally, operators should develop educational value propositions that resonate most directly with regional parental needs. Our market survey highlights the central role cultural decisions play in consumers’ school decisions. For example, many GCC national parents appear to have interest in a bilingual English–Arabic curriculum, with single-gender schools. Regardless of the strategic model adopted by operators, certain modifications to service offerings to accommodate cultural preferences are required to obtain desired market share.

CONCLUSION

Demographic growth, a flight to quality, and a greater willingness among GCC parents to pay for education will all drive growth in the private-school market over the coming decade, and lead to a transformation in education throughout the region. This evolution will offer sizable growth opportunities for operators and investors—in short, the field is wide open for companies that can navigate several challenges in the region to capitalize on its superior growth opportunities.

Although the issues may seem daunting to outsiders, more direct involvement in the market will show that governments are increasingly open to addressing these challenges, and in fact are transitioning from a strict regulator role to one more akin to a business partner. Sufficient communication—in both directions—will help create an environment in which all stakeholders can thrive. Investors will generate enticing returns, governments will develop more effective workforces, and, perhaps most important, the region's students will receive the education they need to thrive in a more competitive global market.

APPENDIX: INDIVIDUAL REGION PROFILES

Kuwait

Current Overview

Kuwait has about 545,000 students in 1,268 schools. Approximately 64 percent of students attend public schools, which represent 60 percent of all schools in the Kuwaiti education system (*see Exhibit A*). Of the roughly 500 private schools in the country, 158 are Arabic institutions, and the remainder are foreign schools. About one-third of foreign schools offer the Kuwaiti Ministry of Education curriculum, and the rest offer international curricula.

Exhibit A
Key Figures of Kuwait's K–12 Education System

KUWAIT K–12 EDUCATION SYSTEM OVERVIEW

	Public Schools		Private Schools	
Schools	779 Schools		489 Schools	
Students	~347,000 Students	Student to Teacher Ratio: 6.6	~198,000 Students	Student to Teacher Ratio: 16.7
Teachers	~53,000 Teachers		~12,000 Teachers	
OpEx	~US$3.6 Billion (~US$10,000/Students		~US$3.1 Billion (~US$5,600/Student)	

Source: Kuwait Annual Statistical Abstract 2009; Kuwait Ministry of Education; Booz & Company analysis

Within private schools, about 97 percent of teachers are expatriates, and many lack sufficient experience or training to excel in the classroom. As a result, many families rely on additional private tutoring in order to fully educate their children.

Private schools in Kuwait are regulated by the Ministry of Education. The ministry is currently developing its education strategy, including steps to comprehensively reform teaching methods and the national curriculum, and more effectively use information and communications technology in the classroom. It plans to introduce school inspections in the near future to provide parents with empirical evidence of school quality. Kuwait is also establishing a national authority for standards and quality control, and a national center for education research. Finally, it is working to improve the capabilities and qualifications of teachers in Kuwaiti schools.

Sama Educational Company, backed by NBK Capital, is one of the first private-school operators to attempt to achieve scale in the Kuwaiti market under the American Creativity Academy brand. The Institute for Private Education, a MENA-focused education investment house, operates five schools in Kuwait, offering multiple curricula. Al Rayan Holding

Company also operates five schools in Kuwait, and AREF Investment Group is reportedly invested in the sector as well, with five to six schools targeting various expatriate groups. Combined, these investors operate approximately 4 percent of Kuwaiti private schools.

Market Outlook
Kuwait features the lowest population growth rate in the region, with school-age population projected to grow by only 17 percent through 2020. Moreover, the Kuwaiti market is perceived by some investors to be adequately supplied, in terms of overall capacity. Therefore, we expect slightly lower overall growth rates than in other GCC countries (*see Exhibit B*).

Exhibit B
Kuwait Private-school Market Drivers

KUWAIT PRIVATE-SCHOOL MARKET DRIVERS (2010 VS. 2020)

	Total K–12 Enrollment		Private-school Share (%)		Total Private K–12 Enrollment		Average Tuition Fee (US$)		Total Market Value (US$ Millions)
2010	545,000	x	36%	=	198,000	x	5,600	=	1,110
2020 (Low)	703,000	x	38%	=	265,000	x	7,525	=	1,994
2020 (High)	703,000	x	40%	=	280,000	x	10,000	=	2,800

Source: Booz & Company

The combination of relatively flat population growth and adequate current supply means that new operators would have to capture market share from incumbent operators, leveraging either school quality or price. This represents a more challenging proposition than capturing volume in an expanding market. Foreign ownership restrictions and the prohibition of freehold land ownership by non-Kuwaitis further complicate the investment process, chilling investor demand.

Qatar

Current Overview

Qatar has roughly 158,000 students in 437 schools, of which 200 are independent or semi-independent. Qatar has shifted the operation of government schools to private operators in the name of promoting accountability. The remaining 237 schools are private (*see Exhibit C*). There are three types of private schools in Qatar: private Arabic institutions, which offer the national Qatari curriculum; international schools, which offer foreign curricula; and community schools, which are typically sponsored by embassies and geared toward education for the children of expatriates.

Exhibit C
Key Figures of Qatar's K–12 Education System

QATAR K–12 EDUCATION SYSTEM OVERVIEW

	Public Schools		Private Schools	
Schools	200 Schools		237 Schools	
Students	~82,000 Students	Student to Teacher Ratio: 8.91	~76,000 Students	Student to Teacher Ratio: 4.39
Teachers	~9,200 Teachers		~17,300 Teachers	
OpEx	Not Available		~US$430 Million (~US$5,700/Student)	

Source: Qatar Supreme Education Council; Doha Bank; Booz & Company analysis

The Supreme Education Council regulates Qatari private schools. Established in 2002 as part of Qatar's comprehensive education reform, the Council is responsible for all components of the regulatory value chain. Qatar recently established a set of licensing criteria for private schools, which will be overseen by the Council's Private Schools Office. Among other requirements, schools must meet specific criteria to operate as a legal entity in the country, along with curriculum requirements such as accreditation, education provisions for a range of core subjects, and a qualified principal and teaching staff. As of the 2011–2012 academic year, the Council is expanding its role from private-school regulator and inspector to accrediting authority. The Council will also require schools to publish school report cards, in order to provide parents and students with transparent information on school quality and improvement needs.

The Qatari private-school market is highly fragmented, with limited involvement of institutional investors. The market has recently seen the entrance of NBK Capital's Newton Schools, which now operates three British-curriculum schools. GEMS and SABIS are also present in the Qatari market, but have limited their presence to date. The vast majority of remaining schools are stand-alone institutions.

Qatari private schools outperformed their independent counterparts in the most recent round of PISA examinations in December of 2009. According to the Supreme Education Council, the seven highest-performing schools (and 12 of the top 14) were all private schools.

Market Outlook

As in other GCC countries, the population of Qatar is projected to show strong growth, with the school-age population increasing by approximately 58 percent, through the coming decade. In addition, Qatar's world-leading per-capita GDP of $101,000 and 19 percent annual GDP growth provide parents with a strong capacity to pay for a quality education for their children. Infrastructure development leading up to the 2022 World Cup will likely further spur economic growth, which should lead to continued inflows of skilled expatriates, and fuel continued demand for premium private education. Market investors have recently indicated that Qatar presents many of the market opportunities seen in Dubai five to 10 years ago. Qatar's willingness to provide vouchers covering private-school tuition should support market absorption of increased tuition fees. Based on these factors, we expect the size of the private-school market in Qatar to more than double over the next decade, from $430 million in 2010 to between $1.1 billion and $1.5 billion in 2020 (*see Exhibit D*).

Exhibit D
Qatar's Private-school Market Drivers

QATAR PRIVATE-SCHOOL MARKET DRIVERS (2010 VS. 2020)

	Total K–12 Enrollment		Private-school Share (%)		Total Private K–12 Enrollment		Average Tuition Fee (US$)		Total Market Value (US$ Millions)
2010	158,000	x	48%	=	76,000	x	5,700	=	430
2020 (Low)	246,000	x	49%	=	140,000	x	7,660	=	1,064
2020 (High)	246,000	x	50%	=	143,000	x	10,200	=	1,459

Source: Booz & Company

Many of the business development challenges prevalent in other GCC markets are present in Qatar. Restrictions preventing freehold ownership of land by foreigners are likely to impede the financing of private schools, owing to investors' inability to mortgage the property. Financing challenges may be slightly mitigated by the presence of private-school vouchers, which could assuage lenders' concerns about the predictability of demand.

Saudi Arabia

Current Overview

The Kingdom of Saudi Arabia has the largest and least developed private-school market, and thus it represents potentially the greatest opportunity for operators and investors. It has the lowest percentage of students enrolled in private schools—about 725,000 students in 3,500 schools, compared to 4.4 million students attending nearly 30,000 public schools (*see Exhibit E*). Overall, the current size of the private-school market is roughly $2.2 billion.

Exhibit E
Key Figures of Saudi Arabia's K–12 Education System

SAUDI ARABIA: K–12 EDUCATION SYSTEM OVERVIEW

	Public Schools		Private Schools	
Schools	~29,350 Schools		~3,500 Schools	
Students	~4,400,000 Students	Student to Teacher Ratio: 11	~725,000 Students	Student to Teacher Ratio: 12.4
Teachers	~402,000 Teachers		~60,000 Teachers	
OpEx	~US$24 Billion (~US$5,500/Student)		~US$2.2 Billion (~US$3,100/Student)	

Source: Saudi Arabia Ministry of Education; Booz & Company analysis

In terms of governance, the majority of K–12 public- and private-education functions are handled through the Ministry of Education. Private schools require a license to operate. Apart from regulation, the Ministry monitors and supports private-school quality through a program of subsidies at various levels for schools that meet evaluation standards in 11 categories, including teaching staff capabilities and student performance. In the most recent evaluations, nearly 80 percent of private schools placed in the top two out of four potential ranking levels, thus receiving the highest subsidies.

The vast majority of private schools (92 percent) offer the standard Ministry of Education curriculum, and the rest offer international curricula. Private operators in the country include International Schools Group, Ma'arif, Kingdom Schools, and Al Rowad. However, the market is very fragmented, with no operator controlling more than 5 percent of the total tuition base (or 3 percent of total students). Detailed information about the market is very difficult to obtain, because the majority of the schools release little or no information to the public.

Market Outlook

Enrollment in Saudi Arabia's private schools has been growing over the past five years, and recent regulatory changes that will open all private schools to national students are likely to significantly boost that growth rate even further. The potential for growth is enormous: Even if private-school enrollment among nationals grows 10 percent annually—a 50 percent increase over the level of growth during the period from 2006 to 2010—Saudi Arabia's enrollment would still lag that of other GCC countries. We anticipate that the size of the private-school market will more than double and could nearly quadruple over the next decade, increasing from $2.2 billion in 2010 to between $5.7 billion and $8.8 billion in 2020 (*see Exhibit F*).

Exhibit F
Saudi Arabia Private-school Market Drivers

SAUDI ARABIA PRIVATE-SCHOOL MARKET DRIVERS (2010 VS. 2020)

	Total K–12 Enrollment		Private-school Share (%)		Total Private K–12 Enrollment		Average Tuition Fee (US$)		Total Market Value (US$ Millions)
2010	5,125,000	x	14%	=	725,000	x	3,100	=	2,240
2020 (Low)	6,500,000	x	21%	=	1,370,000	x	4,155	=	5,690
2020 (High)	6,500,000	x	24%	=	1,600,000	x	5,500	=	8,800

Source: Booz & Company

Despite such growth potential, Saudi Arabia must address several key questions, specifically the consistent application of new enrollment policies and the willingness of Saudi parents to—as they have indicated in our research—invest more substantially in private education. Market survey data suggests that international private schools will likely appeal to a significant share of the population. Some 25 percent to 30 percent of national parents perceive international private schools to be superior to both Ministry of Education private schools and public schools on each of the four most important attributes driving school choice (quality of teachers, curriculum, reputation, and environment for children). If operators can align their service offerings with parental preferences for single-gender education—preferred by 75 percent of parents—and overcome issues related to preservation of culture, families should migrate to international private schools in increasing numbers. Furthermore, according to operators and potential investors, the school licensing process and day-to-day administrative processes, such as visa approvals for teachers, continue to be time-consuming.

UAE (Abu Dhabi)

Current Overview

Abu Dhabi currently has a combined enrollment of roughly 300,000 students, across 266 public and 179 private schools in the emirate's three regions (*see Exhibit G*). The private-school market size is estimated at roughly $550 million, based on current tuition fee levels and student numbers.

Exhibit G
Key Figures of Abu Dhabi's K–12 Education System

ABU DHABI: K–12 EDUCATION SYSTEM OVERVIEW

	Public Schools		Private Schools	
Schools	266 Schools		179 Schools	
Students	~128,000 Students	Student to Teacher Ratio: 10.6	~177,000 Students	Student to Teacher Ratio: 17.7
Teachers	~12,000 Teachers		~10,000 Teachers	
OpEx	~US$2 Billion[1] (~US$15,700/Student)		~US$550 Million[2] (~US$3,100/Student)	

[1] Direct public spend on public institutions, excluding capital; based on publicly stated teacher staffing levels and advertised teacher salaries.
[2] Tuition fees only, excludes transport and other fees.
Source: Abu Dhabi Education Council; Booz & Company analysis

Private-school students outnumber public-school students by a significant margin (177,000 to 128,000), owing primarily to the emirate's sizable expatriate population. Abu Dhabi allows expatriate students to attend public schools, but limits them to 20 percent of the enrollment by law.

Abu Dhabi's private-education market is regulated by the Abu Dhabi Education Council (ADEC), which licenses, monitors, and inspects private schools. Licensing standards and inspections criteria are publicly available, but inspection results are not publicly released. ADEC has announced that it will begin accrediting private schools. Currently, the regulatory system is a mixture of legacy practices of the former Education Zones of the UAE Ministry of Education and new regulations set and administered by ADEC.

ADEC is planning to launch a business development strategy aimed at attracting investors and operators, as well as a school improvement program, to support quality enhancements in private schools.

The current supply of private schools, especially in the MOE curriculum segment and lower-price segment, consists mostly of stand-alone schools with single owner/operators. The 179 schools include about 40 still operating in residential villas, which ADEC plans to close over the next few years. Overall, the market remains fragmented, with the largest operators representing only 8 percent of the emirate's schools. Principal operators include Aldar and GEMS (which have five schools each), SABIS (which has four schools), and Emirates National Schools (which has three schools).

There is no official data on the quality of private schools available yet; Abu Dhabi's first PISA results will be available later this year, and inspection results will reportedly be published in the near future. However, press statements by the emirate's leadership indicate that a significant share of the current private schools fail to meet the ADEC inspection criteria.

Market Outlook

Projected population growth is greater in Abu Dhabi than in other GCC markets. The emirate's population of 2 million is poised to grow by 65 percent over the next decade. Accordingly, demand for K–12 education is projected to grow around 5 percent annually over the next 10 years. Based on expected increases in enrollment and tuition fees, we anticipate that the private-school market in Abu Dhabi will grow from $550 million in 2010 to between $1.2 billion and $1.7 billion in 2020 (*see Exhibit H*).

Exhibit H
Abu Dhabi Private-school Market Drivers

ABU DHABI PRIVATE-SCHOOL MARKET DRIVERS (2010 VS. 2020)

	Total K–12 Enrollment		Private-school Share (%)		Total Private K–12 Enrollment		Average Tuition Fee (US$)		Total Market Value (US$ Millions)
2010	305,000	x	58%	=	177,000	x	3,100	=	550
2020 (Low)	500,000	x	58%	=	290,000	x	4,166	=	1,208
2020 (High)	500,000	x	60%	=	300,000	x	5,550	=	1,665

Source: Booz & Company

The Abu Dhabi market faces multiple challenges. Based on the tuition fee information that is available, more than half of the emirate's schools operate with low and potentially insufficient resource levels. The relatively low incomes of the expatriates served by these schools—mainly offering MOE and Asian curricula—do not allow for significant increases in tuition fees. The market remains fragmented, with few institutional investors and almost no M&A activity in recent years. Access to debt continues to be an issue, with operators reporting tight lending practices by local banks. Although most investors and operators see significant growth potential in Abu Dhabi, they also argue that the regulatory system must be streamlined in order to recognize this potential.

UAE (Dubai)

Current Overview

Dubai is the most advanced private-school market in the GCC by virtually every measure. The private-school market is significantly larger than the public-school market: Dubai has 146 private schools, with more than 191,000 students and 12,000 teachers, compared to 78 public schools with about 27,000 students and 2,300 teachers (*see Exhibits I and J*).

Exhibit I
Key Figures of Dubai's K–12 Education System

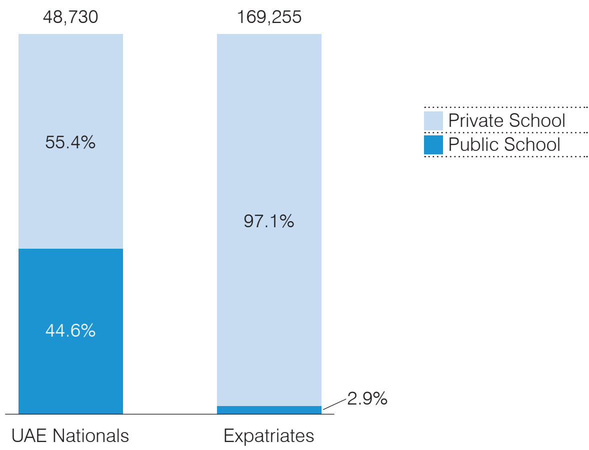
DUBAI: K–12 EDUCATION SYSTEM OVERVIEW

	Public Schools	Private Schools
Schools	78 Schools	146 Schools
Students	~27,000 Students	~191,000 Students
Teachers	~2,300 Teachers	~12,000 Teachers
	Student to Teacher Ratio: 11.5	Student to Teacher Ratio: 16
OpEx	~US$400 Million[1] (~US$15,700/Student)	~US$840 Million (~US$4,400/Student)

[1] Direct public spend on public institutions, excluding capital; based on publicly stated teacher staffing levels and advertised teacher salaries.
Source: Dubai Statistical Yearbook; Booz & Company analysis

Exhibit J
More Than Half of Nationals and Almost All Expatriates in Dubai Attend Private Schools

STUDENT ENROLLMENT BY NATIONALITY AND SCHOOL TYPE
(2010–2011 ACADEMIC YEAR)



Source: Relevant government education ministries; Booz & Company analysis

Dubai's private-education market is regulated by the Knowledge and Human Development Authority, (KHDA), which licenses, monitors, and inspects private schools. Licensing standards, inspection criteria, and inspection results are publicly available. The current private-schools' regulatory system was developed by KHDA, beginning with "Knowledge and Human Development Authority in Dubai Order No. (1) of 2007."

Dubai has taken notable steps to introduce transparency and competition to the market, by releasing school inspection results and other market data, in order to communicate potential growth opportunities and reduce uncertainty for new entrants. Its relatively advanced market position has long been favored by institutional investors, which have enabled two large Dubai-based private-school operators to emerge and play a leadership role in the regional market. GEMS, one of the world's largest private-school operators, operates 18 schools in the emirate, catering to all market segments. Curricula offered include U.K., U.S., IB, Central Board of Secondary Education (CBSE), and Council for the Indian School

Exhibit K
Dubai Private-school Market Drivers

DUBAI PRIVATE-SCHOOL MARKET DRIVERS (2010 VS. 2020)

	Total K–12 Enrollment		Private-school Share (%)		Total Private K–12 Enrollment		Average Tuition Fee (US$)		Total Market Value (US$ Millions)
2010	217,000	x	88%	=	191,000	x	4,413	=	840
2020 (Low)	308,850	x	89%	=	274,877	x	5,931	=	1,630
2020 (High)	308,850	x	90%	=	277,965	x	7,903	=	2,197

Source: Booz & Company

Certificate Examinations (CISCE). Tuition fees range from $1,770 to $19,600. Taaleem operates five private schools (plus one kindergarten and one nursery) offering U.K., U.S., and IB curricula. Combined, these two operators control nearly 16 percent of Dubai private schools.

In terms of performance in TIMSS tests, Dubai's schools perform well relative to countries in the region, but below the international average. According to KHDA inspection results, private schools have made significant gains in the past several years, particularly in critical subjects including math, science, and English (subjects in which they outperform public schools), and less notable progress in subjects such as Arabic and Islamic education (where public schools have an advantage).

Market Outlook
The movement of nationals to private schools is expected to continue and is expected to reach 60 percent of total UAE national enrollment in the coming few years. Based on these further advances into that segment, as well as overall demographic growth and increased tuition fees, we anticipate the private-school market in Dubai will grow from $840 million in 2010 to between $1.6 billion and $2.2 billion in 2020 (*see Exhibit K*).

Despite its relatively advanced state, the Dubai private-school market must still address a number of obstacles. Investments in existing institutions remain challenging, as owners have high expectations for valuation. Tuition regulation in recent years has resulted in unexpected freezes for most schools. Investors cite confusion about the respective roles of the Ministry of Education and KHDA as a key source of concern. Schools in the lower price segments find it difficult to reconcile increasing costs with an inability to increase tuition.

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