

## News article by TMX Money Jan 11<sup>th</sup> 2012

[http://www.tmxmoney.com/en/news/interviews/jan11\\_2012\\_CIBT.html](http://www.tmxmoney.com/en/news/interviews/jan11_2012_CIBT.html)



*CIBT's vice-chair, president & CEO*  
Toby Chu

### **CIBT Education Group**

#### ***Tapping the technology-driven sea change in learning***

By Mirelle Vitale

Toby Chu takes pride in spotting a business niche and adapting quickly.

After visiting China in 1993, the Vancouver-based entrepreneur was struck by the potential of the country's enormous and information-hungry population. Initially keen to develop his small business in China reselling computers and integrating software, Chu soon realized that the existing competition, particularly from India, made it too prohibitive. So he examined the IT education component of his operation and decided that many Mainland Chinese would likely require training in information technology. Competition-related obstacles remained but Chu quickly re-adapted his plan.

“By 1994, we started targeting business [training] programs and that’s how we started our MBA degree [in China]: Very high end, very premium and very expensive. At that time we were charging US\$20,000,” says Chu, vice-chairman, president and chief executive of CIBT Education Group Inc. (TSX:MBA).

CIBT is now an education management company with operations in 68 locations—16 of which are in China—including cooperative joint ventures in 18 countries. The bulk of its courses and programs are currently pitched at the mid-tier market covering occupational training and English-language training, with a small portion focused on university-level programs, namely through its Vancouver-based degree college.

Since 1994, the company has grown its education business using a largely traditional business model involving overseas partnerships and bricks-and-mortar investment. But in recent times it has gradually introduced a strategy change with Chu’s earlier interest in technology re-emerging at its core.

Now at the heart of CIBT’s education network is its interactive technology, dubbed the Global Learning Network, or GLN. The company’s Vancouver and Beijing-based teaching studios are able to link to a network of classrooms across Asia and elsewhere supplying western educational content by western instructors to overseas students through video-conferencing technology.

Growing the GLN is one of the company’s major priorities in 2012, Chu says. “Technology is becoming less and less expensive and internet speed is getting faster and a lot lower in price. [In 2011] we gained significant traction on the GLN deployment and we’ll continue to do that [in 2012],” he adds.

CIBT cites numerous advantages to its GLN-focused strategy. Among them are its rapid deployment and reduced capital expenditure given that the company no longer needs to fly teaching staff to and from overseas postings on a regular basis. The new business model via the GLN also allows for greater flexibility in terms of scale and a more mass market approach.

### **The Network**

Headquartered in Vancouver, CIBT’s key assets include Sprott Shaw Community College and Sprott Shaw Degree College, and King George International College, acquired in 2007 and 2010 respectively. Sprott Shaw operates as a technical college and King George specializes in English-language training and diplomas, and TESOL (Teaching English to Speakers of Other Languages) programs.

The company's goal is to become a leading global education player with Canada as the base, China as the hub and operations throughout Asia and other emerging markets. In Malaysia recently, the company established links with several agents recruiting students for CIBT. "We already have a base so we're not walking in blind," Chu says. He expects to establish similar partnerships with agents in Indonesia and Thailand throughout 2012.

Last year CIBT established the Global Career Center in the Philippines, which in the first year of operations generated over 3,500 jobs posted on its website, and resulted in the successful development of a job placement service that is exclusive to the company's students and graduates.

In the Middle East, meanwhile, CIBT has signed up a school in Jordan to offer Sprott-Shaw style programs including career diploma courses, language training and university pathway programs. Operations at the Jordanian Canadian College, which will share revenue with CIBT, will commence shortly, Chu says. A similar arrangement is being negotiated with a college in Iraq. In this case, the Iraqi school will pay CIBT a licensing fee and also share revenue.

### **Targeting Under-Valued Acquisitions**

The company will continue to search for under-valued acquisition targets this year. Chu says CIBT typically embarks on this expansion route in difficult economic times. "One of our guiding principles is: When the market is bad, we go out and buy companies and when the market is good, we raise capital."

"We acquired five companies in the last three years right through the economic downturn and grew substantially. We still see a lot of undervalued companies out there unable to raise new capital and we see a huge opportunity for us and our shareholders," Chu says.

CIBT is looking at several healthcare-oriented career trade schools similar in scale to Sprott Shaw. It is also eyeing expansion into Ontario as well as its home base of British Columbia.

The company's key criterion for any acquisition is that it must add synergy. Sprott Shaw is a prime example, Chu says. The acquisition meant that we didn't have to reinvent the wheel. You could take a whole host of existing programs with developed curriculum and apply them, he adds.

In terms of size, Chu says he will consider schools with minimum revenue of \$5 million up to \$60-100 million. And in terms of valuation criteria? "We typically pay about four times earnings," Chu notes. But "if it adds a lot of value, we would definitely consider [paying] even higher as long as there's synergy...."

### **Canada Base, China Hub**

China no longer accounts for the bulk of CIBT's business (in fiscal 2011, 92% of its revenue was generated by its Canadian operations, up from 29% in 2006), but it remains an important component.

CIBT focuses on generating business or student enrollments within mid-tier cities in China, ie. those with a population of 1-10 million such as Weifeng in Shandong province. Tier 1 cities like Beijing, Shanghai and Guangzhou each have a population of at least around 15-20 million.

Concentrating on mid-tier cities keeps a lot of the competition at bay as many Western companies typically focus on China's three major metropolitan cities, Chu explains.

The CEO sees no signs of slowing enrolment growth in China but highlights the company's recent strategy change on the Mainland. CIBT no longer operates degree-granting MBA programs there, focusing instead on the more mass-market sector of certificate and job-skills courses. As a result, Chu says, the company has posted a 20-25% increase in student enrolment in China in each of the last three quarters.

Among the high-profile programs CIBT has recently launched in China are a series of hotel management courses in Hainan province. The course content is supplied by the American Hotel Lodging Association's educational institute subsidiary. CIBT is the exclusive licensee for the American Hotel & Lodging Educational Institute in China and the Philippines. The programs are being supported by the labour-development arm of the Hainan provincial government, Chu says.

Asked how large an organization CIBT is aiming to build in China, Chu is pragmatic, suggesting growth will be somewhat controlled. "Growing overly large in China with our headquarters here [in Canada] is not on our current agenda." Chu sees CIBT's China business peaking at \$8-10 million. "I think that's the optimum size and then we will bring a lot of those students into Canada," he adds.

"Our growth in the international market has been substantial therefore boosting our consolidated revenue to nearly \$60 million for fiscal 2012," Chu says. "As our Canadian operations continue to receive international students and earn revenue from abroad, CIBT investors will gain exposure to emerging market growth while mitigating significant emerging market risk, such as international accounting issues, corporate compliance, political shifts leading to civil disobedience and epidemic outbreak."

## **Financials**

For the fiscal year ended August 2011, CIBT posted a \$10 million loss, of which at least \$7.5 million is attributable to goodwill, Chu says. The actual cash operating loss is around \$2.5 million, he notes. Approximately \$1 million of that is related to the consolidation of Sprott Shaw and King George colleges and the ensuing severance payouts and other reorganization costs, Chu explains. Moving forward, Chu sees savings of over \$2 million based on the company's reduced payroll.

One other positive on CIBT's financial horizon is the upcoming abolishment of British Columbia's Harmonized Sales Tax (HST), Chu notes. "It was the HST that took half a million dollars from our bottom line in BC." As a private education provider CIBT cannot collect HST from students. "In the meantime we paid 7% more HST on all goods and services from vendors such as auditors, lawyers, lease contracts etc. It will be helpful to have this hefty tax eliminated from our burn rate."