# SEI

STRATEGIC EDUCATION, INC.

## 2020 ANNUAL REPORT

**Strategic Education, Inc.**
**2020 Letter to Shareholders**

Dear Fellow Shareholders:

My colleagues and I have had the privilege of stewarding Strategic Education, Inc. (SEI) for over 20 years. Prior to 2020, we had witnessed two world events during our tenure which were significant enough to have had a major effect on SEI: the attacks of September 11, 2001, and the great financial crisis of 2008. The global pandemic of 2020 exceeded both of those events in terms of disruptive impact, which in my judgement makes SEI's performance in 2020 all the more impressive. Over the last year our company weathered the coronavirus storm, educated almost 100,000 students, improved the academic outcomes of our two U.S. Universities, and acquired one of the finest academic institutions in Australia. In fact, during 2020 we not only successfully navigated the unprecedented challenges of the COVID pandemic ourselves, we also used our resources to help other colleges and universities survive the crisis as well.

In this letter I will review SEI's academic, operational, and financial results for the last year. I will discuss the impacts of the pandemic on our enterprise, and explore how the pandemic is shaping our thoughts on the future of higher education in general, and our institutions in particular. Finally, I will share with you some thoughts on our acquisition in Australia, and how that acquisition fits into our general capital allocation strategy. As is our custom, I have included in an appendix to this letter both an excerpt from Strayer University's 1912 student catalog, as well as an excerpt from my first letter to shareholders, written in 2001. These two excerpts have been reprinted in each of our annual reports since 2001, and shareholders who are new to our company may wish to read them prior to reading this letter, as I believe they provide helpful background on SEI's culture and operating model.

## 2020 Results

It certainly helped that SEI started the year with a more diversified and resilient organization, both financially and academically, than at any time in its history. At the beginning of 2020, SEI's two main operating assets were Strayer University (founded in 1892) and Capella University (founded in 1993). Both institutions hold the most demanding and highest academic accreditation a university in the United States may hold.[1] Both Universities provide undergraduate and graduate degrees to working adults. Both are relatively open access universities which serve an extremely diverse student population. The common motivation of our students is that they want to invest in their own human capital to become more productive members of society, and to provide a better life for themselves and their families.

In 2020, the combined student enrollment of our two Universities grew 2%, from roughly 91,000 to 93,000. The number of students who successfully earned their degrees from both Universities in 2020 grew 11% from 19,800 to 22,000. Based on this student enrollment, SEI's revenue grew very slightly in 2020 from $997mm to $1,004mm. Notably, SEI's revenue grew during the year at a lower rate than its student enrollment, which reflects the achievement of one of our most important institutional objectives: to reduce our tuition and any associated indebtedness incurred by our students. SEI's expenses decreased 1% in 2020, from $803mm to $791mm. This led to an increase in our adjusted operating income of 10% from $194mm to $213mm. While our *academic* costs to serve our students did grow proportionately with our student population, we were able during the year to continue to reduce our *non-academic, corporate, and administrative operating* costs. Therefore, our operating margin increased in 2020 from 19.5% to 21.2%.

[1] Strayer University is accredited by the Middles States Commission on Higher Education, the same accrediting agency that accredits such universities as Georgetown University, Columbia University, and the University of Maryland. Capella University is accredited by the Higher Learning Commission, the same accrediting agency that accredits such universities as Northwestern University, the University of Chicago, and the University of Minnesota.

Underlying these results in 2020 were significant academic developments at both Strayer University and Capella University. Strayer's flagship executive MBA program, the Jack Welch Management Institute (JWMI) was recognized in 2020 for the fifth consecutive year by the Princeton Review as a global top 50 online MBA program, this year rising to #15 in the ranking. JWMI was also ranked #11 in CEO Magazine's global online MBA ranking. These rankings, along with JWMI's more than 2,500 graduates, are the most fitting and lasting tribute to Jack Welch himself, who sadly passed away in March of 2020. I cannot begin to describe to my fellow shareholders what a large influence Jack had, not just on his namesake institute, but on the whole SEI organization. Jack and I founded JWMI at Strayer University in 2011 with a $7mm investment: $4.2mm from SEI, and $2.8mm from Jack himself. We started with just a few dozen students, and built an academic curriculum out of the management and leadership principles Jack had developed during his tenure as one of America's most respected CEOs. The Institute has since grown to be one of the nation's largest MBA programs, with over 2,000 students and over $27mm in revenue. In the process, Jack became not just a business partner, but a trusted advisor and counselor. His gravelly voice was available to us at any time of the day or night, on any issue, and his advice always gave one a sense of optimism. Watching him closely for 10 years, I believe that the secret to Jack Welch's success as a business leader was simply that his confidence in you quickly became your own confidence in yourself. We will miss him enormously, but his Institute, and therefore his influence and wisdom, will carry on in the many thousands of the Jack Welch MBA graduates to come.

In 2020, Strayer University also completed a major revamp of its general education program. The 15 liberal arts courses required to earn a Bachelor's Degree from Strayer University now all include those specific workforce preparation and employability skills which our largest corporate partners most desire in their new recruits. For too long, America's universities have seen competence in the liberal arts, and the skills necessary to be successful in one's first job after graduation, as mutually exclusive outcomes. Our faculty and curriculum development staff have now successfully combined both of these objectives into our general education curriculum.

In addition, during the year Strayer Studios (the University's in-house video curriculum development division) partnered with the Sundance Film Institute to sponsor a nationwide competition to identify talented, up-and-coming screenwriters who could participate in improving Strayer University's online academic content. Five finalists in the competition were invited to the 2020 Sundance Film Festival to present their work to a panel of judges which included Strayer University professors, as well as respected Sundance filmmakers. The winner of the competition, Donald Brooks, was awarded a yearlong writer-in-residence position at Strayer Studios, where he will use his specialty in documentary film storytelling to upgrade our online Criminal Justice curriculum. We are very excited about Donald's work, and in the future we will continue to access best-in-class filmmaking talent to make our online academic content as engaging and effective as possible.

At Capella University, we showed a significant improvement in our annual student continuation rate in 2020, which increased to an historically high 84%. We have always believed that continuation rates are the most important indicator of academic quality for an institution of post-secondary education, as higher continuation rates lead to higher graduation rates, so we take great pride in this outcome. In 2020, Capella University also instituted an honors pathway program, aimed at our most well-prepared bachelor's degree students, which combines multiple disciplines into an integrated program of study. The program recognizes exceptional students and allows them to earn both general education and elective credits more quickly.

In 2020, Capella University also continued to both refine and expand its unique FlexPath program. FlexPath is a direct assessment education model, in which the student can proceed as quickly (or slowly) through the course material as they wish, liberated from the traditional credit hour schedule. Students who are better academically prepared, or less constrained by work or family obligations, can earn their degrees faster, at less cost, than in traditional academic programs. It is a mark of the high regard the educational community holds in Capella University's academic rigor and quality that we are one of just nine institutions in the country which are permitted to use this direct assessment model. In 2020, Capella University graduated its 10,000th FlexPath alumnus, and additionally received approval to offer our Doctor of Nursing Practice degree in the FlexPath format. We believe that in this period of severe stress on the national healthcare system, our FlexPath format will be particularly relevant to seekers of Health Science degrees, as time is one of the scarcest resources of the medical community in the midst of a pandemic.

**COVID19 Impact**

Buoyed by a strong economy, improving labor participation rates, and strong academic performance at both Strayer University and Capella University, SEI performed very well in the first half of 2020. Indeed, SEI's results through the second quarter of 2020 were some of our strongest on record,with total student enrollment growing at a healthy (but manageable) 6%, and operating income increasing 34%. However, the pandemic imposed lockdowns sent the economy into a tailspin starting in April, and we quickly took a number of proactive steps to protect the health of our students, faculty, and staff, as well as to position ourselves to deal with the economic impacts of the pandemic. In late March, we immediately went to a fully remote status, shutting down our campuses and corporate locations. We shifted to a fully online teaching mode any Strayer or Capella University classes which had been scheduled to take place in person through the rest of the year, and we suspended the opening of new Strayer University and Capella University campus locations. Finally, we quickly reduced our non-academic administrative costs by a run rate of nearly $40mm per year, or roughly 4%.

Fortunately, Capella University's student enrollment was not significantly affected by the pandemic induced economic shutdowns. For the full year of 2020, Capella's new student enrollment increased by 8%, its total student enrollment grew 3%, and its operating surplus grew 6%. Unfortunately, Strayer University did not fare as well. After the imposition of the nationwide lockdowns, its new student enrollment plummeted over 25% in the summer and fall terms of 2020. Strayer's total enrollment for those terms, which included all those students who had enrolled prior to the downturn, only shrank 5%. However, given the high operating leverage of the University's financial model, the unplanned 5% reduction in enrollment caused a 10% reduction in operating surplus from Strayer University in the second half of 2020. Strayer University's enrollment results for 2020 were hardly an anomaly in the U.S. higher education system. Indeed, they were similar to the national averages, with nationwide post-secondary enrollment for new students and total students falling by nearly 20% and 4% respectively in the second half of 2020. In fact, total student enrollment at community colleges, whose student bodies most closely reflect the socio-economic status of Strayer University's undergraduate students, fell by 10%, more than twice the rate of both Strayer and the national average.

Of course, these results beg a fundamental question: how does one explain the different impact of the pandemic lockdowns on our two U.S. Universities, or alternatively, how did Capella University outperform the national averages by such a wide margin? In order to answer those questions, we must delve deeper into the structural differences between our two Universities, but also into macro-economics and the valuable role of higher education in creating economic mobility.

The most significant difference between our two U.S. Universities is that Strayer University is mostly an undergraduate institution, while Capella University primarily serves graduate students, who by definition, already have a bachelor's degree.[2] The simple fact is that the lion's share of the economic impact from the lockdowns fell on those individuals *without a college degree.* These individuals tend to work in service

[2] Capella University's results in 2020 were additionally buoyed by the fact that even its undergraduate programs are concentrated in health care related fields, such as nursing, for which there was increased demand for employment during the year.

industries and are unable to work from home. When the economic and commercial activity ceases at their physical location of work, so does their employment. At its trough in April 2020, the U.S. economy lost nearly 20 million jobs compared to its peak in February 2020. By January 2021, half of those jobs had been recovered, but virtually all the recovered jobs were in positions that required bachelor's degrees, involved computer digital skills, could be performed from home, and paid greater than $25 per hour. The U.S. economy is still missing almost 10 million jobs which pay less than $20 per hour. This data helps to explain another curious macro-economic statistic from 2020: that national aggregate employee compensation for the year was basically flat, *even though aggregate employment was down 7%.* The U.S. economy is indeed experiencing a K-shaped recovery, with the upper leg of the K representing those individuals with at least a bachelor's degree whose fortunes as a group improved in 2020, and the lower leg of the K representing those individuals who do not have a bachelor's degree, and whose economic situations deteriorated.

We have seen in the past that it is difficult for unemployed adults to marshal the time and financial resources to return to university to complete their degrees. Therefore, it was not a surprise to us that the economic destruction and job losses from the pandemic lockdowns reduced demand for Strayer University's undergraduate programs. However, as educational administrators we have long believed that in periods of cyclically reduced demand, the most harmful mistake you can inflict on an institution is to try to artificially inflate its student enrollment. In the long run that tactic benefits neither students nor universities. Instead, the best way to run a university is to consistently invest in maintaining a high level of academic quality, to be financially efficient in your operations, and to be comfortable with the natural cycle of enrollment demand. The U.S. economy is not going to be locked down by a pandemic forever. As the real economy, and employment confidence for those individuals seeking a bachelor's degree recovers, we are confident that Strayer University's enrollment will recover as well.

We are comfortable with wide variability in student demand for any given academic program because of the financial strength provided by the diversity of programs we offer at SEI, particularly after our acquisition of Capella University. In simple terms, when one program is down another one tends to be up. That financial strength also gave SEI the opportunity to provide significant support to the broader U.S. higher education sector during the pandemic. We provided, free of charge, much of our online technology and expertise to a group of Historically Black Colleges and Universities (HBCUs) which were forced to shift abruptly to a fully remote, online-only mode of course delivery, without any preparation or warning. We detailed several of our best online faculty and deans to train over 400 HBCU professors in the best practices of teaching online. We also made available in the spring term 2020, again free of charge, our entire Sophia Learning self-paced online course catalog to any university which was experiencing difficulty shifting to a fully online mode. As a result of these efforts, SEI provided material to over 100,000 students who were enrolled *at other universities* in the spring 2020 academic term. While not immediately financially accretive, we considered it both a privilege and our duty to assist our fellow higher education institutions weather the crisis. To paraphrase Franklin Delano Roosevelt, when your neighborhood is on fire, you lend your hose.

## Australia/New Zealand Acquisition

With Capella University and Strayer University, SEI shareholders are stewards of two of the most respected investor-funded academic institutions in the United States. Our two Universities are a major part of this country's higher education system. Indeed, with a combined total of over 90,000 students we are one of the largest providers of undergraduate and graduate degrees in the nation. With this scale comes both great advantages, but also great responsibilities. We believe we can grow our student enrollment in these two institutions at a manageable rate (roughly 5% per annum in a normal economy), while simultaneously investing in our academic quality, and still continue to generate surplus owners' capital. However, we believe that to grow our student enrollment at a faster rate would be a mistake, as it would generate unacceptable risk to our institutions' academic performance, which in our judgement, is the only real generator of long-term owners value.

Nevertheless, SEI does have significant investments in academic technologies, proven capabilities in stewarding universities, and surplus owners' capital. And while we are not naturally acquisitive (the merger with Capella Education Company was our first major transaction in nearly 20 years), we do keep track of a handful of premier academic institutions in markets where we are comfortable investing. When those institutions become available, we are prepared to put our capital, technology, and capability to work to generate healthy returns. Torrens University in Australia is one such institution.

Australia and New Zealand, with their English language, rule of law, property rights, and education regulatory regimes, are markets in which we are very comfortable investing. Additionally, with their high quality of life and proximity to fast growing Asian economies, Australia and New Zealand also provide an opportunity to offer academic services to Asian populations that are more difficult to serve from the United States. The highest level of the Australian post-secondary education system consists of just 43 accredited universities. Torrens University is one of those 43, and is the only investor-funded institution to gain that level of accreditation. Torrens has one of the world's most highly ranked hotel and tourism management schools, and Torrens' MBA program is ranked #20 by CEO Magazine among global MBA programs. Similar to Strayer University, Torrens has a network of 14 physical campuses across Australia. Similar to Capella University, Torrens is the premier provider of accredited online education in Australia. Associated with Torrens University is a group of shorter term, vocational programs, called Think Education, as well as a very highly rated digital animation program called the Media Design School in Auckland, New Zealand.

Fortunately, we had been keeping track of Torrens for a long time prior to the pandemic. In fact, we had accomplished extensive in-person diligence, and had spent a significant amount of time with Torrens' senior management team in 2019 and early 2020, before the pandemic hit. Through our diligence we had developed significant confidence in the outstanding quality of the institution and its management team, as well as our ability to integrate and oversee these assets, notwithstanding the global travel lockdowns. We were therefore able to take advantage of uncertain capital markets to reach agreement to purchase Torrens University and its associated assets on July 29, 2020, and closed the transaction on November 3. The Australian and New Zealand regulators approved the transaction in just three months, which demonstrates both the high regard they hold for Torrens' academic quality, as well as their confidence in SEI as a responsible home for high quality academic institutions.

In 2020, our Australia and New Zealand institutions educated approximately 19,000 students, and generated roughly $56mm in earnings before interest, taxes, depreciation and amortization (EBITDA). We purchased these assets for $642mm, or slightly more than 11 times their trailing EBITDA. We expect this transaction to be highly accretive to SEI's financial results in 2021, and to contribute at least $1 per share of incremental earnings. We are very excited to have Torrens University, Think Education, and the Media Design School as part of the SEI family, and look forward to being the stewards of their future academic success.

**2020 Capital Allocation**

We began 2020 with $491mm in cash and marketable securities, no outstanding debt, and an undrawn $250mm bank revolver on SEI's balance sheet. Notwithstanding the pandemic lockdown, SEI generated $243mm in pre-tax cash from operations during the year. We used that generated cash as follows. First, we paid approximately $45mm in cash taxes at the federal, state, and local level. Second, we invested approximately $47mm in capital expenditures, mostly consisting of upgrades to our technology infrastructure and digital capabilities, such as online course content, data mining, and artificial intelligence. That left us for the year with approximately $151mm in what we refer to as "owners' distributable cash flow," or roughly $6.61 a share. The $6.61 of owners' distributable cash flow per share approximates our reported *adjusted* earnings per share of $6.68, an important relationship which highlights the financial health of our enterprise, and reinforces the relevance of the adjustments we make to our reported GAAP EPS results.

Out of the $151mm of owners' distributable cash we generated in 2020 we spent approximately $12mm in restructuring costs to lower our ongoing U.S. expense base and position SEI for a stronger 2021. These costs covered lease renegotiations and terminations to reflect what we believe will be a permanently reduced need for physical footprint, even after the pandemic recedes. The restructuring costs also included some volunteer early-retirements and separations to align our faculty and staff with a reduced student enrollment at Strayer University. Next we invested approximately $25mm to purchase the 40% of the Jack Welch Management Institute which we did not own. This was an arrangement Jack and I had agreed on when we negotiated the original joint venture. In 2021, we anticipate that the incremental operating income contribution from this additional 40% of JWMI will be approximately $4.5mm. Finally, during 2020 we returned $80mm to our shareholders by paying out $56mm in common dividends, and using $24mm to effectively repurchase shares by net settling the tax withholding required by employee stock compensation vesting. This left us with $34mm of incremental cash generated in 2020, bringing us to roughly $525mm of cash on our balance sheet, before our largest capital allocation of the year, the purchase of the Australia and New Zealand assets.

We financed that acquisition, which consisted of the $642mm purchase price plus approximately $18mm in associated transaction costs and fees as follows: we took a $140mm draw on our revolver (we also raised our revolver borrowing facility to $350mm), we used $300mm from our balance sheet, and we raised $220mm in a primary equity offering in August. The sum of these capital allocation decisions left SEI at year end 2020 with $225mm of cash and marketable securities, $141mm in debt on our revolver at an interest rate of 1.6%, $209mm of undrawn revolver capacity, and 24mm shares outstanding.

As a board and management team, we take the allocation of our owners' capital very seriously. We compare any use of capital, whether it be accounted for as an expense or a capitalized asset, based on our considered judgement of the potential long-term return on that invested capital. We believe that providing academic opportunities to appropriately prepared students, in markets where we are comfortable operating universities for decades, will produce the highest long term returns on our owners' capital. However, the short-term return on such investments cannot be safely accelerated beyond our ability to consistently generate student academic success. We were fortunate to have the opportunity in 2020 to acquire, at an appropriate valuation, an institution of higher education with a similar history, culture, reputation, and commitment to academic success as our own. We are confident it will turn out to have been the best possible use of your capital.

**2021 Plans**

With the acquisition of Torrens University and its associated assets in the fourth quarter of 2020, we have organized our company for 2021 into three operating segments. Our U.S. Higher Education segment consists of Capella University and Strayer University. Our Australia and New Zealand segment consists of Torrens University, Think Education, and the Media Design School. Our Alternative Learning segment consists of our educational assets which fall outside of traditional degree offerings, such as our self-paced online courses through Sophia Learning, and all of our direct-to-business corporate educational partnerships.

In U.S. Higher Education, we expect Capella University during 2021 to continue its strong performance, particularly in offering its high demand health sciences academic programs. We expect Strayer University's business and accounting programs to stabilize once they anniversary the significant pandemic forced lockdowns in the summer term of 2021 (our financial third quarter). We anticipate that as employment confidence returns, Strayer University's programs will be positively affected by the post-COVID recovery economy. For both Universities, our foremost objective in 2021 will be to maintain the high level of academic quality for which they are known.

For the Australia/New Zealand segment, 2021 will be a year of integration and the transition of our technology capabilities and academic best practices, while we continue to learn from our very capable local management team. We are eagerly awaiting the lifting of COVID travel restrictions, so we can interact in-person with our Australia/New Zealand team, as opposed to Zoom calls. And of course, we are very excited about the immediate financial contribution to our earnings which our Australia/New Zealand segment will provide in 2021.

Alternative Learning is our smallest, but should be our fastest growing segment in 2021. After making our Sophia courses free of charge to other universities for their spring and summer 2020 terms, we are transitioning Sophia in 2021 to a low-cost subscription model. With the exposure of our free access last summer, we expect to generate tens of thousands of new paid subscribers to Sophia in 2021. Between Sophia and our employer partnership programs, our Alternative Learning segment is charged with the execution of one of our most important objectives for 2021: to *lower* the cost of an education from an SEI institution. By promoting Sophia's low cost courses, Capella University's FlexPath, Strayer University's Graduation Fund (where a student earns one free course for every three courses they pass), and most importantly, by increasing the number of our partnerships where employers pay the full tuition cost of their employees, we are committing ourselves at SEI to lowering our students' costs, and their associated indebtedness.

We have two additional tools to assist in this objective. In 2020, we instituted "SEI Smart Borrowing," a program that identifies students who are choosing to borrow significantly higher amounts than necessary for their tuition and cost of living expenses under the Federal Title IV student loan system, and then provides counseling to those identified students on the long-term negative effects of excessive student debt. In its pilot phase, SEI Smart Borrowing was successful in reducing the amount of non-tuition debt incurred by counseled students by 90%. The second new tool which we will use in this campaign is our Skills Advantage program. Under that program, qualifying students can demonstrate skills and expertise learned in their jobs to offset up to 18 credit hours, or 1/10 of the requirement of a bachelor's degree. At approximately $40,000 for a full bachelor's degree and $22,000 for a master's degree, our tuition costs are already among the lowest in the United States. However, we are committed to doing even more to lower the cost of post-secondary education for our students.

With a new Congress and U.S. presidential administration in 2021, we will likely see new legislation and executive branch rulemakings which will adjust the regulatory structure under which our U.S. Universities operate. We welcome, and will assist in, that process. We have shown over these past 20 years that our institutions will thrive under a wide variety of regulatory constructs. In fact, as participants, we appreciate any steps which protect and strengthen the Title IV student loan system. No one, not students, nor alumni, nor the institutions themselves, are benefited in the long run by waste or abuse of the Title IV system.

We strongly believe that the most effective and sustainable method of ensuring the continued success of our Universities under any set of regulations is the success of our alumni. At its core, we provide an intangible value to the recipients of our product. However, that intangible value – knowledge – does itself have measurable outcomes. We measure some of those outcomes in terms of earnings capability, the ability to move from the lower leg of the K-shape recovery to the upper. In addition, many of our alumni have reached the peak of professional success in their chosen fields, not just in business, accounting, finance, or the health sciences, but also in government service. From newly elected member of the Maryland House of Delegates, Carl Jackson, who earned both his bachelor's and MBA from Strayer University, to United States Senator Tammy Duckworth, a decorated war hero who earned her Ph.D. from Capella University, we have a number of alumni serving in the public sector of whom we are extremely proud. Indeed, our guiding principle as stewards of universities is to ensure our institutions always remain worthy of the alumni they graduate.

**Conclusion**

2020 was, to be sure, a difficult year globally. However, the challenges of navigating SEI through the pandemic and associated economic lockdowns also served to highlight some of the enduring strengths of our enterprise. These strengths include expertise in online academics, adaptability, speed of execution, willingness to innovate, investment in learning technology, financial efficiency, commitment to student learning outcomes, and scale. These strengths position SEI well for a future in which online, non-traditional, academic models are likely to play a permanently larger role in global post-secondary education. We clearly have a head start.

SEI's resilience and success in a year of tremendous adversity was the direct result of the outstanding leadership of our CEO, Karl McDonnell, and his entire senior team. It is crucial when navigating a vessel in heavy weather to have a steady hand on the tiller, and I can report from close observation that Karl's hand is among the steadiest. We are, admittedly, a larger and more complicated organization at the end of 2020 than we were at the beginning. And yet, shareholders can take great comfort and confidence in the team which Karl has assembled to oversee this enterprise. Dan Jackson, our long serving CFO, has been a part of our organization for almost 20 years. Andy Watt, who was Capella Education's COO before the merger with Strayer Education in 2018, is the President of our U.S. Higher Education segment. Linda Brown is the President of our Australia/New Zealand segment. She held this same role shepherding our newly acquired institutions under their former owner for the last 7 years, and had a distinguished career as an educational accreditor and regulator in Australia prior to joining Torrens University. Finally, Terry McDonough, a former McKinsey executive and long serving member of SEI's senior team, is the President of our Alternative Learning segment. As shareholders, we all owe a debt of gratitude to Karl and his team. Their commitment and dedication to our mission is what allows our institution to create so much value for our students and alumni, which in turn creates the long-term sustainable return on our invested capital.

At this point in my annual letter I traditionally invite readers to attend in-person our Annual Meeting of Shareholders, and any of our University graduation ceremonies in the upcoming year. Unfortunately, that is impossible in 2021, as due to the coronavirus pandemic these events will almost certainly be held virtually. Nevertheless, the invitation remains to participate in these events online. Indeed, it may even be more effective to conduct owner's diligence on an organization in the same manner in which the organization delivers its product, i.e., over the internet. Information on how to access these events online will be available on our website www.strategiceducation.com.

Finally, on behalf of our entire Board of Directors, let me once again thank you for the opportunity to have been the stewards of your financial capital over the last year. We used that capital to significantly strengthen our enterprise, improve our student academic outcomes, assist the U.S. higher education sector through a crisis, and acquire a significant new educational asset with a highly regarded academic reputation in an attractive new market. At the end of 2020, your company stands as a stronger, more diversified, more resilient institution. Despite the year of global turmoil, we are reassured by the validity of what we believe to be an enduring truth: improving the human condition through education is always a worthwhile endeavor.

Sincerely,

Robert S. Silberman

Robert S. Silberman
Executive Chairman
Strategic Education, Inc.

# OUR HERITAGE

*Reprinted from the Strayer Business College*
*1912 student catalog*

*This catalog was written with a view of setting before the men and women of this community some of the advantages of a business education, and of acquainting them with the superior facilities of this school for giving high-grade business training.*

*The courses have been designed and presented to meet the needs of the business office of today. The teachers are men and women who are specialists in their respective subjects. The school rooms have been chosen and equipped with special reference to light, comfort and sanitation, so as to make it an ideal place for study.*

*We ask that the public, in determining which school it shall attend, to consider the facts in connection with this school, as are outlined in this catalog and supplementary literature. It is twenty years old. It has grown steadily since the beginning. It attributes its growth to correct ideals, careful management and successful, enthusiastic, and rapidly increasing alumni.*

*While it is essential to its success that a school should give thorough instruction in the subjects that comprise its courses, yet the school that does only this, falls short of its full mission. The development of those traits of character which make for reliability in business and good citizenship are the peculiar province of the school as well as the home. This school, then, has nothing in common, can have nothing in common, with those so-called business schools offering cheap and superficial courses. Such courses, while inexpensive, and possibly of short duration, cannot result in anything but disappointment in the end.*

*This school, then, stands for high ideals, it courts investigation, welcomes comparison, and stands by its promises. It is a school to which you may attend with the knowledge that you will be in pleasant surroundings, will be accorded fair treatment, and will be given thorough and painstaking instruction.*

*Finally, in presenting this catalog, we want to thank a discerning public for its support, and assure it that we shall endeavor to continue to merit the bountiful confidence it has heretofore placed in us.*


STRAYER BUSINESS COLLEGE
CIRCA 1912

# OUR BUSINESS MODEL

*Reprinted from SEI's*
*2001 Letter to Shareholders*

Strayer Education, Inc. is an education services holding company whose primary asset is Strayer University, a 110 year old institution of higher learning focused on educating working adults. In this letter, when I use the term "Strayer", I am referring to the company, as opposed to the university. Strayer University, founded in 1892, offers associate, bachelor's, and master's level degree programs in Business Administration, Accounting, and Computer Information Systems. Strayer University serves students at 17 physical campuses in Maryland, the District of Columbia, and Virginia. In addition, Strayer University serves students in all 50 states and 39 foreign countries worldwide on the Internet through Strayer University Online.

Strayer's revenue comes from tuition payments and fees paid by, or on behalf of, Strayer University students. That revenue comes in essentially three forms. Roughly 70% is paid through federal student loans, approximately 20% is paid directly to Strayer by corporations or institutions on behalf of their employees who attend Strayer University, and the remainder is paid by students through their own sources of credit.

Strayer's expenses include salaries paid to the faculty at the University who perform the teaching duties, salaries paid to the administrative and admissions staff who manage the campuses, and salaries paid to the corporate staff who manage the Company's affairs. Expenses also include lease payments for the campus buildings we lease and depreciation for the campus buildings we own, as well as advertising and marketing costs which serve to attract prospective students to Strayer University. Finally, our expenses include supplies; such as books and computers necessary to support the educational process. Some of the furniture and electronic equipment is capitalized on our balance sheet and the expense is recorded as amortization over the period we expect the equipment to last, in accordance with generally accepted accounting principles.

The difference between the revenue we take in and the expenses we pay out is used to first pay taxes and is then added to the after-tax income generated by our financial assets (cash and marketable securities on our balance sheet) to make up our reported net income on a fully diluted basis.

Two of the attractive attributes of our business are that it generates significant after-tax free cash flow from operations, and that it has a high return on invested capital. The required capital expenditures to keep our existing assets functioning are roughly equal to our depreciation expenses. The investment capital required to fund our growth initiatives is not major. This investment capital includes traditional GAAP defined capitalized expenses, as well as increased spending which runs through our income statement. We are therefore in the enviable position of generating almost our entire net income as distributable free cash flow, even after investing in our growth. Some of this cash we do distribute back to our shareholders as dividends (common and preferred). The rest of the cash we intend to maintain as liquidity to either fund new opportunities, or ultimately return to our shareholders in a tax efficient manner. We understand that the redeployment of this cash is crucial to creating shareholder value.

As both shareholders and management, we are excited by this business model because we believe that the value of a college degree is rising with the transition to a knowledge economy, and that working adult students in search of an accredited college degree are underserved. We know that Strayer University's academic quality and convenience make it ideally suited to meet this growing demand. We have the right product, at the right time for a growing market. Our product, a quality college degree, is valued highly both by students and employers.

In 2001, we developed and committed to a new strategic plan, geared to expanding beyond our current regional focus to serve unmet nationwide demand for working adult post-secondary education. This plan consists of:

- Opening new campuses, particularly beyond our current geographic scope.
- Investing in our online university.
- Maintaining strong alliances and outreach to the major employers of our students.
- Carefully screening opportunities to invest capital through acquisitions.

# CORPORATE INFORMATION

## Executive Officers

Robert S. Silberman
Executive Chairman

Karl McDonnell
Chief Executive Officer

Daniel W. Jackson
Executive Vice President and
Chief Financial Officer

Lizette B. Herraiz
Senior Vice President and
General Counsel

Christa E. Hokenson
Senior Vice President and
Chief Human Resources
Officer

## Web Sites

Strategic Education, Inc.
www.strategiceducation.com

Strayer University
www.strayer.edu

Capella University
www.capella.edu

Torrens University
www.torrens.edu.au

Media Design School
www.mediadesignschool.com

## Board of Directors

Robert S. Silberman
Executive Chairman

J. Kevin Gilligan
Vice Chairman

Charlotte F. Beason, Ed.D
Chairwoman, Strayer
University Board of Trustees

Rita D. Brogley
Former Head of Global
Enterprise Partnerships,
Facebook, Inc.

John T. Casteen, III, Ph.D.
President Emeritus,
University of Virginia

H. James Dallas
President, James Dallas &
Associates

Nathaniel C. Fick
General Manager, Elastic
Security

Robert R. Grusky
Founder and Managing
Member, Hope Capital
Management, LLC

Jerry L, Johnson
Senior Vice President,
EnPro Industries, Inc.

Karl McDonnell
Chief Executive Officer,
Strategic Education, Inc.

G. Thomas Waite, III
Former Treasurer and CFO,
Humane Society of the
United States

## Corporate Headquarters

2303 Dulles Station Boulevard
Herndon, VA 20171

## Annual Meeting

The Annual Meeting of
Stockholders will be held
virtually on April 27, 2021
at 8:00am ET. To register go to
http://viewproxy.com/Strategic
Education/2021/htype.asp

## Transfer Agent

American Stock Transfer &
Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219

## Stock Listing

Strategic Education, Inc.'s
common stock is traded on the
NASDAQ Global Select
Market under the symbol
"STRA"

## Independent Registered Public Accounting Firm

PricewaterhouseCoopers, LLP
1800 Tysons Boulevard
McLean, VA 22102

## Additional Investor Information

Contact the Investor Relations
Department at (612) 977-6331

SEI
STRATEGIC EDUCATION, INC.

STRATEGIC EDUCATION, INC.
2303 DULLES STATION BLVD., 6TH FLOOR
HERNDON, VA 20171
WWW.STRATEGICEDUCATION.COM