Educomp Solutions Ltd.

Estimate Change | BUY

Equity | India | Education & Training Services
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Strong Smart Class adds; on track to exceed guidance

Bank of America Merrill Lynch

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33% earnings CAGR; Retain Buy

Strong 1Q Smart Class additions reconfirm our view of potential upside to Smart Class guidance. While we tweak estimates by ~2% to factor cut in ICT (government schools) business, we retain Buy given 1) strong earnings growth of 33% over FY10-12E, 2) our view that PAT guidance is conservative and likely to be exceeded and 3) compelling valuations at 16x FY11e and 13xFY12E.

Strong Smart Class adds; geared up for growth

During 1Q Educomp implemented Smart Class in 6750 classrooms ahead of our expectation of 6600 classroom implementations. Management highlighted that additional 1000 classrooms are pending implementation. Given strong Smart Class additions in seasonally weak 1Q and significant expansion of sales team during the quarter, we believe Educomp is likely to exceed its guidance of 25000-30000 classrooms during the year.

Margins hit by higher hardware exps; recovery likely

EBIT margins in Smart Class at 45% were lower than estimated and were impacted by higher additions to sales team and higher hardware spends. Management highlighted that for over 1000 classrooms, while hardware costs were recognized, revenues were not recognized due to partial implementation. We also expect margins to recover from 2Q given recognition of high margin content revenues from school added in FY10 and old contracts transitioned to new model during FY10.

Cautious on higher investments in new ventures

Educomp is considering setting up a campus to provide engineering courses. With Pearson and Raffles JV already in investment stage we remain cautious of incremental investments in new ventures.

Estimates (Mar)

(Rs)	2008A	2009A	2010E	2011E	2012E
Net Income (Adjusted - mn)	707	1,429	2,748	3,907	4,878
EPS	6.99	14.14	27.19	38.65	48.26
EPS Change (YoY)	146.3%	102.2%	92.3%	42.2%	24.9%
Dividend / Share	0.586	0.618	0.618	0.618	0.618
Free Cash Flow / Share	(19.93)	(45.04)	(16.98)	9.35	16.95

Valuation (Mar)

	2008A	2009A	2010E	2011E	2012E
P/E	88.65x	43.84x	22.80x	16.04x	12.85x
Dividend Yield	0.095%	0.100%	0.100%	0.100%	0.100%
EV / EBITDA*	48.85x	19.68x	12.65x	9.68x	8.01x
Free Cash Flow Yield*	-2.74%	-6.21%	-2.74%	1.52%	2.77%

* For full definitions of *iQmethod* SM measures, see page 10.

Stock Data

Price	Rs619.95
Price Objective	Rs850.00
Date Established	20-May-2010
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs440.30-Rs1,020
Mrkt Val / Shares Out (mn)	US$1,350 / 101.1
Average Daily Volume	1,880,485
BofAML Ticker / Exchange	EUSOF / BSE
Bloomberg / Reuters	EDSL IN / EDSO.BO
ROE (2010E)	26.8%
Net Dbt to Eqty (Mar-2009A)	135.5%
Est. 5-Yr EPS / DPS Growth	20.0% / 20.0%
Free Float	35.0%

Key Changes

(Rs)	Previous	Current
2011E EPS	38.93	38.65
2012E EPS	47.87	48.26
2011E EBITDA (m)	6,522.2	6,392.9
2012E EBITDA (m)	7,666.0	7,723.9

Refer to important disclosures on page 11 to 13. Analyst Certification on Page 9. Price Objective Basis/Risk on page 9. Link to Definitions on page 9.

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iQprofile℠ Educomp Solutions Ltd.

Key Income Statement Data (Mar)	2008A	2009A	2010E	2011E	2012E
(Rs Millions)					
Sales	2,861	6,371	10,405	15,341	17,754
Gross Profit	1,575	4,205	6,991	9,486	10,751
Sell General & Admin Expense	(301)	(1,061)	(2,116)	(2,019)	(2,103)
Operating Profit	935	2,329	3,755	5,585	7,050
Net Interest & Other Income	129	(41)	678	83	213
Associates	NA	NA	NA	NA	NA
Pretax Income	1,065	2,289	4,433	5,668	7,263
Tax (expense) / Benefit	(351)	(773)	(1,625)	(1,700)	(2,324)
Net Income (Adjusted)	707	1,429	2,748	3,907	4,878
Average Fully Diluted Shares Outstanding	101	101	101	101	101
Key Cash Flow Statement Data					
Net Income	711	1,447	2,748	3,907	4,878
Depreciation & Amortization	331	814	1,138	807	674
Change in Working Capital	(730)	(1,023)	(1,474)	(318)	(829)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	193	1,118	111	539	594
Cash Flow from Operations	505	2,357	2,522	4,935	5,317
Capital Expenditure	(2,224)	(6,249)	(4,239)	(3,986)	(3,584)
(Acquisition) / Disposal of Investments	85	(367)	0	0	0
Other Cash Inflow / (Outflow)	141	150	0	0	0
Cash Flow from Investing	(1,998)	(6,467)	(4,239)	(3,986)	(3,584)
Shares Issue / (Repurchase)	0	0	6,066	3	4
Cost of Dividends Paid	(40)	(58)	(62)	(63)	(63)
Cash Flow from Financing	3,461	3,872	7,600	859	454
Free Cash Flow	(1,719)	(3,892)	(1,717)	950	1,734
Net Debt	862	6,786	(1,002)	(1,411)	(2,548)
Change in Net Debt	(1,634)	4,238	(3,798)	(408)	(1,137)
Key Balance Sheet Data					
Property, Plant & Equipment	2,714	8,126	11,227	14,406	17,316
Other Non-Current Assets	318	1,966	1,955	1,955	1,955
Trade Receivables	1,157	2,765	4,117	4,333	5,018
Cash & Equivalents	2,912	1,902	7,776	9,585	11,772
Other Current Assets	570	1,833	1,653	1,863	2,115
Total Assets	7,671	16,592	26,729	32,142	38,175
Long-Term Debt	3,773	8,688	6,774	8,174	9,224
Other Non-Current Liabilities	210	639	639	639	639
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	586	2,214	2,327	2,434	2,541
Total Liabilities	4,569	11,542	9,740	11,247	12,404
Total Equity	3,078	5,007	17,189	21,095	25,972
Total Equity & Liabilities	7,647	16,550	26,928	32,341	38,376
iQmethod*℠ - Bus Performance					
Return On Capital Employed	16.1%	17.0%	17.2%	16.7%	16.9%
Return On Equity	35.1%	40.3%	26.8%	21.4%	21.6%
Operating Margin	32.7%	36.6%	36.1%	36.4%	39.7%
EBITDA Margin	44.3%	49.3%	47.0%	41.7%	43.5%
iQmethod*℠ - Quality of Earnings					
Cash Realization Ratio	0.7x	1.6x	0.9x	1.3x	1.1x
Asset Replacement Ratio	6.7x	7.7x	3.7x	4.9x	5.3x
Tax Rate (Reported)	33.0%	33.8%	36.7%	30.0%	32.0%
Net Debt-to-Equity Ratio	28.0%	135.5%	-5.8%	-6.7%	-9.8%
Interest Cover	19.5x	8.7x	7.7x	11.6x	13.1x

Key Metrics

* For full definitions of *iQmethod*℠ measures, see page 10.

Company Description

Set up in 1994, Educomp is India's largest provider of technology driven education solutions. It provides end to end solutions for K12 through licensing of digital content to enhance the teaching process. It aims to be a comprehensive provider of solutions in India's school education economy and has expanded its offerings to cater to pre schools, online tutoring, professional development for teachers etc.

Investment Thesis

We expect Educomp to be one of the fastest growing companies in our universe. Key positives include growing adoption of technology-based education in K-12 (Kindergarten to Class12) private schools, low market penetration of under 5% among private schools in India and increased spending by state governments on technology adoption in public schools. Moreover, revenue visibility will be enhanced as the company enters into five-year contracts with private schools.

Stock Data

Price to Book Value	3.8x

33% earnings CAGR; Retain Buy

Strong 1Q Smart Class adds reconfirm our view of potential upside to Smart Class guidance. While we tweak estimates by 2% to factor cut in ICT (government schools) business, we retain Buy given 1) strong earnings growth of 33% over FY10-12E, 2) our view that PAT guidance is conservative and likely to be exceeded and 3) compelling valuations at 16x FY11e and 13xFY12E.

While stock corrected by ~10% post results on concerns on margins and growth prospects we retain Buy rating given:

#1. Likely recovery in margins over next three quarters

We believe 1Q margins in Smart Class are not reflective of the full year given there are significant high margins revenues streams that will kick in from 2Q FY11 onwards. As highlighted in Table 1, follow on high margin content revenues from schools signed in FY10 and from transition of old school contracts to new model will flow through from 2Q onwards. Also as hardware expenses have been accounted for in FY10, margins for these revenues streams are upwards of 90% and likely to improve the margin profile in Smart Class.

Table 1: Smart Class Revenue- key revenue streams for FY11

Key revenue potential for FY11	No of Class rooms	FY11 Revs (Rs.mn)	Comments
Smart Class new wins in FY11	32100	6532	Signed 6750 class rooms in a seasonally weak 1Q. On track to exceed guidance of 25000-30000 class rooms, We have 32100 in our ests. Have assumed EBIT margins of 51%.
Revenues from schools signed in FY10 under new model	NA	708	Follow on revenues from business model change implemented in FY10. Will be recognized from 2Q onwards in line with FY10 quarterly reporting. EBIT margins of 90% plus given these are content revenues.
Revenues from transfer of old schools to new contract/ model	NA	2856	
Total		10096	

Source: BofA Merrill Lynch Global Research est

#2. Strong Smart Class adds in seasonally weak quarter

During 1Q, Smart Class revenues grew by 35% yoy to Rs1.38bn. While yoy growth rates are not comparable given adoption of new model from 2Q FY10 last year, we believe even adjusted for change in business model, Smart Class revenues would have grown by 45% yoy in our view.

We estimate the number of class room additions to have grown by 55-80% yoy during 1Q. Given 1Q is seasonally weak and contributes 20-22% to Smart Class order bookings, we believe management is on track to exceed its guidance of 25000-30000 class rooms for the year. Our estimates bake in 32000 additions higher than guidance and is driven by

1) **Significant expansion of sales team**. Educomp increased its sales force by 160 to 380 employees during the quarter. Net hire is significantly higher than expected. Assuming average additions of 10-12 schools per sales personnel, we think 32000 class room additions is achievable.

2) **Faster sales cycle**. We note that recent TV promos have significantly improved brand visibility of Educomp. This should help reduce turn around time in sales conversion.

Table 2: Strong Smart Class additions during 1Q

	1Q FY10	1Q FY11	Comments
Class room Implementations	3800-4300	6750	Assuming avg classroom additions of 22 to 25 per school for 1Q FY10, we believe volumes grew by 55-80% during 1Q.

Source: Company, BofA Merrill Lynch Global Research

#3. Potential multiyear growth story

We believe Smart Class remains a significant opportunity and Educomp is well geared to tap into this market. At target market of ~75,000 schools (50% of private unaided school market), the potential market is at least two mn class rooms.

Based on current school wins Educomp currently has penetration of less than 4% in terms of number of schools and 2-3% in terms of number of class rooms. Our channel checks indicate limited competition as yet and we believe market share for Educomp would be in the range of ~98%, providing significant growth opportunity.

Renewal cycle to kick in from FY13

One of the key investor concerns relate to long term growth for Educomp, given significant expansion in Smart Class over last 3-4 years. While we remain bullish on penetration opportunities for Smart Class, we note that renewal cycles for schools signed from FY08 would commence from FY13 onwards. Even assuming 6-7% CAGR in new school wins over next five-six years and benefits from renewals, we expect profits in Smart Class to grow at 15-18% CAGR over next five to six years.

Table 3: Renewal cycle likely to kick in from FY12

Smart Class additions	No of schools	Renewals
FY07	230	
FY08	602	Assuming Five year cycle. Significant renewal likely to kick in from FY13
FY09	804	
FY10	1325	

Source: Company, BofA Merrill Lynch Global Research

1Q Results: Strong Smart class adds, margins lower than anticipated

Revenues grew 18% yoy to Rs2.2bn, 4% lower than BofAMLe. Smart Class (content for private schools) grew by 35% YoY to Rs1.4bn. It reported EBITDA margins of 30% vs. our estimate of 34%. PAT grew by 7% yoy to Rs364mn, against our expectation of Rs424mn. Besides lower margins PAT was also impacted by higher interest costs during the quarter.

Lower margins driven by revenue cost mismatch in Smart Class

EBIT margins in its school learning solutions business which comprises of Smart Class and ICT (government school business) stood at 42% as compared to 44% last year and 61% in 4Q. The fall was largely attributed to Smart Class where in EBIT margins for the quarter stood at 45% as compared to ~60-65% reported in previous three quarters. Two key reasons for the fall

1) Unlike previous three quarters, 1Q revenues were driven by only new class room additions. As hardware costs are expensed under the new model, EBIT margins are likely to be lower.

2) Also, during the quarter cost of goods sold included hardware (supplied to EduSmart) which are yet to be fully implemented and hence while costs have been recognized, revenues are yet to be recognized. Management highlighted that there has been revenue cost mismatch during the quarter

Other segments

ICT : ICT its government school business declined by 44% yoy to Rs205mn. There were no new wins during the quarter. Management reiterated that it intends to strategically defocus from this segment and will pick and choose contracts in ICT. For the year we have assumed 5000 new school wins.

K-12 : K-12 revenues grew by 71% yoy to Rs205mn with EBITDA margins of 63%. It currently has 43 schools operational with over 25000 students. Management highlighted that it now has visibility for 30 more schools and is likely to have overall 69 schools operational by June 2011.

Table 4: K-12 revenue trends

(Rs.mn)	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
Revenues	129	89	120	126	156	149	205
EBITDA	104	61	94	74	117	86	153
PAT	52	32	42	38	69	29	50.6
EBITDA %	81	69	78	59	75	58	75
PAT %	40	36	35	30	44	20	25

Source: Company, BofA Merrill Lynch Global Research

Table 5: 1Q Quarterly analysis

Rs m	1Q FY11	1Q FY10	YoY %*	1Q FY11	Variance
Net Sales	2279	1938	18%	2364	-4%
Total Expenditure	1586	1081	47%	1549	2%
EBITDA	693	857	-19%	816	-15%
Depreciation & Ammortisation	198	293	-32%	202	-2%
EBIT	495	564	-12%	614	-19%
Other Income	100	35	183%	139	-28%
Forex Losses	-29	-37	-22%	0	NA
Interest	161	102	58%	120	34%
PBT	405	579	-30%	633	-36%
Tax	39	225	-83%	209	-81%
PAT	365	342	7%	424	-14%
EBITDA margin	30%	44%	349	34%	-409 bps
EBIT margin	22%	29%	1257	26%	-424 bps
PAT margin	16%	18%	47	18%	-192 bps

**Note : Educomp changed its business model in Smart Class from 2Q FY10. Hence 1Q growth numbers are not comparable*

Segment accounts

	1Q FY11	1Q FY10	YoY %
Revenues (Rs.mn)			
School Learning Solutions	1591	1385	15%
Higher Learning	90	68	32%
K-12 Schools	305	222	37%
Online Supplemental & Global	293	263	11%
Total	2279	1938	18%

PBIT

Table 5: 1Q Quarterly analysis

Rs m	1Q FY11	1Q FY10	YoY %*	1Q FY11	Variance
School Learning Solutions	660	612	8%		
Higher Learning	-44	-7	530%		
K-12 Schools	117	86	35%		
Online Supplemental & Global	-63	-10	506%		
Total (exc unallocated costs)	671	681	-2%		
PBIT %					
School Learning Solutions	41%	44%			
Higher Learning	-49%	-10%			
K-12 Schools	38%	39%			
Online Supplemental & Global	-21%	-4%			

Company has renamed and re grouped its business segments
School Learning Solutions includes Smart Class & ICT (govt school business)
Higher Learning includes Professional Development, Raffles JV, Pearson JV
K-12 School include Roots to wings pre schools, Euro Kids pre schools & K-12 schools
Online Supplemental & Global includes Learning.com, Ask N learn, AuthorGEN, Learnhub.com, learninghour.com

Source: Company, BofA Merrill Lynch Global Research

Financials

Table 6: Profit and loss statement

Rs mn (year-end March)	FY08	FY09	FY10E	FY11E	FY12 E
Sales	2861	6371	10405	15341	17754
Other income	177	227	1167	564	750
Total Income	3038	6598	11572	15905	18504
Cost of goods sold	798	1110	1621	3958	4724
Personnel expenses	488	1055	1793	1898	2279
Administration and other expenses	301	1061	2116	2019	2103
Total Expenditure	1594	3227	5548	8948	10030
EBITDA	1267	3144	4857	6393	7724
Depreciation	331	814	1138	807	674
EBIT	935	2329	3719	5585	7050
Finance charges	48	268	489	481	537
EBT	887	2061	3230	5104	6513
PBT	1065	2289	4397	5668	7263
Total Taxes	351	773	1625	1700	2324
Profit after tax	706	1429	2772	3907	4878

Source: Company, BofA Merrill Lynch Global Research

Table 7: Balance Sheet

Shareholders' funds	FY08	FY09	FY10E	FY11E	FY12 E
Share capital	172	173	202	203	205
Reserves and surplus	2629	3886	6073	9917	14731
Net worth	2884	4203	16324	20169	24985
Minority Interest	194	804	864	925	986
Loan funds					
Secured Loans	622	4689	6774	8174	9224
Term Loan from Bank	438	4315	6400	7800	8850
Deferred tax Liability	210	439	439	439	439
Total Sources of funds	7061	14342	24402	29708	35635
Goodwill	280	1225	1225	1225	1225
Fixed assets					
Gross Block	2890	6499	10738	14724	18307
Less: Accumulated Depreciation	548	1335	2473	3280	3954
Net Block	2342	5164	8265	11444	14354
Capital Work in Progress	372	2962	2962	2962	2962
Total	2714	8126	11227	14406	17316
Investments	36	729	729	729	729
Current assets, loans and advances					
Inventories	18	316	366	416	466
Sundry debtors	1157	2765	4117	4333	5018
Cash	2912	1902	7776	9585	11772
Loans and Advances	490	1138	1287	1445	1647
	4639	6153	13547	15780	18905
Less current liabilities and provisions					
Less current liabilities and provisions	610	2251	2327	2434	2541
Net current assets	4029	3903	11220	13347	16364
Miscellaneous expenditure	1	13	1	1	1
Total Applications	7061	14342	24402	29708	35635

Source: Company, BofA Merrill Lynch Global Research

Table 8: Cash flow statement

Cash flows from operating activities	FY08	FY09	FY10E	FY11E	FY12 E
Net profit before taxation and after prior period items as per P&L	1072	2108	4397	5668	7263
Depreciation	331	814	1138	807	674
interest exps	48	268	489	481	537
Operating profit before working capital changes	1419	3721	5622	6954	8470
Adjusted for :					
Trade & other receivables	-657	-1603	-1352	-216	-684
loans & advances	-426	-613	-148	-158	-202
Trade & other payables	338	1491	76	107	107
Cash Generated from operations	689	2698	4148	6636	7641
Taxes paid (Net of TDS)	-184	-329	-1625	-1700	-2324
Net cash from operating activities	505	2357	2522	4935	5317
Cash flows from investing activities					
Purchases of fixed assets	-2224	-6249	-4239	-3986	-3584
Net cash used in investing activities	-2102	-7215	-4239	-3986	-3584
cash flows from financing activities					
Net proceeds from fresh issue of capital through IPO	0	0	6066	3	4
Proceeds/ repayment of long term borrowings	334	4000	2085	1400	1050
interest on borrowings	-48	-268	-489	-481	-537
Dividend paid	-40	-58	-62	-63	-63
FCCB raised	3109	8	0	0	0
Net Cash from financing activities	3393	3846	7600	859	454
Net increase in cash and cash equivalents	1796	-1011	5883	1808	2187
Opening cash and cash equivalents	1109	2905	1893	7776	9585
Closing cash and cash equivalents	2905	1893	7776	9585	11772

Source: Company, BofA Merrill Lynch Global Research

Table 9: Ratios

Year Mar 31 (Rs mn)	FY08	FY09	FY10E	FY11E	FY12E
Valuation ratios					
P/E (x)	89.8	44.4	23.4	16.2	13.0
P/CEPS	52	24	18	13	11
P/BV (x)	19	13	4	3	3
EV/EBIT (x)	52	21	13	9	7
EV/ Revenues	17	8	5	3	3
Growth %					
Revenue	160	123	63	47	16
EBIT	128	149	60	50	26
Net Profit	146	102	90	44	25
Profitability %					
EBITDA	44	49	47	42	44
EBIT	33	37	36	36	40
Net Profit	25	22	22	25	27
Return %					
RONW	35.0	40.3	21.9	21.4	21.6
ROCE	19.4	21.8	19.2	20.6	21.6
Per Share Data (Rs.)					
EPS -diluted	6.9	14.1	27.19	38.65	48.26
CEPS	12	26	34	46	54
BVPS	33	49	162	199	244
DPS	1	1	1	1	1
FCF/Share	-79	-239	-85	47	85
Div Yield (%)	0	0	0	0	0
DSO	105	112	121	101	96

Source: Company, BofA Merrill Lynch Global Research

Price objective basis & risk

Educomp Solu (EUSOF)

Our PO of Rs850 based on a 2 yr PEG of 0.9x and implies target multiple of 18x FY12e. Our PO reflects potential de rating given Smart Class revenue stream now likely to be volatile. Retain Buy given strong 33% CAGR in earnings FY10-12E, and sharp turnaround in FCF on shift to new business model. Besides Educomp remains the only listed education service provider with offerings in K-12 and is a emerging player in vocational/ supplemental education.

Risks to our valuation are higher losses in new initiatives, higher than anticipated cut in Smart Class pricing, acquisition-related risks and managing multiple growth initiatives.

Link to Definitions

Industrials

Click here for definitions of commonly used terms.

Analyst Certification

I, Pratish Krishnan, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Special Disclosures

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India - Software & IT Services Coverage Cluster

Investment rating	Company	BofAML ticker	Bloomberg symbol	Analyst
BUY				
	Educomp Solu	EUSOF	EDSL IN	Pratish Krishnan
	Firstsource	FSSOF	FSOL IN	Mitali Ghosh
	Genpact Ltd	G	G US	Mitali Ghosh
	HCL	XHCLF	HCLT IN	Mitali Ghosh
	Hexaware Tech	XFTCF	HEXW IN	Pratish Krishnan
	Infosys Tech	INFYF	INFO IN	Mitali Ghosh
	Infosys Tech - A	INFY	INFY US	Mitali Ghosh
	Rolta India	RLTAF	RLTA IN	Pratish Krishnan
	Rolta India-GDR	XLROF	RTI LI	Pratish Krishnan
	Sun TV Network Ltd	SUTVF	SUNTV IN	Pratish Krishnan
	Tata Consultancy	TACSF	TCS IN	Mitali Ghosh
	Wipro	WIPRF	WPRO IN	Mitali Ghosh
	Wipro	WIT	WIT US	Mitali Ghosh
	Zee Entertainment	XZETF	Z IN	Pratish Krishnan
NEUTRAL				
	ExlService Holdi	EXLS	EXLS US	Mitali Ghosh
	Patni	PATIF	PATNI IN	Mitali Ghosh
	Patni Computer	PTI	PTI US	Mitali Ghosh
	Tech Mahindra	TMHAF	TECHM IN	Pratish Krishnan
UNDERPERFORM				
	Infotech Enterprises Ltd	IFKFF	INFTC IN	Pratish Krishnan
	Mastek	MSKDF	MAST IN	Pratish Krishnan
	MphasiS Ltd	MPSSF	MPHL IN	Pratish Krishnan
	WNS (Holdings) L	WNS	WNS US	Mitali Ghosh

iQ*method* SM Measures Definitions

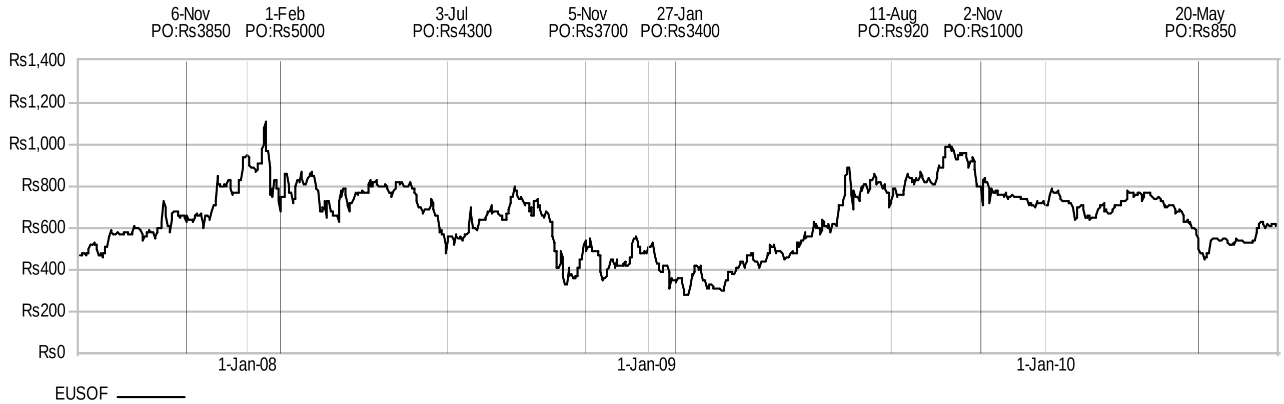
Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQ*method* SM is the set of BofA Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQ*database* ® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Merrill Lynch.

Important Disclosures

EUSOF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

"Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of July 31, 2010 or such later date as indicated. BofAML price charts do not reflect analysts' coverage of the stock at prior firms. Historical price charts relating to companies covered as of December 31, 2008 by former Banc of America Securities LLC (BAS) analysts are available to BAS clients on the BAS website."

Investment Rating Distribution: Education & Training Services Group (as of 01 Jul 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	10	55.56%	Buy	6	60.00%
Neutral	6	33.33%	Neutral	5	83.33%
Sell	2	11.11%	Sell	2	100.00%

Investment Rating Distribution: Global Group (as of 01 Jul 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1922	54.14%	Buy	1042	59.85%
Neutral	874	24.62%	Neutral	496	62.78%
Sell	754	21.24%	Sell	362	51.86%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofAML Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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