

SPECIAL REPORT

Putting the 'Ed' Back in 'EdTech'



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Introduction

India's EdTech sector was in the global education spotlight throughout 2018 and 2019. The sector has been the single largest driver of investment in education in India and has put the country firmly on the education map of the world as a genuine leader. While scaling, EdTech businesses provided the innovations, program offerings and wide access that the population yearned for, creating a magnet for entrepreneurs, investors, and customers alike across the major segments — supplemental K-12, Joint Entrance Examination (JEE)/ National Eligibility Entrance Test (NEET)/other undergraduate (UG) test preparation (prep), adult test prep and upskilling. And then COVID-19 happened. Whilst this became a tragedy globally, it also became a once-in-a-lifetime opportunity for EdTech. Restrictions on physical classrooms and the consequent mandatory move online proved to be a massive impetus for every EdTech segment. Hitherto hesitant, skeptical, and tech-averse consumers became quick converts. The prolonged pandemic with its multiple waves only extended this streak.

The growth opportunity led to accelerated investment flows — total disclosed deal value surged between 2018 and 2021, moving from US\$1.1 billion to US\$6.6 billion, while average disclosed deal value grew by a factor of nearly five, from just under US\$6 million to over US\$28 million in the same period, making India one of the top destinations for EdTech investors globally¹.

Valuation multiples have also grown, driven by the sweet spot Indian EdTech found itself in with a growing Total Addressable Market (TAM), low Customer Acquisition Costs (CACs), rising average revenue per user, expanding product suites and the prospect of expansion into foreign markets. Supplemental K-12 tutoring, test prep and upskilling segments have led this boom, followed by extracurriculars and academic counseling.

2022 headwinds

Reopening of brick-and-mortar operations of offline providers finally got underway in early 2022 after the third pandemic wave tapered. Almost all pandemic-related restrictions have now been lifted, and learners of all ages are back in physical classrooms. This reopening has impacted new customer acquisition and retention rates of EdTech providers due to consumer screen fatigue and higher perceived learning effectiveness of offline services, some of which are discussed herein. As of July 2022, both the number and value of deals have slowed down compared to 2021. While disclosed deal value stood at US\$2.9 billion through July 2022, compared to US\$6.6 billion for FY2021, average deal value has been more resolute, climbing to US\$34.5 million from US\$28.4 million².

Compounding decrease in customer base and rising CACs is a funding winter precipitated by rising interest rates globally and the U.S. Federal Reserve's tightening cycle. Several EdTech firms have announced austerity measures and layoffs, anticipating a slowdown and delay in funding rounds; some of these rounds may happen at valuations below 2021 levels. Many of these firms are now exploring hybrid or offline operations to cater to customers insistent on a physical classroom experience³.

Although macro or external factors like the funding winter and a return to physical classrooms have had a major impact on EdTech deal flow, the sector would do well to look at systemic and internal factors stymieing growth. This is what we turn to next.

Survey parameters

Through a comprehensive survey, L.E.K. Consulting and DC Advisory aimed to understand the experience of EdTech users in India across four key segments: supplemental K-12, JEE/NEET/other UG test prep, adult test prep and upskilling. We surveyed ~1000 parents and students, in June 2022, to identify and highlight the validity and relevance of the product offering, understand the customer experience, elicit areas of dissatisfaction, and probe customers' willingness to recommend/continue using the products. The survey findings contain insights that can help providers and investors better understand reasons for the current slower growth and identify strategies needed to sustain the growth impetus in India. User data and statistics cited here were generated from the survey, unless otherwise indicated.

The survey respondents were:

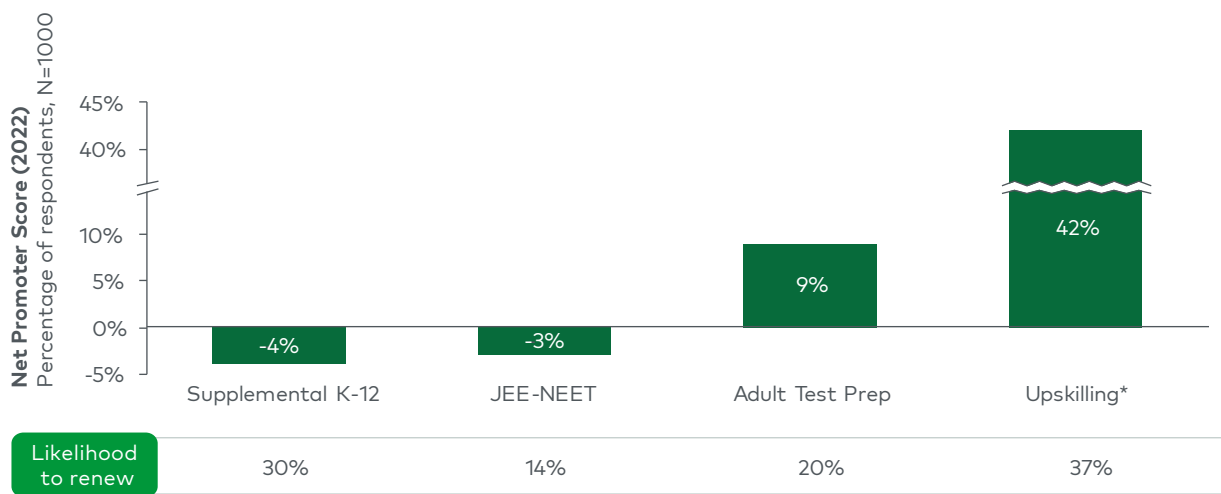
- **Supplemental K-12:** Parents of school-going children using K-12 EdTech providers for tutoring, enrichment, supplemental content, etc.
- **JEE/NEET/other UG test prep:** Parents of school-going children using online test prep for competitive exams like JEE, NEET, The Common Law Admission Test (CLAT), The Common University Entrance Test (CUET), etc.
- **Adult test prep:** Adults (aged 18-34 years) using EdTech providers for preparing for exams like UPSC, Staff Selection Commission (SSC), The Graduate Aptitude Test in Engineering (GATE), Common Admission Test (CAT), Graduate Management Admission Test (GMAT), etc.
- **Upskilling:** Working professionals (age 21+) undertaking online upskilling and higher education courses

Summary findings

Surveyed supplemental K-12 and JEE/NEET/other UG test prep users were least satisfied, as indicated by their negative Net Promoter Score (NPS). On the other hand, adult test prep and upskilling segments were seen to have higher advocacy levels.

Figure 1

Net Promoter Score of supplemental K-12 and JEE/NEET/other UG test prep users⁴



*Upskilling includes past and current users
 Source: L.E.K. parents and students survey N=1000, June 2022

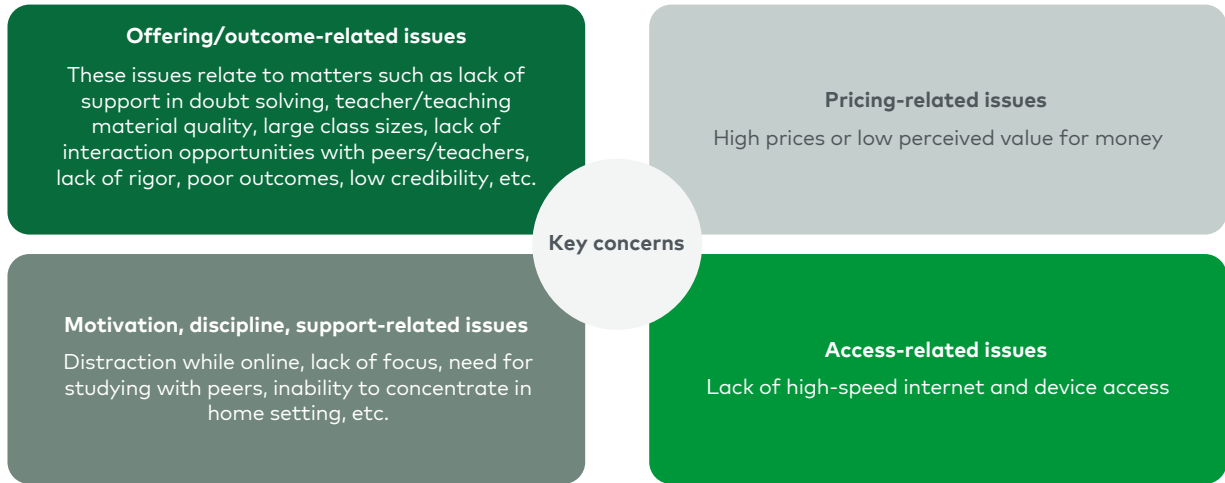
Contrasting segments

To understand the stark disparity in satisfaction across segments, one needs to understand the use case for and target customer base of each segment. Both the supplemental K-12 and JEE/NEET/other UG test prep segments have a relatively well-established "brick-and-mortar" offering. The direct learning outcomes of these segments in the pre-COVID-19 physical classrooms offered a concrete benchmark for parents. Parents of learners across these segments have shown a preference for the "rigor" of traditional classroom programs and have indicated gaps in the online offering, particularly around doubt solving. Besides this, most platforms offered supplemental K-12 and JEE/NEET/other UG test prep classes that were asynchronous and/or had larger batch sizes in comparison to the other segments. Adult test prep and upskilling programs have relatively weaker or non-existent brick-and-mortar offerings against which online offerings could be benchmarked. These segments have seen significant pandemic-led expansion in online offerings. Furthermore, learner groups in these segments consist of adults who prefer the flexibility of online learning over brick-and-mortar formats due to ongoing professional commitments.

Key concerns

The four main areas of dissatisfaction that users expressed in the survey were:

Figure 2
Four main areas of dissatisfaction that users expressed



Source: L.E.K. parents and students survey N=1000, June 2022

There is a significant disparity between segments in the weights toward each of the above concerns, which is expected given the context and background of each segment. For example, self-motivated adults enrolling for test prep or upskilling programs would be better engaged during online sessions compared to lower-grade schoolchildren. On the other hand, program outcomes would be of greater importance for them in comparison to schoolchildren. Access-related concerns were uniformly ranked low across segments thanks to ubiquitous device access and the availability of high-speed internet across the country.

Segment-specific reasons for dissatisfaction are analyzed next.

1. Supplemental K-12

Background

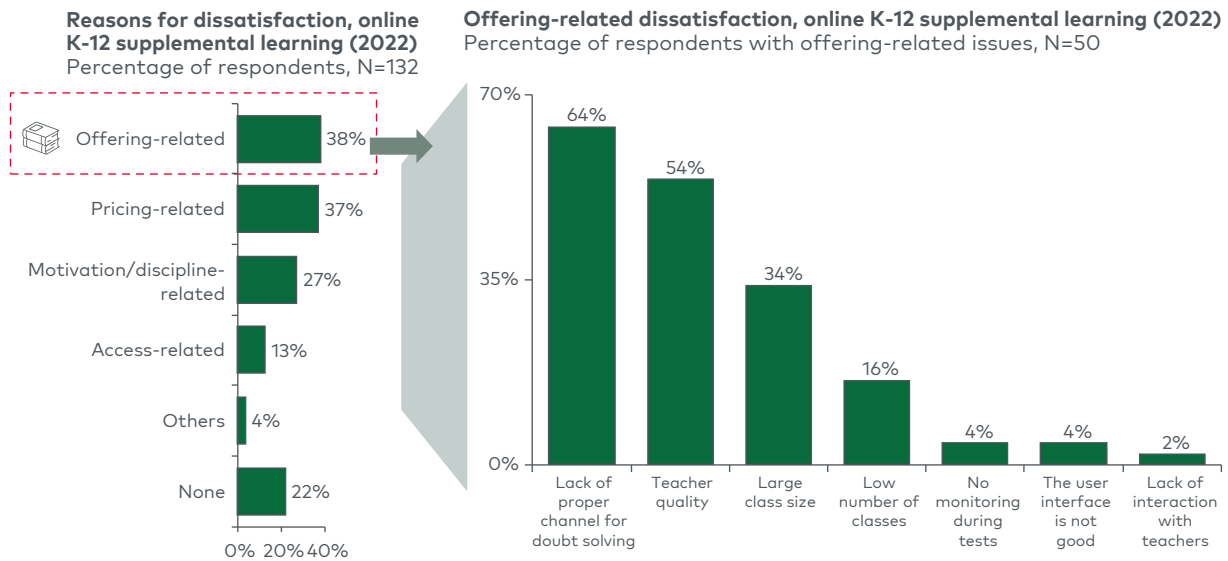


Most offline supplemental K-12 learning in India is unorganized, consisting primarily of stand-alone tutors. Their operations were disrupted by COVID-19, so learners were forced to explore online options for supplemental learning. About 60% of respondents thus cited accessibility as the key adoption driver. Besides accessibility, parents cited academic quality and product experience as key selection criteria.

Reasons for dissatisfaction

Figure 3

Key reasons for dissatisfaction with online K-12 supplemental education⁵



Source: L.E.K. parents survey for supplemental K-12 users, N=263

Offering-, pricing- and motivation/discipline-related issues dominate the dissatisfaction spectrum in supplemental K-12 education.

Within offering-related challenges, a lack of proper channels for **doubt solving**, poor **teacher quality** and **large class sizes** are the primary reasons for dissatisfaction.

There is a correlation between product offering and pricing dissatisfaction. Parents pay a price for online coaching that is similar to the price for offline coaching but feel that they are not getting a similar quality of service. Parents in **lower-tier cities are particularly dissatisfied** (54% of respondents citing pricing as a concern were from these cities), because they typically pay a lower fee for brick-and-mortar tuition compared to parents in higher-tier cities. Perception of the price paid and the extent of dissatisfaction depended on the pricing tier — higher satisfaction was seen among respondents paying INR 2,000-3,000 per month compared to users paying INR 3,000-4,000 per month. This difference implies **more dissatisfaction in cases where the online course is priced above offline coaching**.

The child's age was important in citing motivation/discipline-related issues. **Forty-five percent of respondents with children in K-2 ages reported motivation issues**, compared to only **17% of respondents with children in G9-12 ages**.

NPS/likelihood to renew

Online K-12 supplemental learning providers also received a **negative NPS of -4%**, indicating they are not likely to be recommended by parents. The dissatisfaction with the experience is also reflected in the **low (~30%) likelihood of renewing** current subscriptions.

Sixty-nine percent of respondents mentioned that COVID-19 influenced their decision to explore online classes, and **only 13% stated they would be willing to renew** the subscription if COVID-19-related restrictions were phased out.

Recommendations

The most significant offering-related issues identified are the lack of proper channels for doubt solving and poor teacher quality. These make it vital to introduce features that **improve the response rate** and **reduce the time on doubt forums**. Besides this, assigning dedicated tutor support for doubt solving and **tracking doubt resolution as a key performance indicator** for user satisfaction can improve satisfaction.

Pricing-related dissatisfaction is an outcome, at least partially, of offering-related dissatisfaction. Hence, better product offerings may also improve the perception of "value for money" and mitigate this concern. Additionally, **lower-cost subscriptions for price-sensitive users** could be considered.

Motivation can be improved by using technology to track and report user engagement to determine/quantify the extent of engagement issues. Further,

gamification of content for younger learners can help keep them more engaged. Besides this, a focus on better learning outcomes would alleviate several parental concerns.

Investment insight

Low NPS for this segment combined with subdued scores on price-value equation suggests that the supplemental K-12 segment is ripe for market disruption by newer, more innovative products that better address gaps in customer needs.

2. JEE/NEET/other UG test prep

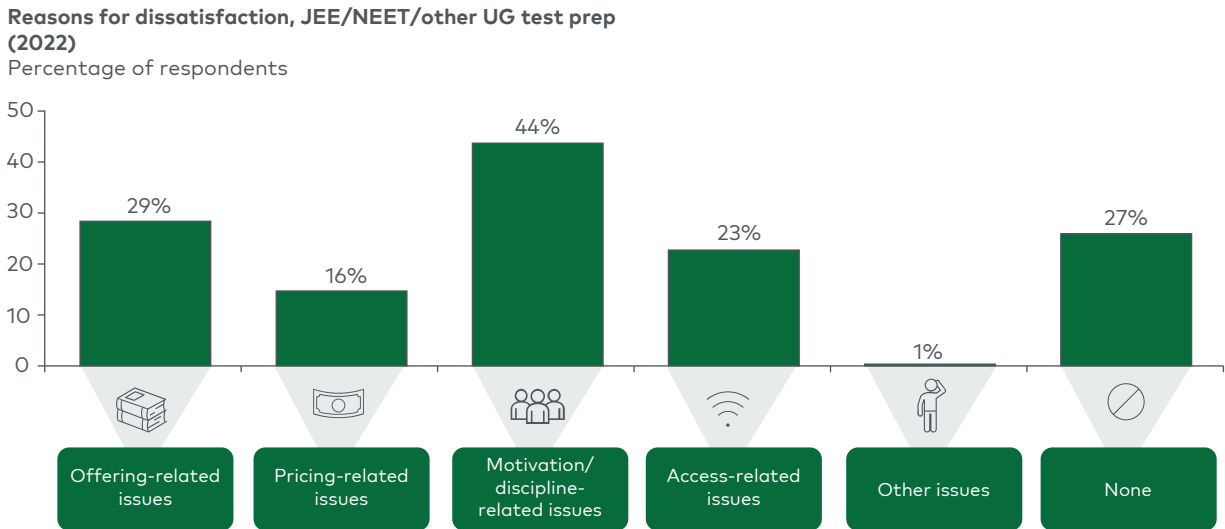
Background



These services help older school-going children prepare for competitive exams like JEE, NEET, etc. While the online medium has always been preferred as a supplemental/secondary prep method alongside offline test prep, COVID-19 pushed people to adopt online as a primary prep method. Both accessibility (~26%) and product experience (~29%) were the top criteria for selecting a service provider. Specific reasons for preference indicated in the survey were a better repository of materials/past exam papers (11%); detailed solution videos, etc. (11%); and broader academics and an updated curriculum (16%).

Reasons for dissatisfaction

Figure 4
Key reasons for dissatisfaction with the online test prep program⁶



Source: L.E.K. parents survey for JEE/NEET Test Prep Users, N=258

Motivation/discipline-related and offering-related issues dominated the survey of online test prep program users’ parents, with the former dominating clearly.

From the 44% of respondents that reported “Motivation, discipline and support-related issues,” **62% mentioned that their child likes to study and learn among**

peers and not alone. This lack of an immersive environment, combined with stronger offerings by offline providers — including peer interaction opportunities, smaller class sizes, teacher/teaching material quality and channels for doubt solving — led to the online test prep segment experiencing the highest levels of dissatisfaction across EdTech. Poor teacher/teaching material quality, lack of adequate interaction with teachers, lack of proper channels for doubt solving and large class sizes added further to the high levels of dissatisfaction.

Students who used online as a supplemental source of test prep reported higher satisfaction compared to students using it as primary test prep, implying that the sought-after rigor was available to the former students through other avenues.

Pricing is correlated to the use case, with students paying less than INR 45,000 per year being more likely to use the service for supplemental purposes. **About 27% of respondents paying more than INR 45,000 per year cited offering-related reasons for dissatisfaction, while only 11% paying less than INR 45,000 per year did so.** Of the more than INR 45,000 per year respondents, 7% indicated poor teaching material and 8% indicated lack of rigor in online classes as reasons for discontinuing. These factors were not highlighted by parents paying less than INR 45,000 per year.

NPS/likelihood to renew

Overall NPS was negative (-3%) and the low level of satisfaction is reflected in a **low (~14%) likelihood of renewing** the subscription.

Fifty-eight percent of respondents mentioned that COVID-19 influenced the decision to opt for online test prep classes, and **only 24% will be willing to renew** the subscription if pandemic restrictions are phased out.

Supplemental resources include test series, crash courses and revision packages, among other options, and these are priced below INR 45,000 per year. Here, **parent expectations are better met, and this subcategory has a higher NPS and a higher likelihood to renew** versus **full-fledged courses** costing more than INR 45,000 per year.

Recommendations

Product features like **Q&A forums, frequent doubt classes and one-on-one interactive doubt sessions** can help mitigate motivational and offering-related challenges. Investment in technology to **build features that help students stay engaged with online classes** and to track student performance and learning outcomes can also help overcome the primary challenges identified in the survey. However, these added services mean extra costs that could lead to heightened expectations, resulting in a dissatisfaction loop.

Ideally, service providers should position themselves as a **one-stop solution for the supplemental needs** of test prep students, assisting them alongside their primary mode of education.

The reliance of tier 3 students on online options is greater than students from larger cities. Service providers should focus on this user segment with tailored and lower-priced offerings as these learners are a larger proportion of their TAM.

Investment insight

Pricing-related issues mean that the perception of value for money is not sufficient, and incumbents will need to dramatically rethink pricing or offer substantially more value at the current price points. Businesses will also need to radically re-engineer peer learning modules to plug this important product capability gap.

3. Adult test prep

Background

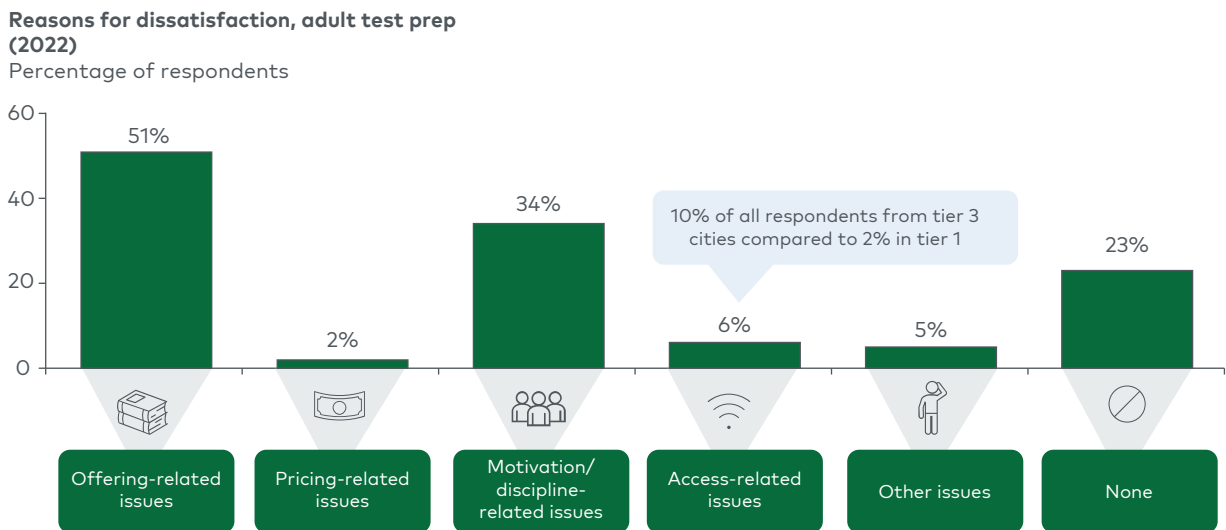


This category targets adults (aged 18-34 years) preparing for exams like UPSC, SSC, GATE, CAT/GMAT, etc. In India, preparation for such competitive exams often tends to be localized in specific test preparation hubs. Pandemic restrictions and the consequent ubiquity of online courses provided students with a way to save time and money besides offering the convenience of avoiding relocation, access to material from anywhere anytime, and better-managed access to a repository (cited by 12% of respondents).

Before the pandemic, shifting and settling into a new city for preparation was a challenging task; the pandemic made it nearly impossible, providing an impetus to this category, which offered access to top educators from anywhere and flexible course duration (18%) that helped aspirants balance work and studies.

Reasons for dissatisfaction

Figure 5
Key reasons for dissatisfaction with adult test prep⁷



Source: L.E.K. survey for adult test prep users, N=260

Issues with **offering and motivation/discipline** are key reasons for dissatisfaction with adult test prep programs.

Large class sizes, lack of teacher interaction opportunities, poor teacher quality and lack of rigor were the main offering-relating issues cited by respondents.

Motivation/discipline issues in this segment are unique to its user base. Most users are generally satisfied and more engaged given that adults are more amenable to the online format than schoolchildren. Motivation issues mostly involve **online distractions**, the **desire to study with a peer group** in a physical classroom and the **inability to focus in a home setting**. Studying in a closed classroom with a group of students has been an integral part of the test prep system, and students reported finding it difficult to focus in an online setup.

The use of tech to track user engagement with reward points and incentives for well-performing students can help in increasing motivation.

Survey analysis suggests that **as the price of the course increases, the emphasis on "availability of doubt solving, support forums" as a selection criterion increases** (from 21% to 25% for courses above INR 45,000 per year).

Students involved in courses of **longer durations (>24 months) are more dissatisfied** with the lack of proper channels for doubt solving (~8%) as compared to students enrolled in courses of shorter duration.

NPS/likelihood to renew

Online adult test prep providers have a positive NPS (9%), indicating higher user satisfaction relative to supplemental K-12 and higher education test prep. The lower likelihood of renewal (20%) could be attributed to the short duration of programs.

Tier 1 city customers are less likely to recommend a product (~5%) as compared to tier 2 and 3 parents (~16%), which may be a function of the fewer options available to the latter. Shorter-duration courses (<13 months) and courses that run for 13-24 months have a high NPS (16% and 33%, respectively), while **courses that run for more than 24 months have a very low NPS (-28%)**.

NPS also increases as the price of the course increases, suggesting that higher-priced courses have a better value proposition. However, the likelihood of renewal reduces as the price increases, which may be because **higher-priced courses from premium providers have better outcomes**, making renewal moot. On a related

point, **only ~2% of respondents mentioned pricing-related issues**, which suggests some scope for price increases, subject to managing participant expectations.

Recommendations

Service providers should focus on solving key product offering-related issues like large class size, lack of interaction and lack of rigor by leveraging and investing in technology and staff training. Such a step would also take care of most motivation/discipline-related issues.

Gamification to engage users with the content can also alleviate motivation/discipline-related issues. Some service providers have virtual assistants to help students with any doubts they face while doing an exercise or reading.

The availability of progress tracking and features that help teachers and students track their results and learning outcomes is characteristic of a goal-based learning system that some key players have adopted.

Investment insight

Customers value the flexibility offered by EdTech, but there is room to improve teacher quality and engagement, which should result in higher organic acquisitions and growth.

4. Upskilling

Background

Upskilling courses target working professionals (age 21+) undertaking online upskilling and higher education courses for career advancement. Since the key motive behind this is to facilitate career growth and gain monetary benefits, the quality of content and the experience of learning from seasoned teachers are the most important factors for learners (~24% weighted mentions).

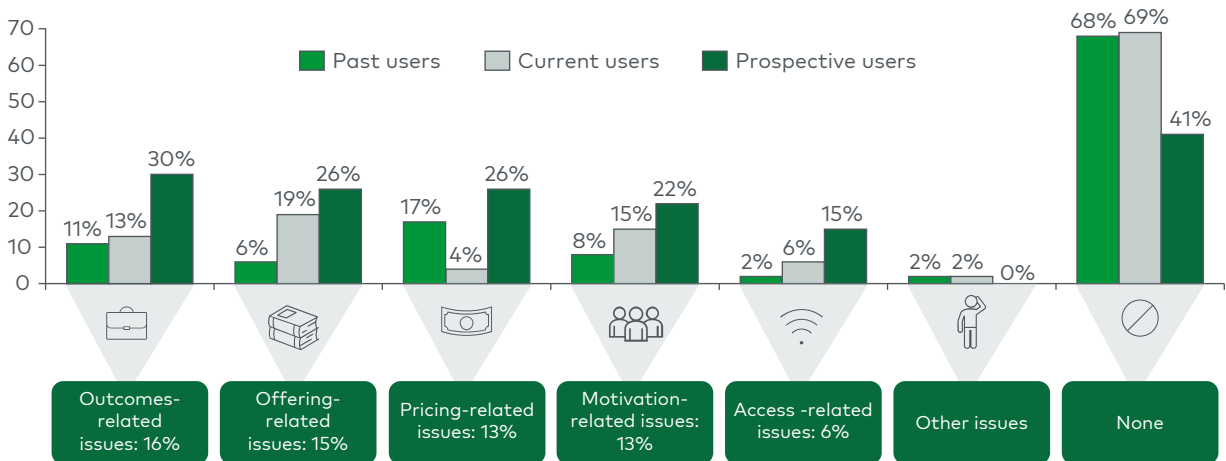
Reasons for dissatisfaction

Figure 6

Reasons for dissatisfaction or potential future concern with the upskilling program⁸

Reasons for dissatisfaction or potential future concern, upskilling program (2022)

Percentage of respondents, N=134



Source: L.E.K. survey for upskilling users, N=247

A majority (60%) of program alumni mentioned that they achieved tangible career advancement outcomes involving gaining skills and knowledge, career growth, professional development, and salary increases/promotions. However, analyzing

this data by vintage indicates that **the proportion of respondents satisfied on outcomes is higher for older cohorts**, who perhaps had a choice of fewer but more specialized and value-add programs. In comparison, newer cohorts have a wider choice that may consist of programs that are relatively weaker or marginal in the value they add. Further, **prospective students are not as bullish** about potential program outcomes. This could be an early indication of difficulty in providing desired outcomes at scale and something that investors and operators need to be mindful of.

NPS/likelihood to renew

Upskilling courses have a high NPS across both current (49%) and past (34%) users. About 37% of users have indicated willingness to enroll in another course by the provider in the next five years.

Sixty-three percent of the respondents believe that the skills required to be competent in their job will change in the next five years, driving their willingness to enroll in another program. Both current and past **users paying more than INR 1.5 lac per program are more likely to recommend** upskilling programs. However, 36% of past and 19% of current users of such programs deemed them to be "extremely overpriced." **Degree programs were considered to be the most overpriced** (45%).

Recommendation

Credibility and **recognition** are the most important factors for upskilling programs. Service providers should **leverage historical placements** to improve employer advocacy. Credibility can be improved by launching **courses accredited by or co-branded** with reputed universities globally and by attaining national-level accreditation such as NSQF.

Survey responses suggest some initial interest in **income sharing agreements** as a possible means to reduce participant concerns surrounding upskilling programs. However, the scalability of an income-sharing-driven business in India is mostly untested.

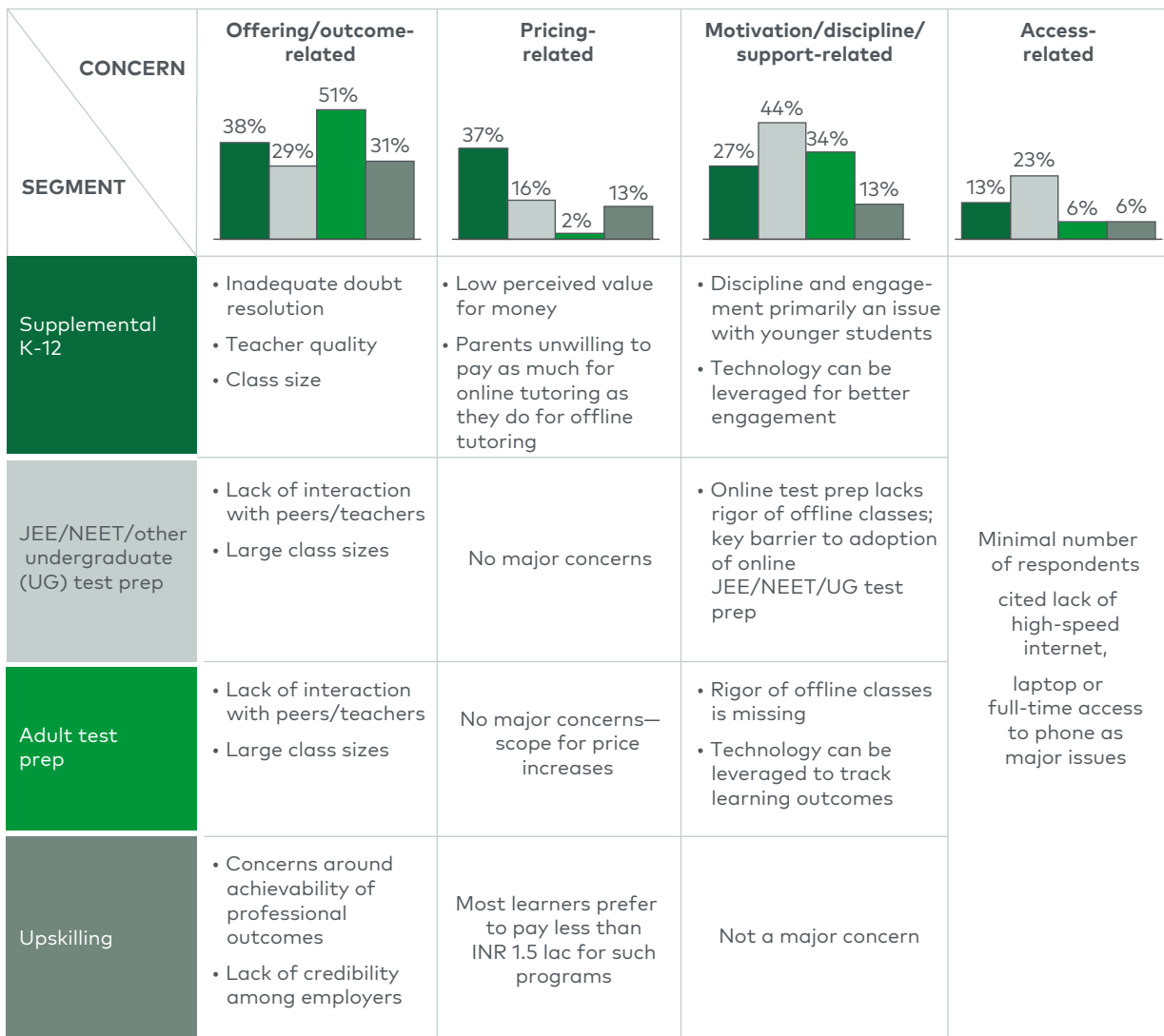
Investment insight

Professional learning has shown the highest NPS and satisfaction with outcomes. Maintaining consistent career outcomes with increased scale shall be the key challenge facing the segment in the near term.

Conclusion

While outsiders see EdTech as a homogenous sector, there is much variety within it depending on the product/service offering. This variety also brings with it diverse user sets and myriad concerns, as summarized below:

Figure 7
Concerns across key EdTech segments



Sources: L.E.K. research and analysis, based on; L.E.K. survey for upskilling users, N=247; L.E.K. survey for adult test prep users, N=260; L.E.K. parents survey for JEE/NEET Test Prep Users, N=258; L.E.K. parents survey for supplemental K-12 user, N=263

The sector has seen rapid growth in revenue and funding in the past five years, accelerating since the onset of COVID-19. This growth has slowed in 2022 due largely to extraneous factors (reopening after lifting of pandemic restrictions and a tight funding environment) but also partly due to internal factors such as the offering-, pricing- and motivation/discipline-related issues highlighted in this report. Ultimately, success requires not just accelerating investment in customer acquisition but also achieving enhanced customer satisfaction and retention. This combination of high "capital lead" and "happiness lead" can result in enduring growth and success for the sector. The EdTech sector is still in an evolving and high-growth stage, and if these internal issues are addressed, momentum can endure. Moreover, the potential of a hybrid online-offline model is untested and could hold the key to putting the "Ed" back into EdTech in a more comprehensive format.

To sum up, it's clear that technology in education is here to stay. The TAM for EdTech in India is large and customers are willing to pay for EdTech products and services. Ensuring continuous improvement in quality of product and price of each sub-segment is the need of the hour.

For this, EdTech will need to reinvent itself by providing quality along with accessibility; tracking and improving learning outcomes through personalization; and shifting focus from growth to quality of revenue and business model. It will be interesting to see whether pureplay EdTech providers, new entrants, or traditional brick-and-mortar companies moving to a hybrid online-offline model, emerge victorious. Incumbent EdTech providers are well-positioned, in terms of resources and expertise, to rise to the challenge. What's crucial is to focus on product innovation and putting 'Ed' back in EdTech.

Endnotes

¹Source: Search criteria for information pulled from Private Circle unless otherwise indicated: Private Circle database; Segment is Ed-Tech; Geography is India; Sub-segment is Tutoring or Test Prep or Upskilling or Digital content or Extra-curricular or LMS or Employment Services or Academic counselling; Excludes deals with undisclosed funding amounts; Announced between 01/01/2018 – 31/12/2021

²Source: Search criteria for information pulled from Private Circle unless otherwise indicated: Private Circle database; Segment is Ed-Tech; Geography is India; Sub-segment is Tutoring or Test Prep or Upskilling or Digital content or Extra-curricular or LMS or Employment Services or Academic counselling; Excludes deals with undisclosed funding amounts; Announced between 01/01/2018 – 31/12/2021

³Source: [How offline became the new online for India's ed tech unicorns](#)

⁴Survey question: How likely are you to recommend your online provider to a friend or colleague, where '0' means "not at all likely to recommend" and '10' means "very likely to recommend"?

⁵Survey question: Why are you not satisfied with the online mode of study for your child?

⁶Survey question: Why are you not satisfied with the online mode of study for your child?

⁷Survey question: Why are you not satisfied with the online mode of study?

⁸Survey question: Past users: Why were you not satisfied with the online upskilling/online Higher Education program?

Current users: Why are you not satisfied with the online upskilling/online Higher Education program?

Prospective users: Why are you concerned about enrolling in an online upskilling/online Higher Education program?

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