AD Education

A Private Equity Sponsor- Ardian- with deep experience in international markets and in France, with a strong track record of supporting founder-led and family-owned businesses through their transformation into larger institutional platforms and long term partners, acquired AD Education in 2020. The investment case appeared highly compelling.AD Education was already a European leader in private higher education and a market leader in creative arts. Several structural factors supported the PE's acquisition thesis: a growing shift of students from public to private institutions, attractive industry dynamics (other PEs were and are very active in the sector, significant barriers to entry due to regulation and accreditation requirements, an established market position, strong visibility of future revenues through multi-year student applications, healthy EBITDA margins, and positive free cash flow generation supported by good cash conversion.

The sector offered opportunities for consolidation. The fragmented nature of the market allowed AD Education to pursue selective acquisitions of peers and smaller operators, including businesses with online offerings (Oktogone group in 2022). Under Ardian's ownership, and sharing a common vision with the founder and CEO of AD Education, the group executed an ambitious growth strategy that delivered impressive results. From an initial platform of 12 schools, approximately 15,000 students, and operations across four geographies, the group expanded to 19 schools, more than 36,000 students, and a presence in nine geographies. Nevertheless, France remained the dominant market within the overall footprint.

Probably the most significant transaction-also for the amount of coverage from the French media- was completed in late 2024 with the acquisition of the Pôle Léonard de Vinci. The deal broadened the group's exposure beyond creative arts into business and engineering education, further diversifying the company's platform and the offered products. The acquisition was fully debt-funded. To finance the transaction, AD Education, then rated B2 by Moody's and B- by S&P, issued a €700 million term loan B maturing in 2031 at Euribor +400 basis points and increased the size of its revolving credit facility to accommodate the line to the larger scale of the business.

After less than two years, the seemingly changed situation today raises an important question: what factors have led to the recent deterioration in the company's credit profile?

Higher interest rates cannot be considered the primary catalyst, as the new debt was raised under a different rate environment than the "near zero-rate" prevailed just after COVID and the last financing was structured with this reality in mind (so, we are not dealing with the excesses of 2020-2022 LBO vintages). The causes appear to lie in my opinion, elsewhere.

First, leverage remained stubbornly high and deleveraging fell short of expectations. Investors and rating agencies had anticipated annual debt reduction of approximately one turn of leverage over three-year horizon, yet the capital structure remained heavily burdened. As a result, AD Education became slowly one of the most leveraged companies in the education sector.

Second, the business operates with a significant fixed-cost base. Campuses, faculty, administrative personnel, marketing expenses, and infrastructure costs create operating leverage that can quickly pressure profitability if revenue growth slows. This is just an example of a company with a cost structure that is difficult to compress during downturns (all this was well known by investors).

Third, regulatory changes affecting apprenticeship programs in France, driven by efforts to review and control public spending, have introduced uncertainty around a key source of profitability (the comparison with labs is not perfect and likely misleading but provides an idea; this was difficult to predict from investors).

Finally and probably more important, the rapid emergence of artificial intelligence has created disruption in some of the group's core creative disciplines, contributing to weaker enrollment trends in certain programs (this consideration came up later to the investors' attention but was overlooked).

The deterioration in credit quality provoked a change in the outlook. Since March 2026, Moody's downgraded the compa in theny to B3, while in May S&P lowered its rating to CCC+. In its latest report, S&P highlighted operational challenges, pressure on profitability, and consequently weak cash generation. Moody's anticipates lower revenues and Ebitda for at least a couple of years.

These concerns have surfaced in the loan market. The term loan, which traded in the low 90s at the end of 2025 (it was already showing signs of strain through weaker interest coverage metrics, not correctly detected), now trades around 60.

Two observations stand out in this context, at least from my perspective.

First, I remain convinced that Ardian will support the business. However, the key questions concern valuation and capital structure. Sector multiples today are materially lower than those prevailing when the Pôle Léonard de Vinci acquisition was completed, making it more difficult to rely on enterprise value resilience and growth as solutions. Equally important is the treatment of the PIK notes in the balance sheet, which could have a meaningful impact on any recapitalization or restructuring scenario.

Second, the operational measures required to address AI-driven concerns and weaker enrollment trends are likely to take time to bear fruit, potentially longer than the highly leveraged capital structure and the market's tolerance for underperformance allow. Operational turnarounds in education businesses typically could require several academic years before meaningful improvements become visible. By contrast, selling pressure from CLO vehicles, which are sensitive to ratings downgrades and the accumulation of underperforming assets within their portfolios, can materialize much more quickly. When a loan falls into the CCC category, technical selling pressure often accelerates irrespective of the long-term fundamentals (until PE steps in with support statements or concrete initiatives). This explains the current price today: this negative dynamic creates substantial downward pressure on secondary market prices well before management has an opportunity to demonstrate operational progress. In a service business where recovery values are inherently more difficult to assess than in asset-heavy industries (my wording here is intentionally neutral; however, the implications are unmistakably negative), these concerns become even more influential in determining investor behavior and loan valuations.

CLOs play an important role in supporting private equity-sponsored transactions by providing access to flexible debt financing with easy docs. However, during periods of stress, the favorable dynamics can quickly reverse. Portfolio management constraints, rating limitations, and quality tests may force CLO managers to reduce exposure or sell positions before the borrower management's turnaround initiatives have had sufficient time to deliver results. As a consequence, market-driven pressures can accelerate the need for financial debt restructuring -unlikely at this moment- or other strategic actions. Considering the absence of near-term refinancing risk and the term loan maturity in 2031, it is reasonable to question whether current market sentiment (the credit sold off far more aggressively than the company's financial profile would seem to justify) has become overly pessimistic.