



STRATEGIC EDUCATION INC

2021 ANNUAL REPORT

2021 Letter to Shareholders

Dear Fellow Shareholders,

Three headlines summarize Strategic Education Inc.'s (SEI) results in 2021. First, we successfully integrated the acquisition of a wonderful new set of assets in Australia and New Zealand. Second, we launched a robust, fast-growing education technology services business. Third, student enrollment at one of our institutions in the United States, Strayer University, continued to be suppressed by the economic disruption of the Covid-19 pandemic. Because of the first two headlines, our company's revenue grew by almost 10% in 2021. However, the effect of the third headline served to reduce our Company's 2021 operating income by 22%, and earnings per share by 28%, as compared to 2020.

Looking beyond the financial results, in 2021 we enrolled over 100,000 students at our three Universities, and we also served another 50,000 students through our newly constituted Education Technology Services segment. Indeed, it was the scale and diversity of our *entire* company in 2021 that allowed us to comfortably manage a significant reduction in student enrollment at *one* of our universities during the year. Most importantly, in 2021 we maintained our commitment to the academic quality of our educational institutions, and to the successful achievement of learning outcomes by our students. As shareholders, it is crucial to appreciate that it is only the quality of our institutions, and the success of our students, that generate truly sustainable, long-term returns on our invested capital.

In this letter, I will discuss our company's academic, operational, and financial results for 2021, including the performance of our three business units: U.S. Higher Education, Australia/New Zealand, and Education Technology Services. I will also share our company's objectives for 2022. Finally, as is our custom, I have included as 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 company's annual reports since 2001. While our organization is now admittedly much larger than just Strayer University, I believe both excerpts remain helpful in understanding SEI's culture, operating model, and most importantly, our immutable priorities.

2021 SEGMENT RESULTS

U.S. Higher Education

SEI is the steward of two universities serving working adults in the United States: Strayer University, a 130-year-old institution serving mostly undergraduate students through an extensive physical campus network and online; and Capella University, a 30-year-old institution serving mostly graduate students solely online. These two Universities educated approximately 82,000 working adults in 2021, down from 92,000 in 2020. That reduction in student enrollment was the result of a lower than normal intake of new students at Strayer University in both 2020 and 2021. Enrollment at Capella University actually increased by 3% in 2021. Each University had approximately 41,000 students enrolled at year-end.

One of our most important institutional objectives at SEI is to reduce the debt load incurred by our students in earning their degrees. We seek to accomplish that by both lowering our actual tuition costs, and by increasing the number of our students covered by arrangements we negotiate with employers to pay us directly for the tuition of their employees. Since these arrangements generally include discounts to our published tuition rates, both initiatives serve to lower the annual average tuition revenue we collect per student. In 2021, the successful achievement of this objective resulted in a reduction of our average revenue per student in the

U.S. from roughly \$10,400 to \$10,000. The combination of lower student enrollment at Strayer, plus lower revenue per student at both Universities, reduced the total revenue generated from our U.S. Higher Education segment in 2021 by approximately \$140mm, and the operating income by \$90mm, both versus 2020.

The pressure on Strayer University's student enrollment over the past two years is consistent with trends across all of U.S. higher education. Total undergraduate enrollment in the United States has declined almost 10% in the last two years, with community colleges (which largely serve the same demographic as Strayer's working adult undergraduate population) faring even worse. As I have written before in this letter, the single most relevant macroeconomic statistic affecting the propensity of Strayer's target population to return to college is the labor force participation rate. A stable or rising rate, as the U.S. economy experienced in the years 2014–2020, signals employment and consumer confidence, which tends to bolster our prospective working adult student's willingness to make the sacrifices necessary to enroll in a university program. The opposite is unfortunately also true, and in 2020 the nation experienced its steepest drop in labor participation rate since economic records have been kept, 63.3% to 60.2% in less than 4 months. The nation's labor participation rate has remained near this depressed level for 18 months. However, it is not getting worse, and we believe that a stable labor participation rate should help increase Strayer University's intake of students in 2022.

Strayer University's student continuation rate actually improved in 2021, from 80.5% to 81.2%, and the University graduated nearly 8,000 students. One of the strongest academic programs within Strayer continues to be our Jack Welch Management Institute Executive MBA, which was recognized by the Princeton Review as one of the top 10 online MBAs in the country. In 2021 Strayer University established a Distinguished Alumni Council to help guide the University's academic and career services initiatives. This Council includes Strayer alumni working in the field of business such as Victoria Boston, who holds both a bachelor's degree and an MBA from Strayer, and is now a Vice President at Comcast NBC Universal; alumni in the field of education such as Ted Gilbert, who earned his bachelor's degree from Strayer, and is now the assistant Dean of Finance and Administration at the Vanderbilt University School of Medicine; and alumni in government service, like Serena Coleman, who earned her bachelor's degree from Strayer and now serves as the Under Secretary and Chief Operating Officer of the California State Environmental Protection Agency.

Capella University, with its mostly graduate student population, has navigated the Covid-19 pandemic with less disruption than Strayer. Graduate students by definition already have a bachelor's degree, and statistically perform much better in periods of economic distress. Capella's student enrollment actually increased by 3% in 2021 and the University graduated over 15,000 students, an increase of 11% over 2020. Capella graduation results were buoyed by significant investments we have made in data analytics and artificial intelligence, which have improved the quality of our course content, course sequencing, and the undergraduate student readiness level of our incoming students.

We are equally proud of our Capella University alumni ranks. Like Strayer, Capella's alumni include graduates in the field of business, such as Linda Singh, CEO of Kaleidoscope Affect LLC (PhD in Industrial and Organizational Psychology); graduates in academia like Deborah Stroman, a professor at the UNC Gillings School of Public Health (PhD in Leadership and Organizational Behavior); and graduates in government service such as Larane Guthrie-Clarkson, Chief of Education at U.S. Army Recruiting Command (PhD in Philosophy). There are dozens of quantitative academic metrics which we track across both Universities to measure our progress, but there are none which, in my judgment, are more important than the performance of our alumni in their careers. We are continually inspired by their success.

Our U.S. Higher Education segment's reduced financial contribution in 2021 highlights an essential element of our enterprise: to wit, that effectively running universities is a highly operationally leveraged business model. Real academic quality is built over time, and requires significant fixed and semi-fixed investments to create and maintain that quality. These investments include faculty, curricula, technology, and in some cases

real property. Once these investments are made, an institution can add incremental students within a reasonable band without a commensurate increase in expense. However, by the same token, as an institution loses students, these base line investments cannot be abruptly reduced without putting academic quality at risk. This explains why the operating income margin on our reduced revenue in 2021 is an enormous 65%. However, as we have shown in the past (see our results from the years 2014 – 2020), the financial impact of that operational leverage becomes a benefit as we add students. Specifically, we believe we can predictably educate significantly more students at Strayer University in the future without significantly more expense. Of course, we must and we will maintain our academic quality as we add those students. We know that successful investments in higher education require discipline, patience, and an unending focus on the achievement of individual student learning outcomes.

Australia/New Zealand

One of SEI's highlights in 2021 has been the contribution of Torrens University, Media Design School, and Think Education, collectively our Australia/New Zealand segment, which we acquired at the end of 2020. Remarkably, we were able to fully integrate these assets into SEI during 2021, in the midst of the pandemic border lockdowns, without being able to physically visit our locations, or meet in person with our teams. This successful integration is a testament to not just the similar cultures and priorities of the two organizations, but more importantly, to the leadership and commitment of our segment President, Linda Brown, and her entire team. In response to the pandemic, this team was able to move Torrens University's entire course catalog online, which proved very helpful to our students in 2021 during Australia's extended lockdowns.

We educated slightly more than 19,000 students in Australia and New Zealand in 2021, which was an increase of approximately 2% over 2020. That number would have been significantly higher but for the complete closure of Australia's borders to international students for all of 2021. Most of our international students who were unable to travel to Australia did choose to enroll from their home countries in our online classes. However, close to 1,000 of our international students are waiting for the borders to reopen before returning to Australia to continue their classes in person. Our Australia/New Zealand segment generated \$250mm in revenue in 2021, \$45mm of operating income, and contributed roughly \$1.30 per share of earnings during the year.

The success of our Australia/New Zealand segment in 2021 was underpinned by a fierce commitment to academic performance. Torrens University is one of only 43 post-secondary institutions in Australia to carry University status, and the only one of the 43 which is funded by investors. The rest are either public state universities or religious universities. Similar to how we operate in the United States, Torrens University in 2021 used its financial strength and technological expertise to support the rest of Australia's higher education sector. During the year we provided access to 30,000 online course seats free of charge to other Australian universities that were having difficulty transitioning to online curricula. Because of this (and other) contributions, Torrens University was named one of Australia's most innovative institutions by the Australian Financial Review in 2021. Torrens was also ranked the #7 University (out of all 43) by the Australian Government Department of Education for the educational experience of its undergraduate students. It was ranked the #1 University in Australia by CEOWorld Magazine in internet technology and cloud computing programs, and Torrens' Blue Mountain Hospitality Management School was named by the International Centre of Excellence in Tourism as the most respected Hotel school in the Asia-Pacific region. The Australia/New Zealand segment was a major contributor to SEI's results in 2021. We are committed to responsibly stewarding its growth, and are very excited about its future contributions.

Education Technology Services

Our Education Technology Services segment was the fastest growing part of our enterprise in 2021. The segment (which we had previously called Alternative Learning) consists of two main functions: our self-paced online course catalog known as Sophia; and our Employer's Solutions group, which structures and manages employer-university partnerships, both for our own U.S. Universities, as well as a broad group of partner universities. This segment contributed \$52mm in revenue and \$21mm in operating income in 2021, an increase of 39% and 9% respectively over 2020.

Sophia was built at Capella University in 2010. Its course catalog consists of fully online, self-paced, mainly general educational courses. The courses have been reviewed by the American Council on Education (ACE), and recommended for college level credit. They are priced much lower than Capella University courses, but are not eligible for U.S. Government student loans, and were originally designed to allow Capella students to earn their undergraduate degrees at lower cost and with less student debt. However, in the spring of 2020, many U.S. universities were having difficulty shifting abruptly to a fully online mode during the pandemic lockdowns, and SEI made the Sophia catalog available to those universities free of charge. As a result, we had over 100,000 non-SEI students access Sophia in the latter half of 2020. That exposure caused us in 2021 to rethink Sophia's purpose, and to shift it from merely internal support for Capella University students into a full-fledged technology business on its own. The shift has been enormously successful. Sophia educated 52,000 students and generated \$16mm in revenue (with very high incremental margin) in 2021, compared to 16,000 students and less than \$4mm in revenue in 2019.

The other business function in our Education Technology Services segment is the negotiation and management of partnerships between employers and universities. These partnerships help employers more effectively use their tuition assistance benefit expenditures. For decades, SEI has had a staff function which performed this role for our own Universities. In 2021, we decided to expand this function and make those employer relationships, and our expertise, available to other universities as well. This business, which we have named Workforce Edge, developed a proprietary software platform, which makes it easier for employers to track their tuition assistance expenditures. We provide this service to participating employers free of charge. However, partner universities (including Capella and Strayer) pay a modest fee to access the system. Workforce Edge generated \$36mm in revenue in 2021, at very attractive operating income margins.

To be clear, our Education Technology Services segment is designed to monetize the capabilities SEI developed to support its own two U.S. Universities by offering those capabilities to other universities and students as well. However, this model should not be confused with the numerous Online Program Managers (OPMs) which dot the U.S. higher education landscape. OPMs are designed to help traditional universities rapidly expand enrollment in new online-only programs, which depend on U.S. Government student loans for the bulk of their tuition. The OPMs take an enormous share of that debt-supported tuition revenue (usually more than 50%) as fees. In both the case of Sophia and Workforce Edge (which is similar to business models such as Guild Education and EdAssist), SEI is helping universities and individual students *reduce* their dependence on U.S. Government student loans. We are excited about the financial and strategic contributions this segment will make to both our own enterprise specifically, and to the U.S. higher education system collectively.

2021 CAPITAL ALLOCATION

SEI generated \$209mm of pretax cash from operations in 2021. This compares very favorably to our reported adjusted operating income of \$163mm. During 2021 we used that cash as follows. First, we paid \$28mm in local, state, U.S. Federal, and international taxes. Next, we invested \$49mm in capital expenditures, of which

\$30mm was used in our U.S. assets, and \$19mm in Australia/New Zealand. This left us with \$132mm in owner's distributable cash flow, or roughly \$5.50 per share. We returned approximately \$65mm to shareholders in 2021 through our \$2.40 per share common dividend, and by repurchasing \$6mm of our common stock. We added the remaining \$67mm (plus approximately \$8mm of proceeds from property sales) to the cash and marketable securities on our balance sheet, leaving us at year-end 2021 with 24.1mm shares outstanding, a \$142mm draw on our revolver, and roughly \$300mm in cash and marketable securities.

As a board, our priorities remain to fully fund our various growth opportunities, strengthen our balance sheet to return our U.S. Department of Education financial composite score to the highest level of 3.0, and to prudently return excess distributable cash to our owners, both with a common dividend and opportunistic share repurchases. We weigh all uses of cash against the standard of what will create the highest long term increase in the per share value of our enterprise.

2022 OBJECTIVES

We have six primary objectives at SEI for calendar 2022. The first objective is to maintain our high academic quality, and to continually improve the learning outcomes of our students at all of our institutions. This objective has always been the north star of our navigation, and 2022 will be no different. Our second objective is to maintain Capella University's strong operational performance. Our third objective is to support and nurture our Australia/New Zealand institutions, and specifically to recover those international students who were unable to return to Australia in 2021. Our fourth objective is to stabilize Strayer University's new student enrollment and to successfully reopen those Strayer University campus locations which had been closed during the pandemic. We have unused capacity at Strayer, and with stabilized (and hopefully increasing) labor participation rates, there is no reason why we should not be able to fill that capacity. However, shareholders should be aware that, just like in the years 2012 to 2014, it will take several quarters of increasing new student enrollment to grow the University's total student enrollment. We have to work through the trough of lost new students from 2020 and 2021. Our fifth objective is to invest in and expand our Education Technology Services segment. This segment is not just fast growing and profitable, but it is strategically key to our goal of lowering the costs and debt loads of our students at our two U.S. Universities. And finally, our sixth objective in 2022 is to closely monitor and ultimately comply with whatever new regulations emerge from the U.S. Department of Education's rulemaking process. In summary, 2022 will be a year in which we put a floor under the financial impact of the Covid pandemic, and harness our energy and financial capital to generate attractive future returns on the investments in our enterprise made by both our students, and by our shareholders.

CONCLUSION

SEI's 2021 results were impaired by the effects of the Covid pandemic. However, we made significant progress during the year building the foundations for future growth. And even in a year with reduced net income and earnings per share, our institutions collectively graduated over 31,000 students. Shareholders should not underestimate the efforts which were necessary to achieve that outcome.

We were very fortunate in 2021 to add to SEI's Board of Directors Dr. Michael McRobbie, who recently retired after a very successful 15 year tenure as the President of Indiana University. In addition to his experience running one of the premier public research universities in the United States, Michael is also well versed in the Australian higher education system. Born and raised in Australia, he earned his undergraduate degree from the University of Queensland, and his PhD from the Australian National University, where he served as a Professor of Computer Science for 18 years. Given his background in the educational communities

of both of the countries in which SEI operates, plus his expertise in one of our core academic areas, Michael is truly a triple benefit for our Board of Directors.

I look forward to speaking with all of you in 2022. I would also highly recommend, if Covid permits, attending any of our Universities' graduation ceremonies. Information on these events can be found on our website www.strategiceducation.com. While our CEO, Karl McDonnell, our CFO, Dan Jackson, and I are always available to answer your questions, speaking with our actual students is probably a more effective means of doing diligence on your investment.

Finally, on behalf of our Board of Directors and our entire management team, I would like to thank you once again for the opportunity to have been the stewards of your invested capital for the last year. We consider ourselves very fortunate to be entrusted with the leadership of an institution that does as much good, for as many people, as SEI. It is an obligation that we do not take lightly.

Very Truly Yours,

A handwritten signature in black ink that reads "Robert S. Silberman". The signature is written in a cursive style with a long, sweeping underline that extends to the right.

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,
Chief Human Resources
Officer, and Chief Diversity
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

Think Education
www.thinkeducation.edu.au

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

Nathaniel C. Fick
General Manager, Elastic
Security

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

Jerry L. Johnson
Partner, Halifax Group

Karl McDonnell
Chief Executive Officer,
Strategic Education, Inc.

Michael A. McRobbie, Ph.D.
University Chancellor,
President Emeritus, University
Professor, Indiana University

William J. Slocum
Partner, Inclusive Capital
Partners, L.P.

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, 2022
at 8:00am ET. To register go to
[http://viewproxy.com/Strategic
Education/2022/htype.asp](http://viewproxy.com/StrategicEducation/2022/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
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Additional Investor Information

Contact the Investor Relations
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