

Industry Commentary

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M&A Opportunities in Special Education: Doing Well and Doing Good

Special education enrollment in U.S. public schools has been increasing for years, and there's a lack of resources and expertise to meet the need. However, increasing adoption of technology, growing emphasis on student outcomes, and unprecedented funding and regulatory tailwinds provide opportunity for investors.

Located at the intersection of the public and private sectors, special education is an underserved market that has expanded over the years to cover a wider range of educational needs. There are exciting opportunities in special education given the fragmentation of the sector, huge capital and funding tailwinds, and growing awareness of the critical need for these solutions.

The next era of opportunity in the education sector will focus on the convergence of solutions to serve the "whole child"—in other words, to holistically provide the resources, tools, and technology needed for each individual child and in the setting that is best for them. This intersection across academic and behavioral learning will drive improved student outcomes and provide an expanded opportunity set for investors.

Here, we describe the key market forces driving opportunities in special education, growth areas that are particularly interesting, and our perspectives on M&A activity in the space.

Growth in awareness and lack of resources driving opportunity

A number of large-scale factors support growth in the special education sector.

Large, growing addressable population

- In the 2020-21 school year, roughly 7.2 million students ages 3 to 21 years old received special education services under the Individuals with Disabilities Education Act (IDEA), up from 6.5 million in 2009-10, an 11% increase.²
- By comparison, overall enrollment in U.S. public schools has been essentially flat since 2009-10. Even before the COVID-19 pandemic brought down enrollment, the American student population only grew from 49.4 million in 2009-10 to 50.8 million in 2019, a 3% increase.³
- One-third of the students who receive services under IDEA have specific learning disabilities; others have speech or language impairments, autism, or developmental delays.⁴
- A greater awareness of learning disabilities means more students are being classified as needing support. Adding to this is a backlog of diagnoses arising from remote learning during pandemic lockdowns.

Nearly

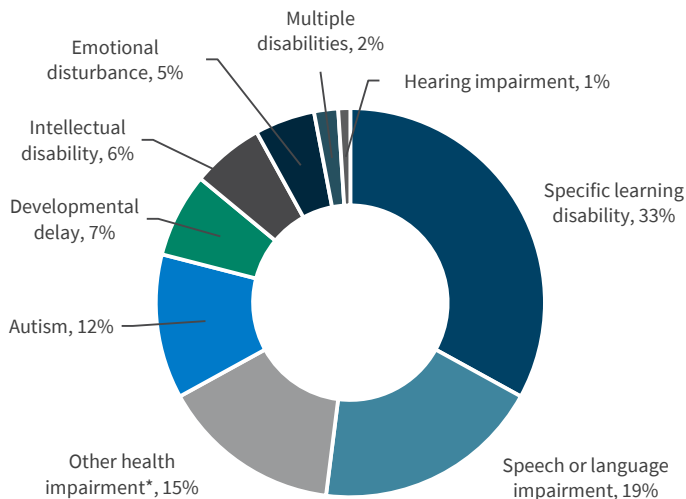
1 in 5 children

has a mental, emotional, or behavioral disorder.¹

1. Source: Center for Disease Control and Prevention
2. Source: National Center for Education Statistics (NCES), "Students with Disabilities," May 2022.
3. Source: NCES Public School Enrollment Data.
4. Source: National Center for Education Statistics (NCES), "Students with Disabilities," May 2022.

Special education covers a wide range of learning issues⁵

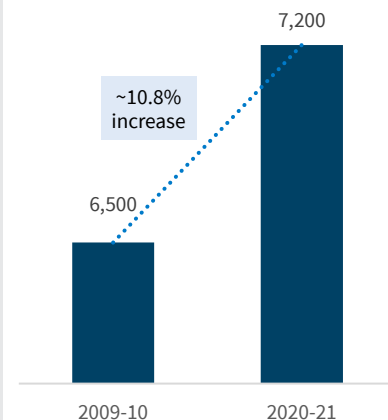
% of Students with Specific Learning Disability, 2020-21 School Year



* Other health impairments include having limited strength, vitality, or alertness due to chronic or acute health problems such as a heart condition, tuberculosis, rheumatic fever, nephritis, asthma, sickle cell anemia, hemophilia, epilepsy, lead poisoning, leukemia, or diabetes.

Growing number of disabled students in the United States⁶

Number of disabled students in the United States (thousands)



Lack of resources and expertise needed to serve special needs students

- Under IDEA, school districts must provide a free and appropriate public education (FAPE) to children with disabilities, in the “least restrictive” environment. School districts that can’t meet a child’s needs must pay for private solutions.
- The “least restrictive environment” principle means students with learning disabilities should learn alongside their non-disabled peers to the greatest extent possible. As of 2020, 66% of all school-age students served under IDEA were spending 80% or more of their time in general classes in regular schools, a notable increase from 59% in 2009.⁷
- While a less restrictive environment is beneficial to special needs students, capacity constraints and a lack of special education expertise, specialization, and teaching resources means many schools are not equipped to serve these students.
- As a result of the growing number of students in need, there is strong demand for outsourced service

providers that can operate within the district as well as for stand-alone day school providers that are equipped to serve these students outside the district.

Nationwide teacher and therapist shortage

- Heavy workloads, high stress, and relatively low pay have resulted in persistent shortages of qualified special education teachers, therapists, and aids. In the 2022-23 school year, 40 of 50 states reported teacher shortages in the special education subject area.⁸
- Given the high demands of the profession, the turnover rate among special education teachers is estimated to be nearly twice as high as for general education teachers.⁹ As a result, school districts are heavily reliant on general education teachers, substitute teachers, or staff who aren’t fully qualified in this domain. High turnover negatively impacts the quality and consistency of education delivered to special needs students.

- Forty-three percent of school principals who participated in a recent survey by the National Center for Education Statistics¹⁰ reported a shortage of academic interventionists who help students with disabilities to meet learning goals.
- There are also shortages among non-teaching positions in special education, from speech-language pathologists to transportation staff and tutors.
- All of these labor market challenges create an urgent need for staffing services as well as businesses that offer innovative training, credentialing, and professional development services to grow the qualified teacher pipeline and drive higher job satisfaction and retention levels.

40 of 50 states

reported teacher shortages in the special education subject area in the 2022-23 school year.¹¹

5. Source: Ibid.

6. Source: Ibid.

7. Source: National Center for Education Statistics, “Students with disabilities, inclusion of,” July 6, 2022.

8. Source: U.S. Department of Education data compiled by National Conference of State Legislatures.

9. Source: Frontline Education, “Special education and the teacher shortage,” August 4, 2021.

10. Source: National Center for Education Statistics, “Special education during the pandemic, in charts,” October 17, 2022.

11. Source: U.S. Department of Education data compiled by National Conference of State Legislatures

Remote learning exacerbated problems for special education students

- Extended periods of remote learning due to COVID-19-related school closures had a negative impact on the general K-12 student population. Results of recent national math and literacy exams showed learning losses across almost all races and income levels, and the declines were markedly worse for the lowest-performing students.

National reading and math scores suffered historic declines during COVID-19¹²

Reading scores	Down 5 points Largest drop since 1990
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Mathematics scores	Down 7 points First-ever drop in mathematics scores
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- Students with disabilities were among the most severely affected, particularly those who require more significant accommodations, modifications, and specialized therapies; students in early grades, especially kindergarten; as well as those nearing the end of their education and requiring transition supports.¹³
- The lingering effects of COVID-related learning loss has further increased the need for supplemental education services—including academic intervention, tutoring, behavioral support, skill instruction, and therapy—to help students with special education needs who are struggling academically.

Parents report the pandemic has adversely affected students with learning disabilities¹⁴

59% of parents of those with learning and thinking differences say their children are a year behind because of the pandemic and may never catch up, versus just 16% of parents whose children haven't exhibited signs or been diagnosed with a learning difference.

44% of parents of children with learning and thinking differences say their child's legal right to access an equitable education was abandoned during the move to remote learning.

Growing need to support students' mental health

- Recent analyses from the CDC showed the pandemic had a significant negative impact on the mental health of U.S. high school students, worsening a situation that had already been deteriorating.¹⁵
- The result: a greater demand for therapists and mental health solution providers, especially those with the ability to work with students virtually. This may also increase demand for services such as speech-language













therapy, as many students with disabilities experienced a decline in communication skills due to remote learning, which can negatively impact mental health.

49% of school principals who participated in the survey by the National Center for Education Statistics said their school did not have enough mental health professionals, such as psychologists who help oversee evaluations and behavior interventions for students with disabilities.¹⁶

Growth areas in focus

Given the persistent and growing need for solutions, the special education industry can respond to the forces and trends described above in several ways.

Examples of innovative companies in special education

	Company / Investors	Company Description
Technology Solutions	 (Quad Partners)	Special education solution that combines a digital learning platform with curricula and programs designed to accelerate student progress
	 (Five Arrows)	Provider of SaaS workflow and curriculum solutions to the preK-12 special education market
	 (Five Arrows)	Cloud-based assistive technology and learning analytics software solutions for the education and corporate sectors
Educational & Healthcare Services	 (The Halifax Group)	Provider of special education programs and alternative education solutions for children and young adults
	 (American Securities)	Largest national education services platform providing an integrated approach to academic intervention, special education, and behavioral health services to improve outcomes for school districts, parents, and children
	 (Audax Group)	Provider of special and alternative education and therapeutic services for children and young adults with autism, emotional and behavioral challenges, ADHD, anxiety, depression, and mental illness
	 (Ridgmont Equity Partners)	Provider of evidence-based, family-first therapies to children with autism and other developmental disabilities
Therapy Staffing Services	 (Leeds Equity Partners)	Provider of special education and mental health therapy services and therapy management software to K-12 districts
	 (Spectrum Equity & The Rise Fund)	Leading provider of teletherapy and software for special education and mental health providers in K-12 schools
	 (Leonard Green & Partners)	Clinical staffing provider of related therapy, autism, and behavioral health services for children
	 (Founder-owned)	Provider of comprehensive staffing services, connecting schools across the nation with in-person and virtual therapists and educators
	 (Olympus Partners)	Primarily provides therapists, including speech pathologists, psychologists, occupational therapists, and nurses, to K-12 schools

12. National Assessment of Educational Progress, "Reading and math scores decline during COVID-19 pandemic," scores for age 9 students in 2022 vs. 2020.

13. CRPE, "The State of the American Student," September 2022.

14. Understood, "Understood study reveals academic, emotional, and financial realities and implications of remote learning" May 17, 2021. Reprinted courtesy of Understood.org. © 2021 Understood for All, Inc. All rights reserved.

15. Source: CDC, "New data illuminate youth mental health threats during the COVID-19 pandemic," March 31, 2022.

16. Source: National Center for Education Statistics, "Students with disabilities, inclusion of," July 6, 2022.

Adoption of technology tools to support individualized learning

Although the COVID-19 pandemic highlighted the limitations of fully remote schooling, a thoughtful approach to leveraging technology offers many potential benefits for special education. Technology can:

- Play a significant role in improving “inclusive classrooms” (those that have both students with special needs and mainstream students) using adaptive lesson plans that adjust based on each student’s needs and abilities. Tech tools such as adaptive reading assistants and text-to-speech apps can help special education students participate in general education classrooms.
- Help manage individualized education plans (IEPs). Every student in the United States who has been identified as having special learning needs must have an IEP. Technology resources (IEP management systems, communication tools, data and analytics) can make it much easier for teachers to keep IEPs updated and in compliance with requirements, easing the teacher burden.
- Offer new ways to meet the students’ instructional needs. While the traditional classroom lecture works well for “auditory learners,” many students benefit from visual cues that may include watching videos or looking at pictures that accompany text. Personalizing educational tools according to each student’s learning style has become a recognized way to improve learning outcomes.
- Overcome barriers. For example, in a Georgia school district, touchscreens help students with disabilities respond faster and more easily. This gives them more time with occupational therapists and speech pathologists. A New Hampshire school has used virtual reality headsets to help students who have trouble regulating their emotions, physiology, and senses. They also assist students with limited mobility.¹⁷

Use increased federal funding and regulatory support to address demand

- Primary funding sources have been in place for decades with consistent political support, representing a reliable source of funds for companies in the special education industry.
- Approximately \$190 billion in funding was approved for K-12 schools through various COVID-19 relief bills. The most recent source was the American Rescue Plan of 2021, which specifically included \$3 billion for special education.¹⁸
- The Department of Education also provided a list of approved spending categories that mentioned educational technology, training and professional development services, and continuing to employ existing or hiring new school staff.¹⁹
- The federal government’s fiscal 2022 Omnibus bill included an additional \$14.5 billion to support education for students with disabilities, including \$13.3 billion for Part B grants to states to support school-aged children with disabilities and \$905 million for grants to support early childhood intervention services.²⁰

Continue investing in emerging areas of need

- Shortages and retention problems with special education teachers and therapists represent another key area of focus. For example, a staffing firm that also provides training could help new employees find an entry-level position and quickly become certified to advance into higher-paying positions. Firms offering effective professional development and support solutions proven to improve district retention rates are also well positioned.
- Mental health is a growing area of focus. Often, teachers are being pushed to address issues beyond their expertise. This is leading many school districts to provide funding for mental health counselors, either in-person or virtually.
- Speech and language therapy is another area of critical shortage, and funding is being carved out to address this. That suggests an opportunity for firms that provide related services and technologies.

Tailwinds and growth areas create M&A opportunities

We believe M&A activity will accelerate in this sector given the benefits of scale in education, the level of capital pursuing tech-enabled services companies broadly, and investors’ growing focus on ESG and double-bottom-line investing opportunities. Recent deal activity highlights attention by private equity sponsors and strategic acquirers.

17. Source: SmartBrief, “Special education technology can allow inclusion, advances,” April 22, 2022.

18. Source: U.S. Department of Education Fact Sheet, American Rescue Plan Act of 2021.

19. Source: Ibid.

20. Source: The White House, “FACT SHEET: The Biden-Harris Administration Marks the Anniversary of the Americans with Disabilities Act,” July 26, 2022.

Recent mergers and acquisitions in the special education sector

Date	Target	Acquirer	Target Description
May-23	n2y	Five Arrows	Provider of SaaS workflow and curriculum solutions to the preK-12 special education market
Jun-22	Frazier Behavioral Health	Quadrant Biosciences	Provider of behavioral health services for children and adults with behavioral, physical, social, communication, and sensory issues
Jan-22	The Stepping Stones Group	Leonard Green & Partners	Clinical staffing provider of related therapy, autism, and behavioral health services for children
Dec-21	FullBloom	American Securities	Largest national education services platform providing an integrated approach to academic intervention, special education, and behavioral health services to improve outcomes for school districts, parents, and children
Dec-21	Presence Learning	Spectrum Equity & The Rise Fund	Leading provider of teletherapy and software for special education and mental health providers in K-12 schools
Nov-21	Effective School Solutions	Frazier Healthcare Partners	Provider of mental and behavioral health support programs for K-12 districts
Aug-21	Health Connect America	Palladium Equity Partners	Provider of in-home, community- and school-based mental and behavioral health services for adolescents and young adults
Dec-20	Camelot Education	FullBloom	Provider of K-12 education programs that partners with school districts to serve 7,000+ high-risk and special needs students annually
Dec-19	Crisis Prevention Institute	Wendel Group	Provider of crisis prevention and aggressive behavior management training programs
Nov-19	n2y	Providence Equity	Provider of SaaS workflow and curriculum solutions to the preK-12 special education market
Aug-19	New Story	Audax Group	Provider of special and alternative education and therapeutic services for children and young adults with autism, emotional and behavioral challenges, ADHD, anxiety, depression, and mental illness
Nov-18	TouchMath	Millpond Equity Partners	Provider of supplemental, multisensory mathematics curriculum resources and products
Apr-18	Chancelight	The Halifax Group	Provider of special education programs and alternative education solutions for children and young adults

To learn more about the key trends shaping the special education sector, please don't hesitate to reach out to William Blair's Special Education and Behavioral Healthcare team: [Justine Chiou](#), [Mallory Horejs](#), [John Ivey](#), or [Kerr Robertson](#).

Our Recent Successes in Special Education and Behavioral Healthcare



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