

Episode 291 - Adapting to Change: Market Insights & The Future of RTOs and Higher Education in Australia: Key Insights from RTO Industry Expert, Travis Latter

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The Deal Room Podcast

Adapting to Change: Market Insights & The Future of RTOs
and Higher Education in Australia:
Key Insights from RTO Industry Expert, Travis Latter

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Joanna Oakey [00:00:24]:

Hi, it's Joanna Oakey here and welcome back to the dealroom podcast, a podcast proudly brought to you by our commercial legal practise. Aspect Legal now in this episode I'm talking with Travis Latter from Infinity Business Brokers all about the changes relating to RTOs. Travis has extensive experience in the RTO industry as CEO and a consultant and has brokered over \$140 million in RTO sales. So he is definitely an expert to talk about this area. In this episode, Travis and I talk about the recent bill and the changes relating to Cricos and what it's proposing and we also talk about the RTA sector in a bit of detail what we seeing in the market. So ready to deep dive. Here we go with my discussion with Travis.

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Joanna Oakey [00:01:22]:

Travis, welcome to the Deal Room podcast. It is so good to have you on the show.

Travis Latter [00:01:27]:

Thanks, Joan. I've been looking forward to coming on the show since we met years ago.

Joanna Oakey [00:01:31]:

I've been looking forward to having you on the show. What a perfect alignment it is. Okay, now why don't we before we get started in today's Discussion all about RTOs, why don't you give us a quick snapshot of your brokerage, what you do and how you work with RTOs and what got you there in the first place very quickly.

Travis Latter [00:01:52]:

I started my own RTO about 24 years ago. Sold that CEO of RTOS. I've been purchasing manager for listed companies buying RTOS, consulted to about 400 RTOS on their sales processes. And about 8 years ago I had a mate who said can I sell their rto? And I didn't really want to and got into it and absolutely loved it. And since then we've sold 140 odd RTOs and CRICOs and higher education in Australia. And it's something that I'm just as passionate about the education industry now as when I was started 24 years ago.

Joanna Oakey [00:02:27]:

Oh, I love that and I love passion. I love that passion in your voice and I know you well, I know you. That sort of rings through every day and that just make it nicer. I like, I love this area of law, but I particularly love it when we're dealing with people that are really passionate about what they're doing.

Travis Latter [00:02:44]:

Yeah. I think that what it does is it allows me to understand the whole clock face of an RTO existence. So from, you know, the nervousness of setting one up to purchasing one, to looking to sell it. And I remember really quick story. I remember when I was selling my rto, one of the buyers said to me, travis, what keeps you up at night? I sat back in my chair and I looked in and I said, knowing which opportunity to take. I said to him, tim, because that was his name. I'm not worried about my compliance, I'm not worried about my staff, but I am worried about which direction to take, which pathway to choose and which option to take. And I find the same with both purchasers and vendors of RTOs now is making sure that they're making the right decision.

Travis Latter [00:03:31]:

And I suppose the one thing, if nothing else that I provide to both vendors and purchasers is an understanding of the process. And our processes are just, are all there because we've just found that if we have those processes, there's a confidence in buyers and there's obviously a confidence in vendors as well.

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Joanna Oakey [00:03:50]:

Yeah, I love it. Oh, and we are seeing from the same hymn book in relation to processes we've had discussed quite a few times before. But I love your processes, I think they're fantastic. But it's so important, isn't it, in this area? I mean in all business own acquisitions it's important. But particularly RTOs, I find we obviously have to transact and I say obviously obvious. If you're in the sector, you understand they have to transact by way of a share sale rather than a business sale, no matter what the size of the transaction. And that's where processes are so important, I guess, right?

Travis Latter [00:04:26]:

Yeah, I guess so. I suppose I've known no difference. So it's hard. I have a harder time talking about asset sales and business sales. But actually it's a good segue into it because it's not just a purchase of the shares of the company. So I always say to buyers, and I remember that buyers buy risk. My vendors are sick of me saying it when they're purchasing an rto, the ownership of an RTO never actually changes, which is weird because the ownership of the rto, the easiest way to look at it is the RTO itself is an asset. It's an asset of the company.

Travis Latter [00:05:02]:

So they're buying the shares in the company, the assets of the company, and often the assets in the business as well. And the RTO registration is just an asset. The funding registration is just an asset. The CRICOS registration for. And CRICOS is a Commonwealth Register of International Colleges of Study. So international students coming to Australia, that's an asset. Just in the same way as the website's an asset. The staff are an asset.

Travis Latter [00:05:31]:

The policies, the resources, they're all assets of the companies. Whilst the ownership of the RTO doesn't change, which allows us to transact with asqa, it's the understanding that a buyer needs to have that they're buying the assets and the shares of that company.

Joanna Oakey [00:05:50]:

Yeah, all right. And I feel like that kicks us exactly into what we're meant to be talking about. But this is very interesting.

Alicia Pichette [00:05:57]:

I feel like we have to come.

Joanna Oakey [00:05:58]:

Back another day and talk about some of these nuances for buyers and sellers of RTOs, because it is a, like, it's an interesting little space. You know, there's some things that are a little bit different but today we're talking about some legislative changes. So tell us what's happening in this environment for RTOs at the moment.

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Travis Latter [00:06:21]:

Yeah, it really does seem like that the education industry as a whole is taking a fair bit of the first 10 pages of the Australian newspaper at the moment.

Joanna Oakey [00:06:31]:

I know, right. Every day you see something in the headline.

Travis Latter [00:06:36]:

It's a. It is always education always has been a very much a political football at the moment. And I'm going to start somewhere and look, my website's infinitybusinessbrokers.com it's not aspect legal. So this is my view. Sorry. But this. I think the federal government at the moment should be absolutely disgusted in how they're treating education and international education. They're using it as a political football and limp and lumping things like immigration to student visas where they're absolutely not linked at all.

Travis Latter [00:07:15]:

The way that they're looking to cut international education is absolutely diabolical and I think that it is. That's nothing I've seen in my 24 years. Education was Australia's second largest export. I don't see them talking to coal producers and iron ore producers and saying you must now produce half of what you produced because we don't need the revenue anymore. But let's talk about some of the changes because there's been a few. Yeah, off my high horse now. So the first one's related to domestic RTOs and international educators and it was that if you are a new rto, you are stuck with the scope that you've got for the first two years. So when you register as an rto, it takes over a year normally for that registration to be approved.

Travis Latter [00:08:12]:

A year. And obviously in that time, people's lives change, don't they, Joanna? And there's where you're positioned now to 12 months is going to be different. So that's the first big change. They also have now got the power not accept. To accept any application. So you might go through all the work of putting your application in and the government, ASPA says, no, we're not going to even accept it now. It's pretty interesting. But coming back to a new registration, if you get a new registration, it will get you two years, which hasn't changed.

Travis Latter [00:08:42]:

You'll only be able to use the scope that you've got, so you can't add any other qualifications to scope. It takes that whole year. So you've lost any momentum that you wanted to take into the market and it has. And there's just going to be increased scrutiny. None of that's a bad thing. Too many people were setting up an RTO to just to have. And they've basically said if you don't use it, you lose it. Which don't have any issues with.

Travis Latter [00:09:11]:

So they're the first changes. The second changes revolve around international education. Now,

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these ones have not been passed through the Senate yet for VET students and even for universities, but there's been a lot of talk in the universities about putting caps on student numbers. Again, this is really interesting. It doesn't relate much to the vet sector as it does to university sector. I've got a graph, so I'm just sharing this graph, Joan. And what you can see on here is the top 15 Cricos allocations from last year, from 2019 to 2024. And you can see the blue number is where their capacity is for their allocation.

Travis Latter [00:09:59]:

Sorry. Versus the actual enrollments in 2019. And you can see that in most of the instances their allocation is a lot higher. But it hasn't reached. They haven't actually meant that they've got all those students in there. Now, the interesting thing with the names is these are all the universities, so the universities are the ones that are making a lot of noise about the caps because it affects them most dramatically because they've pivoted away from domestic students. But again, without getting political about it, the number of university enrollments in Australia from Australian people has seriously decreased. Yeah.

Travis Latter [00:10:42]:

There's now more channels to career than just going through a university placement.

Joanna Oakey [00:10:47]:

What does all this mean, then? What does this mean for our boys.

Travis Latter [00:10:51]:

In 2020 was probably at the height 20, 19, 20 was probably the height of the cricos for international students. And what was happening is we had such a supply of students coming to our shores and therefore what it meant was any cry cost that went for sale was being sold at a premium because there was just the demand for it. It was like, I've got these students coming to Australia, I need somewhere to put them, I need a university to put them into. And what's happened since is now that we don't have the. Ever since. What was that thing called? Covid everything. Ever since the pandemic, ever since then, student numbers are down and again, the way that it was handled by the government I think was extremely poor in there was no forward thinking about what was going to happen next. What we've got now is we've got very few students coming to the country to study at the vet sector level, but we've got all of these people that have had a Cricos RTO that are now stuck with it.

Travis Latter [00:12:01]:

On top of that, the government's again said if you lose it, if you don't use it, you will lose it. Now, 50.3% of all Cricos RTOs 50.3% of all Clicos RTOs had less than 10 students.

Joanna Oakey [00:12:19]:

Really less than 10. Why?

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Travis Latter [00:12:23]:

Because a lot of them were just sitting there doing nothing. So the government said, if you don't have any students, too bad, we're going to take your registration away again. That's a great thing, it's a really good thing. But if you want to become a Cricos RTO now, you actually have to show for two years domestic enrollments. So they're trying to get Cricos RTOs to expand to not just be international education. But there's a big problem with that. There's two fundamental problems with that. The first fundamental problem is that the attendance in a CRICOS is compulsory.

Travis Latter [00:13:00]:

The attendance in a domestic is not. It's only done as a competency based training where with an international it's attendance plus competency based. That's the first issue. So you're mixing delivery modes. The second one is that the cohorts are very different and some international students don't want to be studying just with all Australians and some Australians don't want to be studying with all internationals. So there's two big differences in the way that they operate. But what does all of this mean? What it means is what was being sold as a Krikos four years ago at 500,000 is now worth 300,000 and it's going to get worse. The prices of cricos RTOs are going to drop down considerably.

Travis Latter [00:13:57]:

But I will argue that they were overpriced at the start and it is a market correction. So that vendors need to understand we're dealing with 20, 24 and beyond. We're not dealing with 2019, 2020 in sale prices. So they have to understand that the market does change and we, I believe the market changes every three months. So therefore we have to correct the valuations of Kraikos and domestic businesses and higher educations every three months to be right on the money.

Joanna Oakey [00:14:33]:

And how are sellers reacting to that news? Because there's no seller that is happy with the feedback that their business is not worth what they think it's worth.

Travis Latter [00:14:45]:

Oh, one of the things I say to them though is that if you were making \$500,000 a year, would we be having this conversation? And they go, no. I said, why are we having the conversation? Because I can't get students in because I'm not making a profit.

Joanna Oakey [00:15:01]:

All right, you're saying that they're there.

Travis Latter [00:15:05]:

Wanting to sell, because they're wanting to sell, but there's a bigger problem and that the government needs to address. And I mentioned the government because they've taken the

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steps that they want. They want to be in control of the changes, then they've got to be in control of all the changes. At the moment, I don't know any business in the world that spends over 40% on their marketing and advertising and then still has a labour intensive business operations. But that's what Cricos RTOs are forced to do. They're forced to give agents before a student even starts studying. They've got to give an agent 40% at the moment. Now the government needs to regulate it to make it 25% and then cricos RTOS can actually start making some money as well.

Travis Latter [00:16:00]:

And that's what we're all in this business to do, right? Provide strong education and make a sustainable living. So If I'm giving 40% away before a student even comes and that student's going to be there for a year or two years, your profit levels in a Cricos RTO rarely go above 10%, maybe 12%, whereas a domestic RTO you should be looking at 20% to 40% profit.

Joanna Oakey [00:16:30]:

And so what we've talked about sellers and this reality that is there right now and that will deepen over time. What's, is there an opportunity? Is there something else that they should be thinking about some side and then what about buyers? Is there an opportunity? What is the opportunity for buyers? But maybe sellers first is there. What else should they be doing? What should they be thinking about?

Travis Latter [00:16:59]:

So I'll stick onto the. I'll stay with the cricos theme at the moment and they're going to drastically cut. The intention is to drastically cut the amount of students coming into Australia. Cricos education was always set up for, to address skill shortage areas and we know in Australia that we've got massive skill shortages in some areas. So if I'm, if I've got a CRICOS rto, I want to make sure that my courses are aligned with what's on the skill shortage list and if I'm doing that, then I'm addressing the primary need of education in cry cost education and therefore I'm not going to fall foul of having drastically reduced numbers because they're addressing the skill shortage that's on the international side. But on a domestic side there's less change. In fact, at a shell level. Now a shell level for an RTO, very briefly, is pretty much anything under 300,000, typically owner operated, not generating great revenue.

Travis Latter [00:18:02]:

It's got the registration, it's got the policies and procedures, it's got resources in place. So they're under 300,000. The value of those. Joanna, since 2000. Let's go back, let's go 1998. Yeah, 1998 has actually risen from about 75,000 through to now that you'll be paying 115,000 for a shell because the barriers to entry have increased. So if I'm a got one of those and it's taken me a year to get it because in life my lifestyle's changed and I've got a few students, you've seen the value increase funded RTOs so that are taking state funding where the student isn't necessarily paying for the full course and the government's assisting the value of those is maintained as well. So it's really the international education that's really diving at the moment.

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Travis Latter [00:18:55]:

Again, I would align myself with skill shortage areas. If I was going to buy an rto, can I give you a few things? If I was going to buy an.

Joanna Oakey [00:19:02]:

Rto, do it, tell it.

Travis Latter [00:19:04]:

So if I was going to. If I was going to buy an rto, I'd want one that's got some regulatory considerations so that I need the ticket or I need the qualification to do my job. Childcare is a good example. Working at heights is Another example, driving a forklift is another example. So something that's got regulatory considerations, something that's got rotational employment. And what I mean by that is it's always got people leaving the sector and it's always got people entering the sector. I'd want one that has got a little bit of funding attached because if I can get the government to pay some of it and it's in a skill shortage area, then it's always going to be worth more when I sell it. And the other part that I'd consider if I was buying one, I wouldn't worry about how much registration it's got to go.

Travis Latter [00:19:52]:

I want to know how much registration it's had so I can have a look a little bit more at not necessarily the history of years gone past, but the current history of where it's at now. So therefore, putting that into a different way, the market sectors that are in that area are not suffering any decline.

Joanna Oakey [00:20:12]:

Okay, that's interesting. Maybe that's the formula for our RTOs that are looking to grow to exit potentially in the next sort of three to five years. Maybe that's the formula for them to be running in their own rto.

Travis Latter [00:20:27]:

Right, yeah. Three things. First thing I was going to say was you should always be focusing on the end and not enough business owners do that and we've talked about that previously. Second of all, I'm going to, I'm going to give you two stats about the RTO industry that absolutely blow me away. And if I'm entering into the RTO space, These are the two things that I would focus on. Number one, 90% of all RTOs do not have a business development function in their business. They've got a bit of a marketing side. Any business owner that says, oh, we rely on word of mouth, I just say that's not sustainable, you know.

Travis Latter [00:21:07]:

So 90% do not have a business development or a sales function in their business. And that of the 10% that do, 90% of those and 9 out of 10 do not have a closely monitored KPIs with consequences. They've got BDS but they do nothing with them. So there's the first step. The

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second one that's equally as impressive if I'm entering into the market is 85% of all sales in an RTO are one off sales. No cross sell, no resell, you know, no utilising your database. So 85 to 90% of those do not have a system where they're going to resell to their existing customers.

Joanna Oakey [00:21:50]:

That is fascinating.

Travis Latter [00:21:51]:

Yeah.

Joanna Oakey [00:21:52]:

A lot of opportunity here for growth and value in the sector. Just through the insight in, into some of those things you're talking about. Fascinating. I feel like we could talk forever about this, Travis, but where to next? What you're crystal balling, what do you reckon is where are we going? And sometimes I see all these changes and I just wonder that they're just going to have to all be unwound again in five years time. But I don't know, I don't know. Where are you. What do you think? What are you talking about?

Travis Latter [00:22:25]:

I think you're right. I think that change by its nature is ever occurring and as I said that the RTO sector actually changes every three months so there's always slight corrections. What happens, and we've seen this in previous years, is major knee jerk reactions to try and fix a problem that they're again, they're trying to put a bandaid on a major gash and they're not actually focusing on the cause root of some issues. We do have a skill shortage area in Australia as an example. There's 25,000 new truck drivers needed. What's happening there? Where are we going to find those? The issue with the age sector is that we can't find enough people in Australia to want to work in that sector so we have to bring them in so there will be a correction back to them. The whole thing for me is rather simple and I think it's overcomplicated by many. It's do good often.

Travis Latter [00:23:27]:

It's no different to anything else we do in any other sector. Deliver good training and do it consistently and if you do that, quality will always rise to the top. So I think what's happening in the industry is a lot of people who were in there for possibly the wrong reasons are finally realising it's becoming a bit too hot and they're moving out. So we will have less RTOs, we'll have far less CRICOs institutions for a period of time. Till that changes, we will have definitely have less RTOs. There's less funding available at the moment because each state besides WA is nearly broke and we will have a consistent approach to trying to weed out those people that aren't doing it for the right reasons. Yeah, I'm buoyant, I'm. I'm extremely buoyant about the industry.

Joanna Oakey [00:24:20]:

Love it. I expect nothing less Travis, because like me, I do believe you to be a true optimist.

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Love it. Look that, and that's just, just fascinating. And look you clearly not just your Passion in the sector, but also your deep experience and expertise. Just really grateful to have you on the show here talking about such interesting changes in the industry and as you say, changes that will continue to happen in the industry. And that's why you need someone on your side like you are, Travis, that's a specialist. If you're looking at going down the aquarium path, if any of our listeners are looking to buy or sell an rto, or indeed, we have loads of accountants who listen in to this podcast.

Joanna Oakey [00:25:08]:

So if they have clients who are looking to buy or sell, how do they find out more about you, Travis? How do they connect with you?

Travis Latter [00:25:17]:

Look, if you just type in selling an rto, buying an rto, rto, sales, type in Travis Latter on Google, you'll find it. But Joanna, just really quickly, there's one more important group that isn't a buyer or is a seller. It's the person who is a current owner who wants to make the right strategic decisions. Now, we do valuations of RTOs. We've done them for court, we've done them for breakups, we've done them for partners. Many about 18 different reasons, we do them. If you're wanting to take those next strategic steps, you've got to know where you're positioned. Now, if anybody wants to do that, that's a listener to this amazing podcast, then get in touch with me and I'm going to work something out with Joanna that makes a great deal for you.

Travis Latter [00:26:04]:

But yeah, I look forward to talking to all of your podcast listeners and you do an amazing job, Joanna. And I look forward to listening to more of your podcasts.

Joanna Oakey [00:26:14]:

Wonderful. Now what we'll do is we will put a link right through to you in the show notes. If you, our listener, are running along the beach as you're listening to this, as I always say, off your luck. But don't worry, come back, you'll find this in the show notes. You don't have to stop and find yourself a pen. So we'll put a link in the show notes. But look, just fascinating information that you've talked about here. And I think that's a really good point about understanding what your value is and then your value drivers.

Joanna Oakey [00:26:42]:

I think that's one of the beauties, connecting with someone like you, Travis, who can help talk about what those value drivers are. And you've talked about a lot of them as we go. It's just you're 100% right when you say this is the thing that so many business owners, and not just in the RTO world, but in every business, I've got to say, in every industry, business owners, generally speaking, don't understand what decisions they're making today that drive value for their ultimate exit. And you've just got to be building a business with your eyes wide open and understanding that. So such good points. You make love the concept of evaluation. I think that's

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really clever. Most people the value of their business and how to how to increase that over time.

Joanna Oakey [00:27:29]:

Travis, just a huge thank you for your time and your skill and expertise today. It was a fantastic discussion.

Travis Latter [00:27:39]:

Thanks Joanna and I look forward to talking to you soon.

Joanna Oakey [00:27:42]:

Love it. Thank you.