



UK Education: Vocational & Professional Training Sector

November 2011

IN THIS ISSUE

OVERVIEW

- Professional training providers fetch decidedly higher premiums than vocational training providers
- Apprenticeships likely to remain a high priority for Government
- Vocational market consolidating as minimum contract levels are imposed
- Exit premiums within the vocational sector are expected to increase

RECENT DEALS¹

Vocational

- TQ acquired by Pearson for £58m (Oct-11)
- Learn Direct acquired by LDC for £40m (Oct-11)
- BDTS Training Services acquired by Woodspeen for £2m (May-11)

Professional

- Language Specialists (International) acquired by Neath Port Talbot College Enterprises for £3m (Jul-11)
- LG & DE acquired by Al Khaleej Training and Education for £1m (Mar-11)
- Nautilus acquired by RPS Group for £19m (Mar-11)

¹ Transactions with disclosed values only

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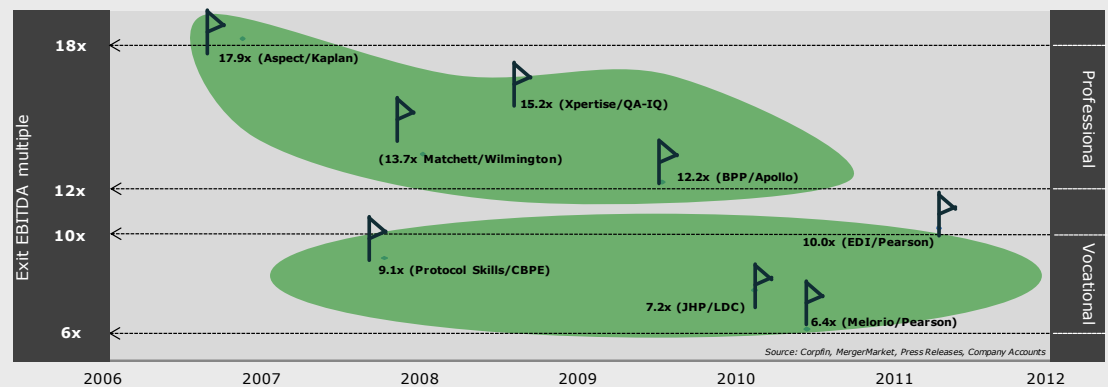
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VALUATION REVIEW

In the spring 2011 education newsletter, Nexus examined closely M&A activity within the UK education industry with emphasis on vocational and professional training sectors where volumes are most significant. With over 150 transactions completed since 2005, professional training providers have accounted for 70% of all transactions while consistently attracting higher exit multiples. In this newsletter, Nexus examines why this is the case and provides some explanation.

Professional training providers on average attract exit multiples in the mid teens while vocational training providers' exit multiples are mainly upper single digits. In the figure below, Nexus research covers 8 key transactions within the training sector and have revealed distinguishing patterns in exit multiples for the different types of training providers. Since 2005 exit multiples for professional training providers range between 12 (BPP/Apollo, June 2009) and 18 (Aspect/Kaplan, October 2006) times earnings while exit multiples for vocational training providers are between 6 (Melorio/Pearson, May 2010) and 10 (EDI/Pearson, March 2011) times earnings.



PREMIUMS-PAID VARIATION. Why does the marketplace ascribe higher premiums for professional training providers when compared to vocational training providers? Despite susceptibility to economic downturns, investors are generally more comfortable with the blue-chip corporate client base associated with professional training providers as opposed to the vocational market which is far more vulnerable to government and policy change. Additionally, professions requiring certain qualifications to practice, such as law, accountancy and IT, add a preferable defensive mechanism to the professional training sector. Companies operating within the professional sphere generally tend to be significantly larger than vocational trainers and tend to have a stronger client base along with more robust systems in place within the organisations, ultimately leading to the justification for higher valuations. The analysis suggests that vocational training providers may be 'victims' of a highly fragmented industry with many smaller trainers competing for a limited pot of funds.

PUBLIC MARKET UPDATE

- Pearson acquires TQ Holdings, a Derbyshire based provider of vocational and technical education and training services to governments, institutions and corporations (Oct-11)
- Informa posts a nine month revenue growth of 4.2% due to strong demand for events and training (Oct-11)
- Pearson acquires Connections Education, the US based operator of online public schools, for \$400m from an investor group led by Apollo Management (Sep-11)
- Bloomsbury Publishing acquires Absolute Press, a UK based food publisher (Sep-11)
- Tribal Group divests its government and health businesses (Apr-11)

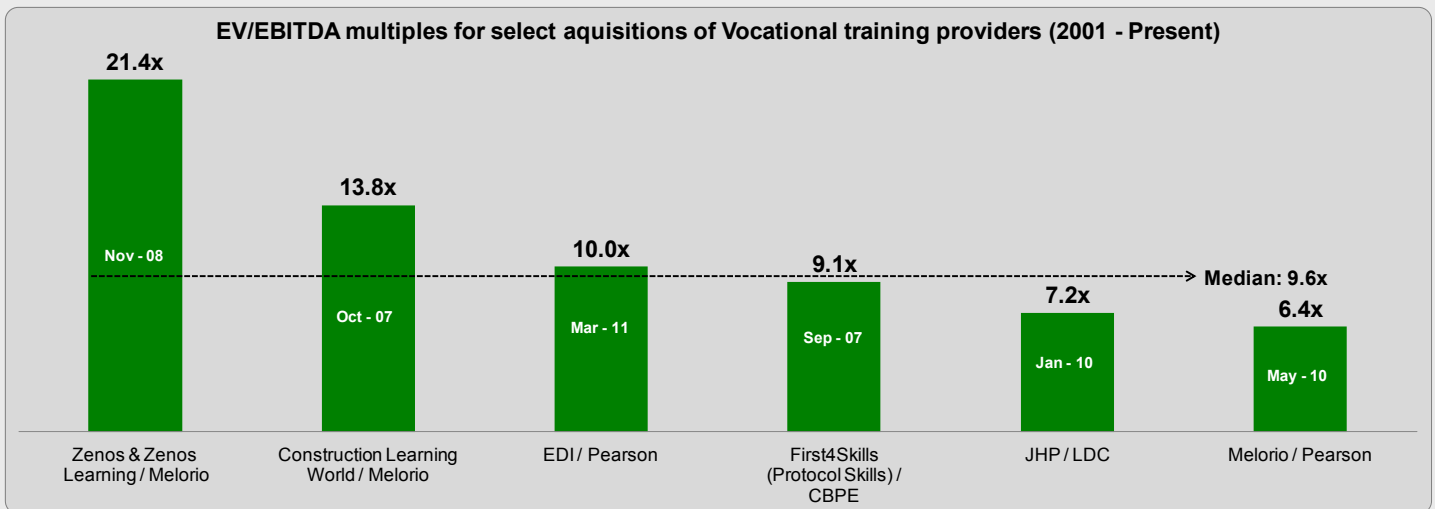
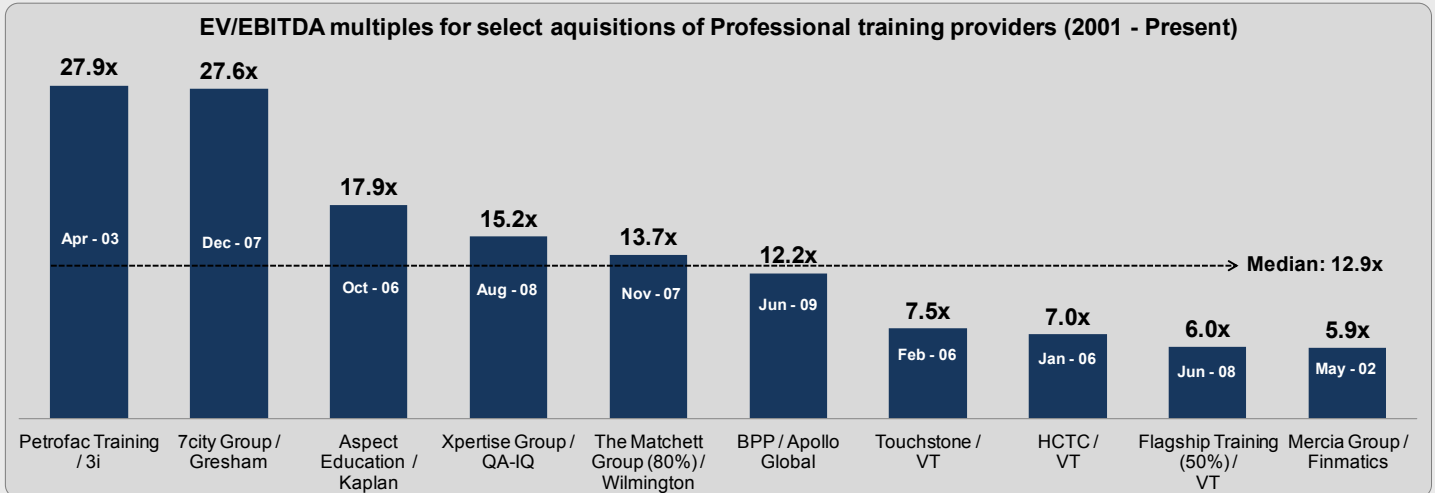
	Index/Price	3M %	6M %	1Y %
FTSE All Share	2,764	4.8%	-10.2%	-6.9%
AIM All Share	707	-5.0%	-19.1%	-17.3%
Selected Education Peers				
Pearson	1,105.1p	6.5%	-3.8%	17.9%
Tribal Group	42.8p	-15.4%	-7.1%	58.3%
Informa	354.9p	8.5%	-18.4%	-15.4%
Top Gainers				
Corero	18.9%	Mouchel	-76.1%	
Compass	9.3%	Findel	-61.4%	
Informa	8.5%	Savil	-30.8%	

NOTE: Companies are not strictly education focused, but derive substantial revenues from the UK education sector

*Market data as of 18 November 2011

Nexus Corporate Finance is an independent, partner-led corporate finance advisory firm. The team specialises in company disposals, private equity, mergers and acquisitions, MBOs, MBIs, debt refinancing and restructuring. Deal sizes range from small private equity investments for high growth businesses requiring £2m or more, through to corporate disposals in excess of £100m. Experience within the education sector is vast and the team has covered transactions in the distance learning, vocational and professional training, nursery schools and apprenticeship training sectors, among others. Nexus Corporate Finance LLP is authorised and regulated by the Financial Services Authority.

PRECEDENT EDUCATION TRANSACTIONS WITH EXIT MULTIPLES



Source: Mergermarket, Corpfin, Press Releases, Company Websites

* Professional training constitutes primarily private pay clients (ie. banking, legal, IT, engineering, accounting)

** Vocational training is largely government funded and focused on apprenticeships and adult skills training (ie. plumbing, carpentry, driving)

ARE VOCATIONAL TRAINING PROVIDERS LIKELY TO ATTRACT HIGHER EXIT PREMIUMS IN THE FUTURE?

Longer term commitment from government. Nexus expects supportive government action within the vocational training sector to likely drive up exit premiums. Apprenticeships remain a top priority for the government, which has proposed to invest an additional £250m by 2015 in the apprenticeship programme. The government aims to have 1 in 5 young people undertaking apprenticeships by 2020 with a strong focus on trying to combat the low standard of literacy and numeracy amongst the young population. In the March 2011 Budget, the Chancellor announced a further £180m to fund an extra 50,000 apprenticeship places over a four year period (2011/12-2014/15). Additionally, the government has announced plans of a pre-apprenticeship scheme aimed at preparing young people for full placements which will help to fulfil the target of 130,000 completions in 2011 and decrease the number of 16-24 year olds not in employment, education or training ("NEETS").

Nexus believes that the additional support from the government for the vocational training sector over a longer term in an attempt to avoid a lost generation of young people will ensure predictable revenue streams for private companies providing training services. The rapid expansion of JHP over the past three years, in the midst of a recession, is a testament to the opportunities that exist and robust operating environment the government continues to support.

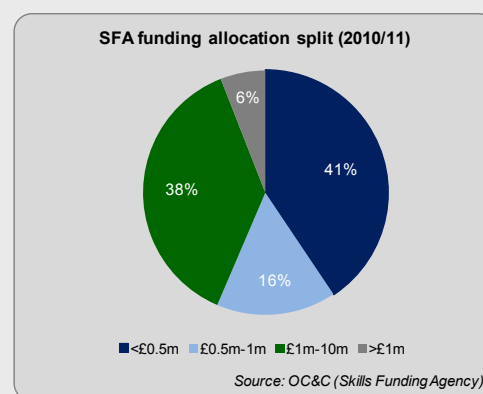
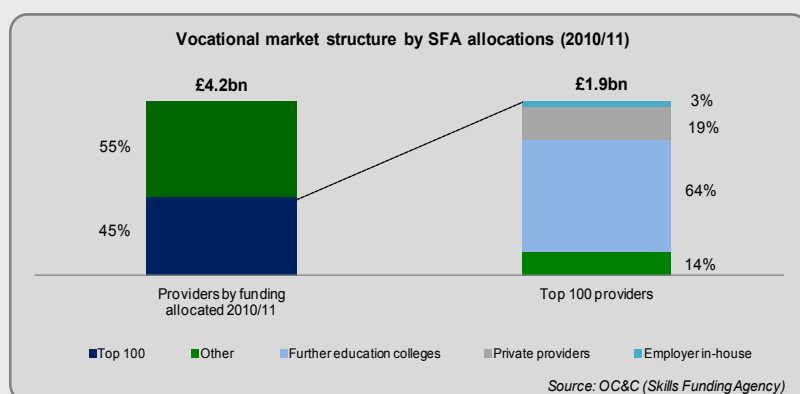
OC&C WEIGHS IN ON VOCATIONAL TRAINING SHORT-TERM PROSPECTS;

Providers who fit into the sub £500K bracket have a number of options: (1) Create a consortium of providers that collectively exceed the limit; (2) Sub-contract from a ‘managing agent’; and (3) Sub-contract from a larger organisation. It is expected that in future years, the MCL will increase further, with the SFA keen to contract at £2 million and above. Ultimately, we expect the structure of the market to evolve to more closely reflect the adjacent employability services market, with a small number of large ‘prime contractors’ overseeing larger, longer-term contracts, delivered by a network of ‘sub contractors’.

- Mark Jeynes, OC&C Strategy Consultants

Minimum contract levels to spur consolidation activity. Nexus research shows that the government is increasingly focused on improving the quality of training in an attempt to reduce the fluctuating value of the vocational skills sector. Between a quarter and a third of 16-19 year olds are currently on vocational programmes of negligible worth. With the introduction of Minimum Contract Levels (“MCL”) by the Skills Funding Agency (“SFA”) in August, a stride has been taken towards the creation of fewer but larger organisations achieving longer term contracts. Organisations with funding allocations not exceeding £500,000 are consequently no longer eligible for direct SFA funding ultimately leading to significant consolidation opportunities. The market now consists of approximately 1,550 Vocational providers, including FE colleges, who receive £4.2bn from the SFA annually yet the top 100 providers only account for 45% of this.

Nexus expects higher exit premiums for training providers with existing platforms in place which are scalable as investors back the ‘best in class’ to capitalise on abundant growth opportunities via buy-and-build strategies while taking advantage of companies not meeting MCLs. In addition, strong government support and its focus on quality training along with tuition fee increases will all work in strong favour of driving demand for vocational training services.



SIGNIFICANT TRANSACTIONS

Announced Date	Seller	Buyer	Consideration (£m)	Target Description
Oct-11	TQ	Pearson	58	Provides Vocational and technical training services to government, institutions and corporations
Oct-11	Learn Direct	LDC	40	Online learning provider
Mar-11	EDI	Pearson	113	Educational and training qualifications and assessment services
May-10	Melorio	Pearson	99	Vocational training and apprenticeships programs
Feb-10	Lansdowne Venture Group	Kelso Place	39	Provider of driving training, trading under the Red Driving School brand
Jan-10	JHP Training	LDC	56	Work-based and job-seeker training
Jun-09	BPP Holdings	Apollo Global	304	Training for business and legal professionals
Jun-08	Flagship Training (50%)	VT Group	65	Engineering training and support services
Sep-07	Protocol Skills	CBPE	47	UK based provider of vocational training
Feb-07	GE Commercial Aviation Training & SAS Flight Academy	STAR Capital	140	Provides commercial aviation training

VOCATIONAL AND PROFESSIONAL TRAINERS TRANSACTIONS (DISCLOSED VALUES)

Announced Date	Seller	Buyer	Consideration (£m)	Target Description
2011				
Jul-11	Language Specialists (International)	Neath Port Talbot College Enterprises	3	Provider of language tuition services
May-11	BDTS Training Services	Woodspeen	2	Vocational training provider specialising in the delivery of apprenticeships for 16-18 year olds and adults
Mar-11	LG & DE	Al Khaleej Training and Education	1	Provider of global language training services
Mar-11	Nautilus	RPS Group	16	Geosciences and petroleum engineering training
Jan-11	British School of Motoring	The Automobile Association (backed by UK based PE)	0	UK based provider of motoring driving school
2010				
Dec-10	FDSA Fire Protection	Green Compliance	1	Provides fire protection services, including risk assessments, training and equipment supply
Nov-10	Sector Training	EDI	1	Provides specialist consultancy and training services to colleges
Jun-10	Royal County of Berkshire Shooting School	Alexander Newman	7	UK based operator of shooting school
Jun-10	Tech Music Schools	Sovereign	5	UK based music school
May-10	Abacus EW Consultancy	Cohort	3	Provides EW (electronic warfare) training and consultancy services
Apr-10	Brighton Inst. of Music (BIMM)	Sovereign	10	Provider of modern music vocational and higher education
Feb-10	Hampstead School	TUI Travel	8	English language school based in London
Feb-10	S&S Training Services	Woodspeen Training	1	Provides vocational training services, specialising in the delivery of Apprenticeships for 16-18 year olds and for adults
2009				
Dec-09	Callamac Investments	Moongate Holdings	1	Provides medical education programmes
Jul-09	Malvern House Group	AEC Education	4	Specialises in the provision of English Language Learning courses for foreign students
Apr-09	A&R Training Services	Woodspeen Training	3	Provides vocational training courses, specialising in occupational programmes in childcare, health and social care and customer
May-09	Gas Logic	Melorio	1	Provides gas and electrical training services
2008				
Nov-08	Zenos & Zenos Learning	Melorio	34	Vocational training to the IT and communications sector
Nov-08	Prodant	Digital Marketing Group	1	Provides a range of training and development programmes for call centres
Oct-08	HB Group	Melorio	3	Provides apprenticeship training services to the construction sector
Sep-08	Lowe Group (National Electrical Certification and Training Alliance)	Connaught	8	Provider of electrical inspection & testing, electrical training programmes & electrical engineering support services
Sep-08	Parity Training	Xpertise	4	UK based provider of IT and management training services
Aug-08	Xpertise Group	QA-IQ	10	Technical training to IT professionals
May-08	Training For Travel	Aberdeen Asset Managers (MBO)	10	Provides training to travel companies and tour operators.
Apr-08	Paragon Education	Sovereign	16	Training provider specialising in providing skills
Jan-08	Financial Projections	Moody's Wall Street Analytics	1	Provides financial training services
Jan-08	Hawksmere	Kaplan Financial	20	Provider of conferences and seminars for professional education
2007				
Dec-07	Develop Training	Barclays Ventures	15	Technical skills training and management development
Dec-07	7city Group	Gresham	36	Accountancy training services
Dec-07	BAE Systems Manchester Training Centre	GCAT Flight Academy UK (Backed by Star Capital)	6	UK based provider of pilot, cabin crew and maintenance training for various aircrafts
Nov-07	The Matchett Group (80%)	Wilmington	11	Training to professional markets
Nov-07	ASET Group	EDI	3	Markets a range of qualifications and awards aimed primarily at service sector occupations
Oct-07	Construction Learning World	Melorio	35	Workforce training and developments
Sep-07	System Group	Bibby Distribution	4	Provides driver training courses and warehousing services
Sep-07	Mechanical and Electrical Training	Spice	16	Vocational mechanical and electrical training
Aug-07	Blackwater House Centre	Carter & Carter Group	1	Provides training and apprenticeship courses for the motor trade
Jul-07	Global Technology Forum	Incisive Media	8	Organises conferences and training for the oil, gas and petrochemical refining and processing industries
Jun-07	Oxford Aviation Training, England	GCAT Flight Academy UK (Backed by Star Capital)	32	Provides aviation training services
Jun-07	Hazard Management Solutions	Allen Vanguard	13	UK based developer and supplier of integrated counter improvised explosive device, training, analysis and consulting services
May-07	FAST	Computer software group	11	Provides training, education and membership services focused on software licence compliance
May-07	Constant Browning Edmonds	Carter & Carter Group	17	Company providing work based learning and wide range of training and support services