

Nexus Corporate Finance LLP

‘Deals under the microscope’

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2011

Macroeconomic overview

- Further education resource budget to be reduced by 25%
- UK unemployment currently at 2.5m with 900,000 under the age of 25¹
- 15.6% of all 16 – 24 year olds are NEETS
- Corporate training budgets cut in recession
- Banks withdraw from student funding

- Adult teaching and learning budget relatively resilient
- Target £11bn reduction in £87bn Welfare Budget by 2014
- 75,000 more apprentices p.a. = 200,000 starts p.a.
- Career changers (self funded students) provide opportunity for operators with large balance sheets to bankroll students

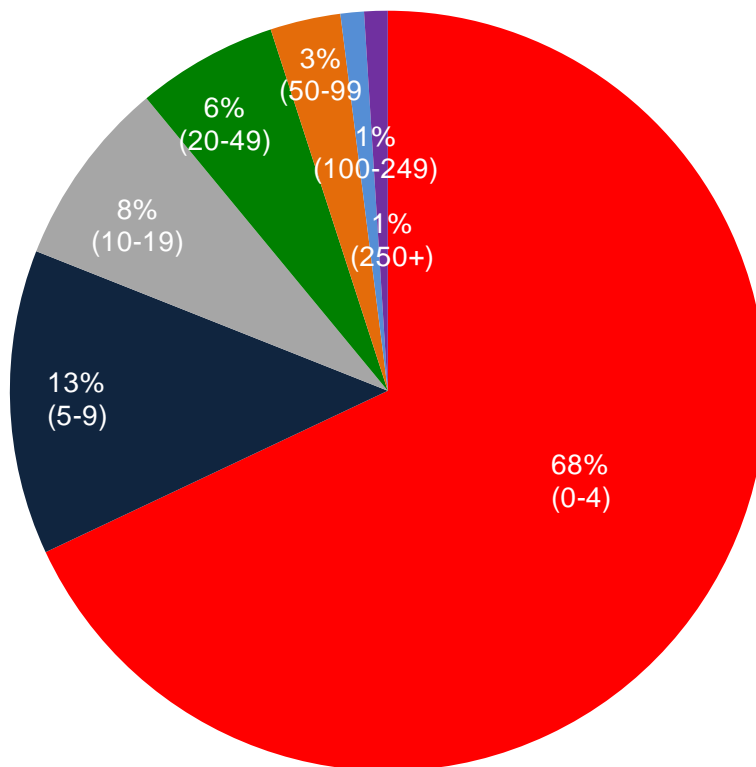
Vocational training: prepares learners for jobs based in manual or practical activities, traditionally non-academic and related to a specific trade, occupation or vocation (ie. plumbing, electrical, driving, construction)

Professional training: prepares learners for highly skilled 'white collar' occupations (ie. law, IT, accounting, medical, language, flight training)

Private training market

“Public and private sector training providers operate in parallel with little overlap between the two”

Private providers by number of employees

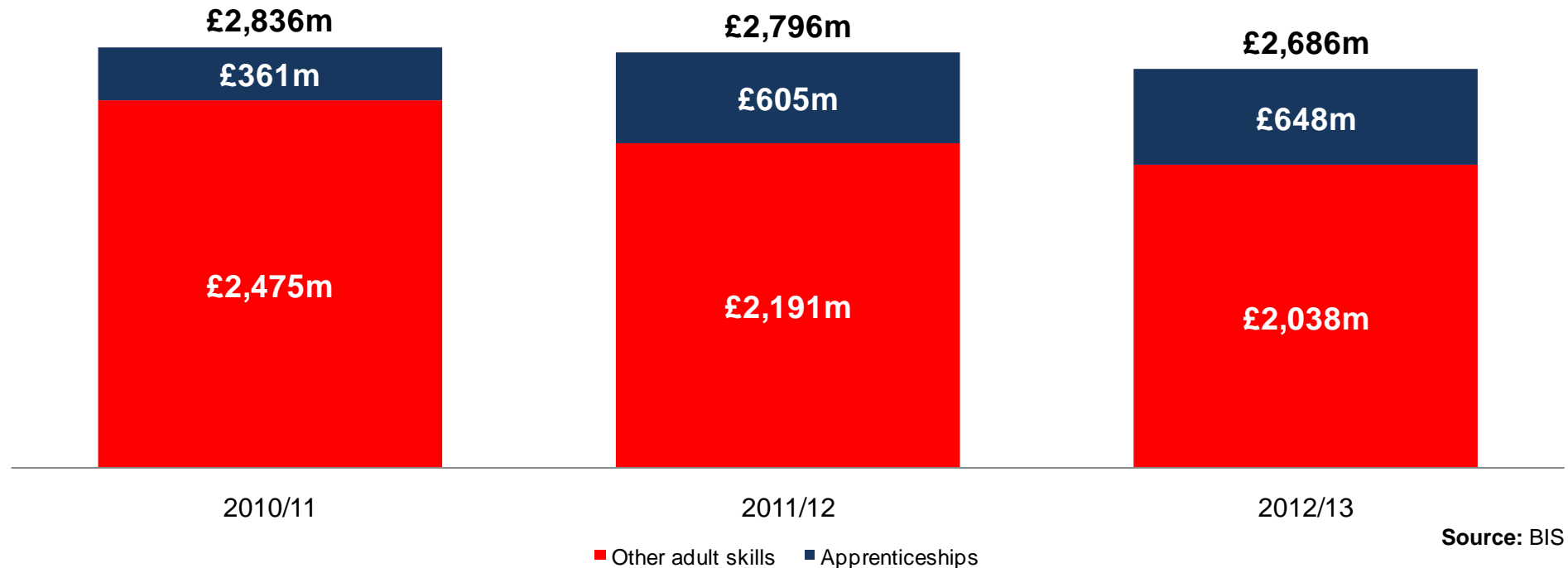


Source: IDBR 2008

- £3bn+ turnover per annum
- Mostly professional training in IT, financial services and legal
- Highly fragmented
- Ideal for consolidation
- 250 firms with over 100 employees
- IT training - 15 out of 1,300 providers have 50% market share (market size £500m)

Public training market

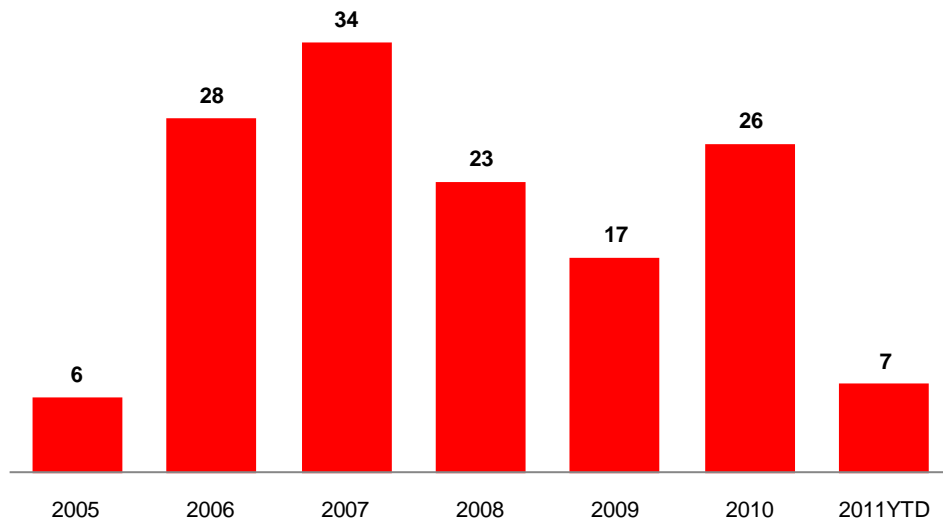
Focus is on Government investment in adult skills and apprenticeships



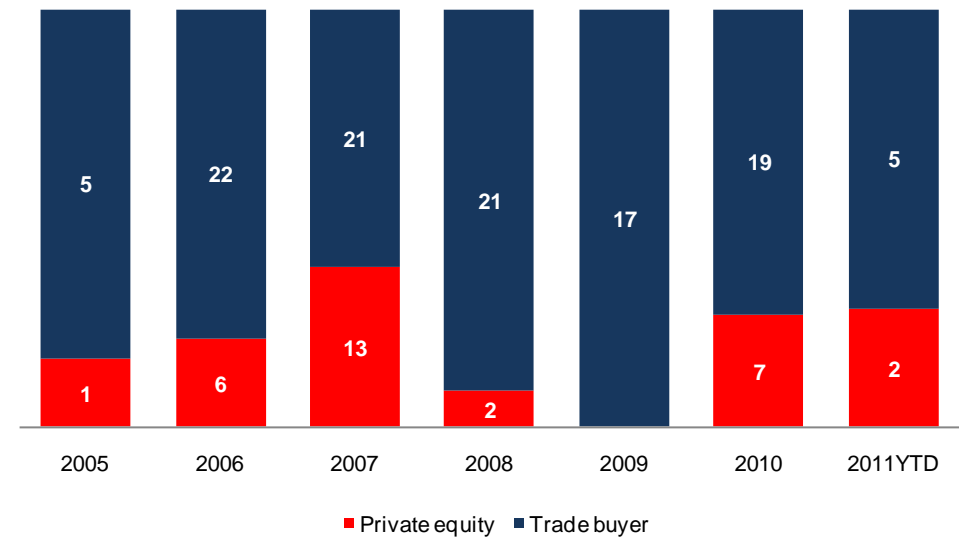
- Focus on basic numeracy and literacy (levels 1,2,3)
- Apprenticeships to increase from 130,000 – 200,000 p.a.
- Training to support SMEs (£100m p.a.)
- Targeting unemployment

M&A environment – transaction volumes

Number of deals



Private equity v trade buyer

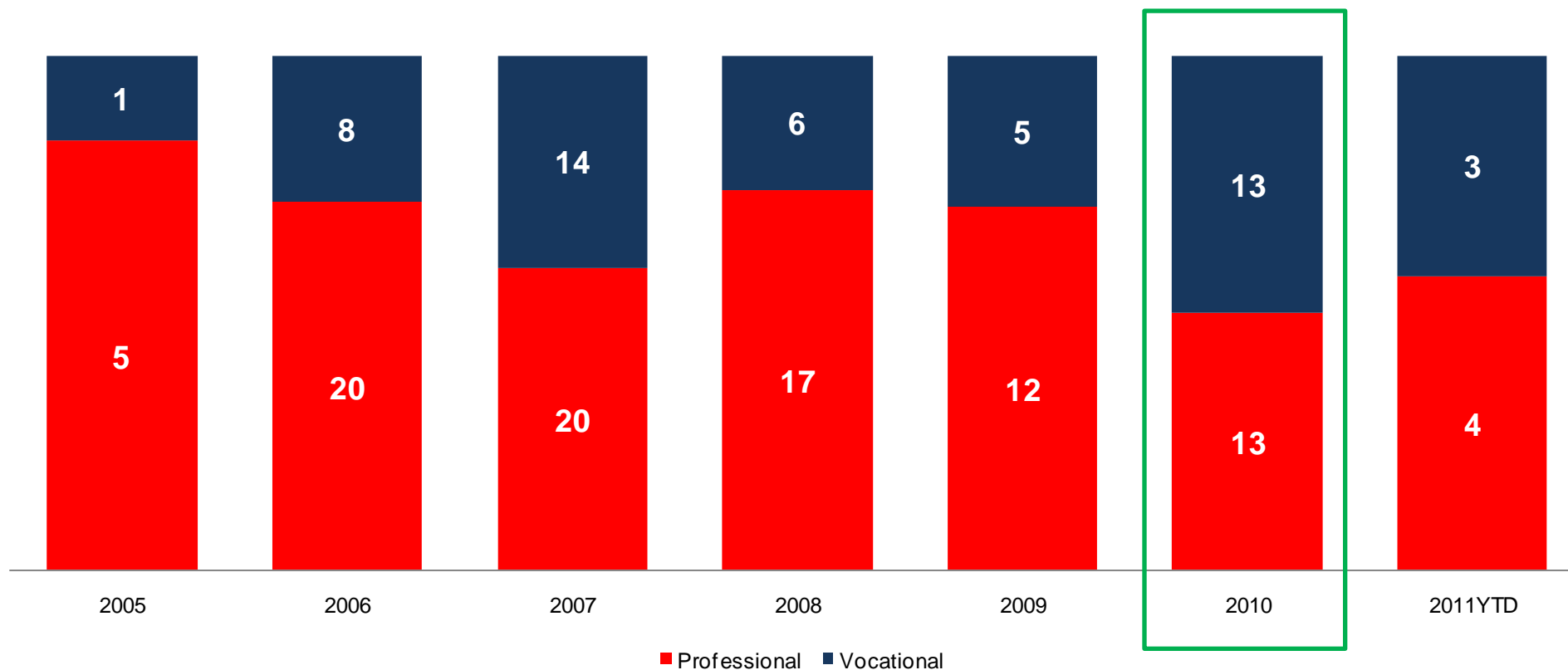


Source: Corffin, Mergermarket, Nexus research

- 141 transactions in total since 2005
- Aggregate disclosed values c. £1.7bn
- Strategic acquirers are volume leaders
- Private equity activity increasing again

M&A environment – transaction volumes

Professional v Vocational transaction volumes

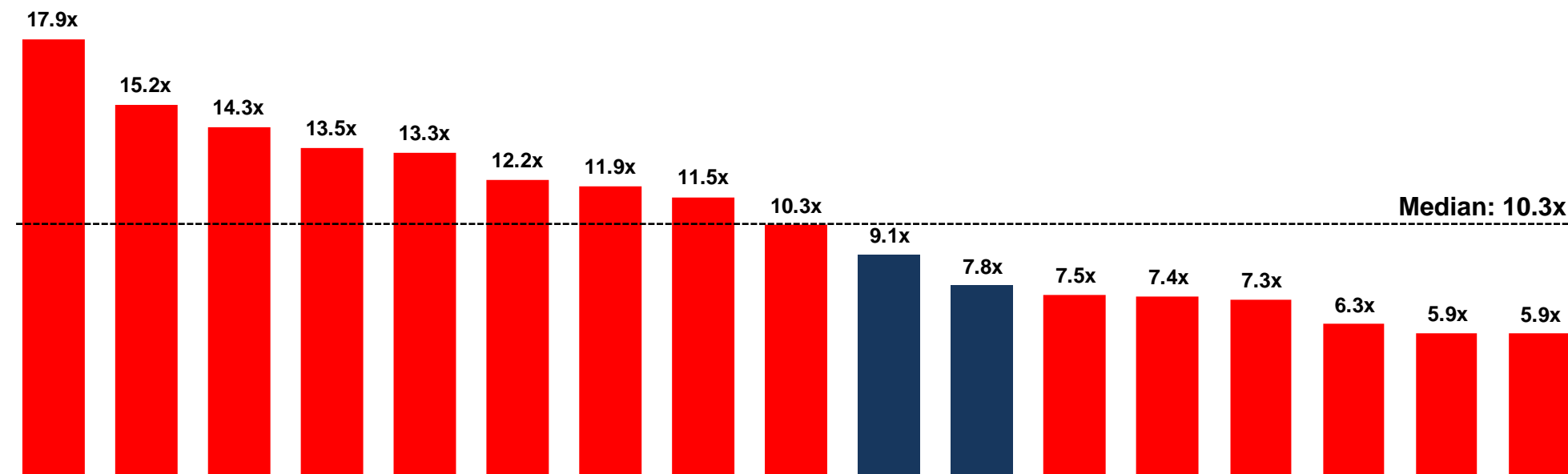


Source: Corpfin, Mergermarket, Nexus research

- Professional training transactions constitute an average of 70% of all historic deal activity
- 2010/11 balance is shifting

M&A environment – valuation multiples

Transaction multiples EV/EBITDA ¹



Source: Corpin, Mergermarket, Press releases

- EV/EBITDA multiples range from 6x - 18x
- Median valuation multiple across all transactions 10.3x
- Median valuation multiple across private equity backed transactions 8.5x

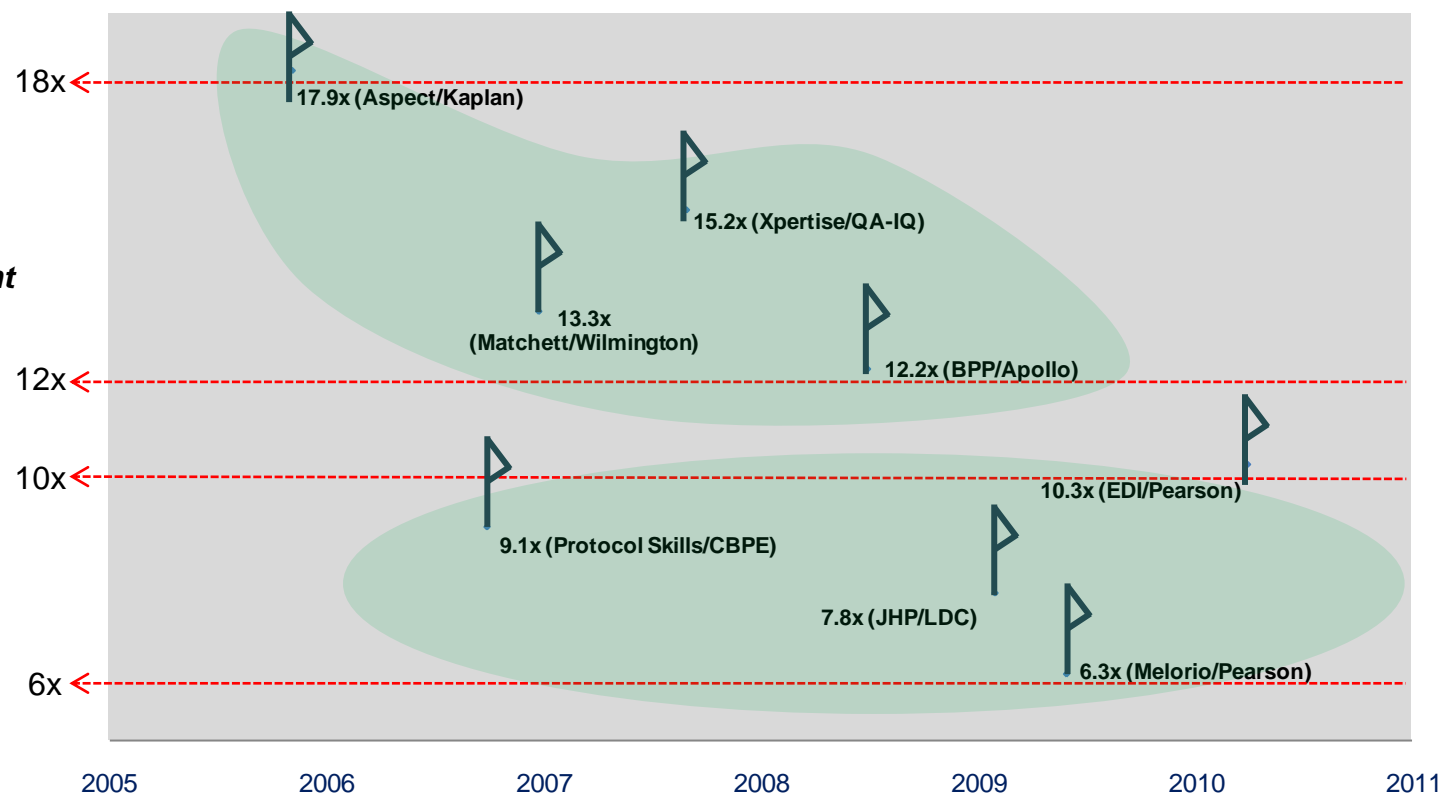
¹ Outliers have been removed

M&A environment – valuation multiples

A comparison of M&A transactions multiples in professional and vocational training

Professional training providers constitute primarily private pay clients and are not reliant on government funding - investment bankers, solicitors, IT professionals, administrators, compliance

Vocational training providers are partly government funded generally catering for apprentices and adult skills training



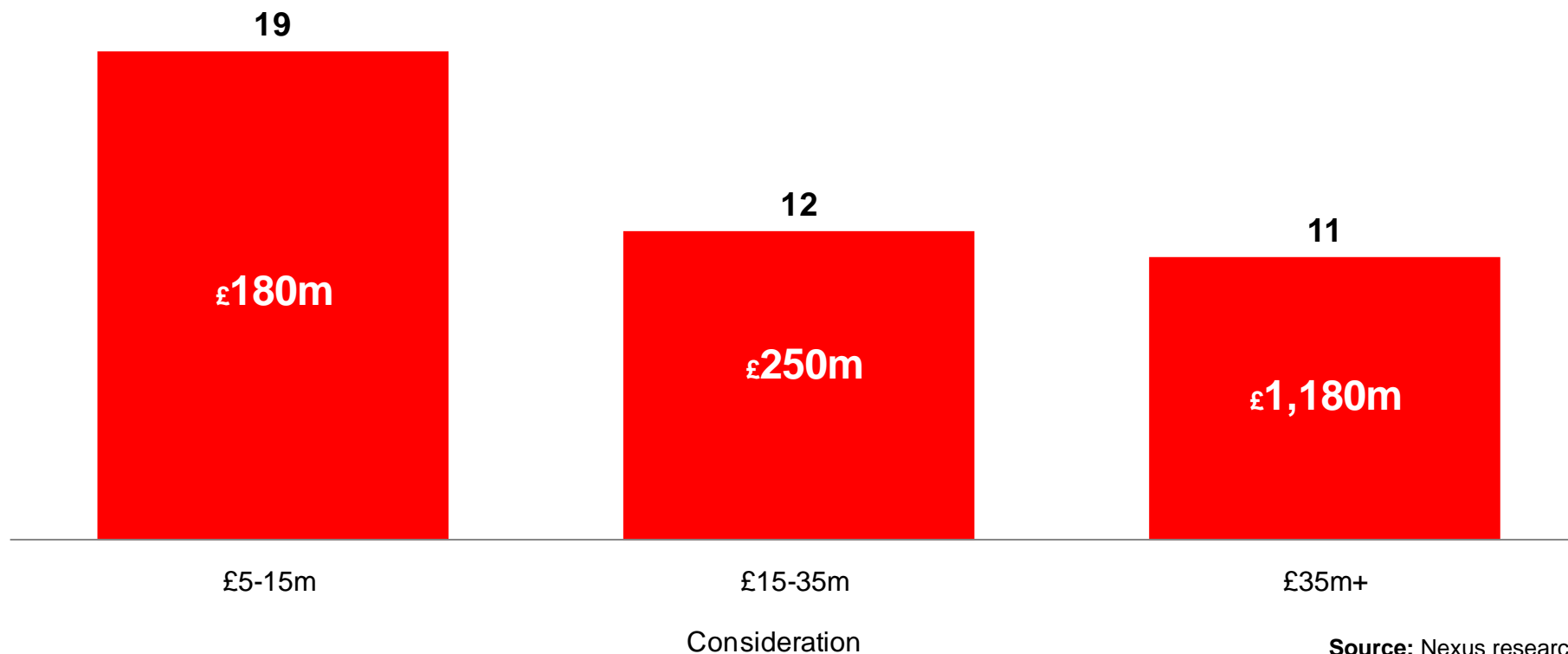
Source: Corpfin, Mergermarket, Press releases

- EV/EBITDA multiples for the Professional training sector range from 12-18x
- EV/EBITDA multiples for the Vocational training sector multiples from 6-10x

¹ Outliers have been removed

M&A environment – aggregate value and volumes

Disclosed transactions by consideration range and aggregate value

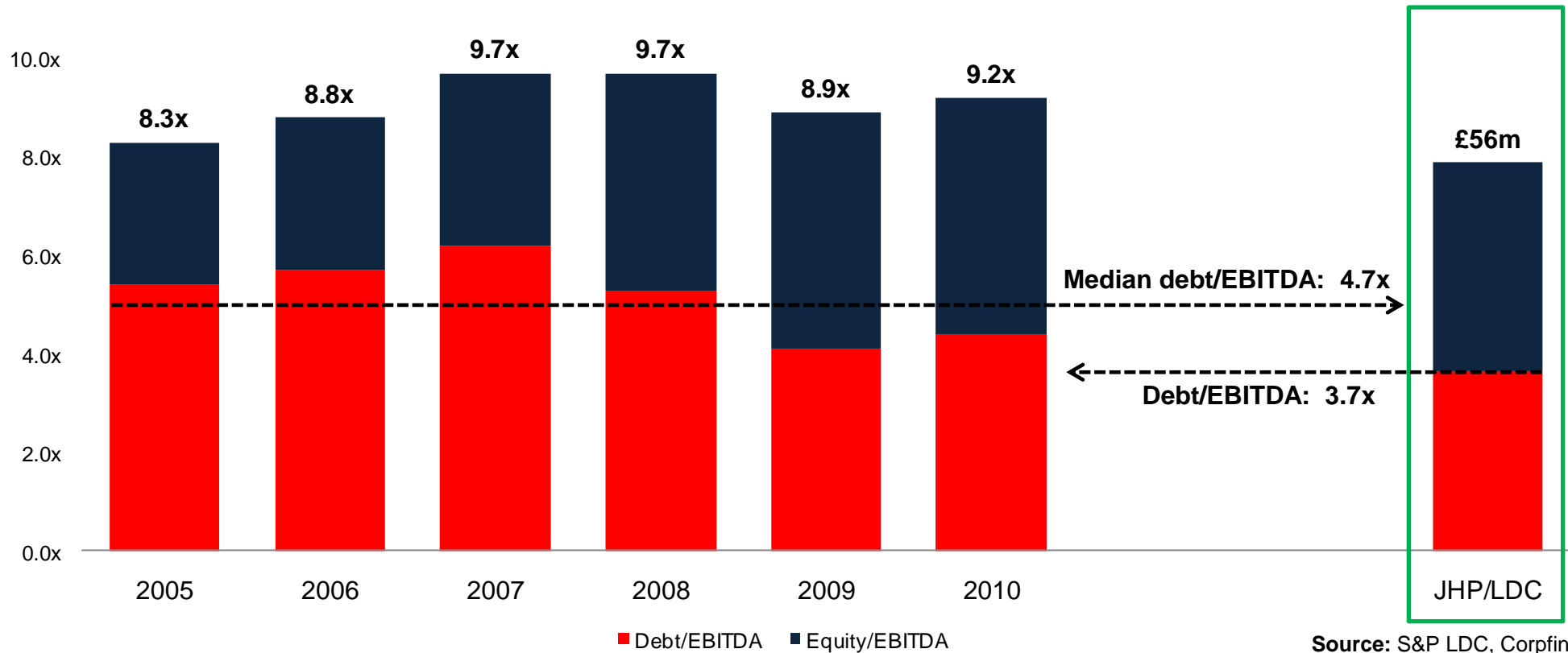


Source: Nexus research

- Disclosed values only
- £1.6bn in disclosed values across 42 transactions above £5m
- Large transactions include BBP / Apollo Global at £335m

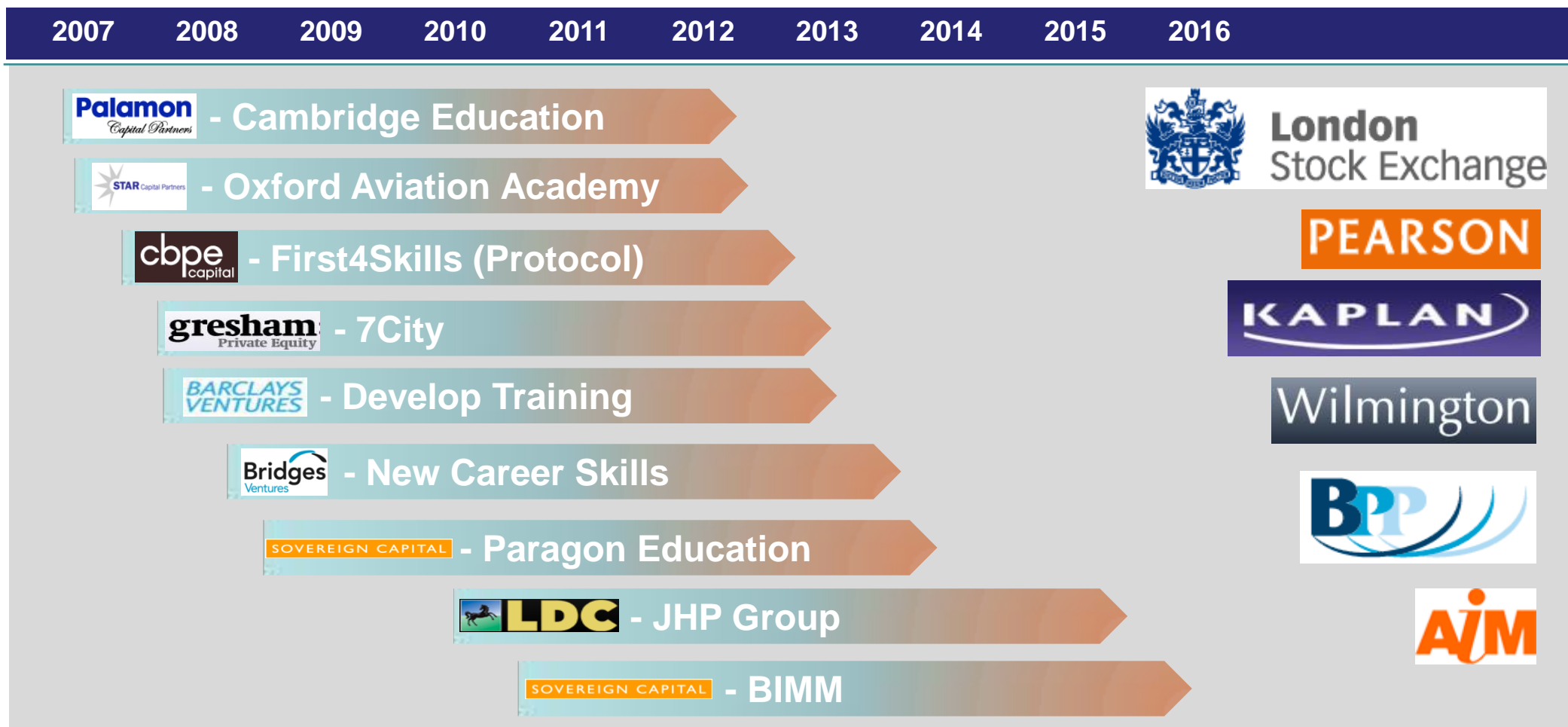
European debt market

EV/EBITDA and Debt/EBITDA multiples for European LBOs



- Debt/EBITDA multiples across all European LBO's have fallen from 2007 to 2009
- 2010 debt/EBITDA multiples have risen slightly in 2010
- LDC / JHP in 2010 debt/EBITDA multiple of 3.7x

Future transactions – the exit plan



*3-5 year holding period on PE portfolio companies

Source: Mergermarket, Corpin, Company websites

Example of 9 private equity backed education providers that are expected to come to market over the next 3-5 years (or sooner)

Key transactions: Melorio/Pearson

Company profile

- Vocational training group operating UK wide with a focus on school leavers and adult learners
- Delivers training and skills solutions in industries including ICT, construction, logistics, health and social care
- Provides services to over 15,000 people a year

Deal value

- Enterprise value £104m
- Multiples
 - EV/EBITDA 6.3x
 - EV/EBIT 7.6x

Comments

- Pearson plc acquired Melorio plc in May 2010
- The transaction consisted of a recommended cash offer for the entire share capital of Melorio at 225p per share valuing the company at approximately £100m representing a premium of around 30% on the previous day's closing share price
- Melorio delisted from the AIM market of the London Stock Exchange following completion of the deal

Key transactions: JHP/LDC



Company profile

- Vocational training company providing apprenticeships and National Vocational Qualifications
- Offers work-based and job-seeker training for adults and young people at its national network of over 117 business centres

Deal value

- Enterprise value estimated £56m
- Multiples
 - EV/EBITDA 7.8x
 - EV/EBIT 8.4x

Comments

- The transaction consisted of a management buyout led by CEO Jim Chambers in January 2010
- A consideration of £56m was offered
- LDC provided £30m in support of the transaction assuming a majority shareholding while Yorkshire Bank provided a £26m senior debt package

Key transactions: BPP/Apollo Global



Company profile

- BPP Holdings is a professional education company providing courses in accountancy, tax, finance, business, law and continuing professional development
- The company was founded in 1976 and is based in London

Deal value

- Enterprise value £335m
- Multiples
 - EV/EBITDA 12.2x
 - EV/EBIT 15.6x

Comments

- BPP was acquired by Apollo Global, a joint venture between Apollo Group (80%) and Carlyle Group (20%) in Jun 2009
- The deal consisted of a cash offer for the entire share capital of BPP at 620p a share, valuing BPP at approximately £300m. BPP was subsequently delisted from the London Stock Exchange
- Offer represented a premium of 70% on BPP's previous closing share price
- Apollo Global is an acquisition vehicle with a focus on the international education services sector

Conclusion

- Continued consolidation among private equity investors
- Certain private equity exits
- Possible public market flotation(s) (of private equity backed businesses)
- Strategic acquisitions by trade buyers
- Key areas of interest
 - Skilled trades and apprenticeships
 - Technological advances (online courses, e-assessment)
 - Green Environment (Sustainable Buildings Bill, Green Investment Bank Report)
 - Distance learning (self pay market)

THANK YOU

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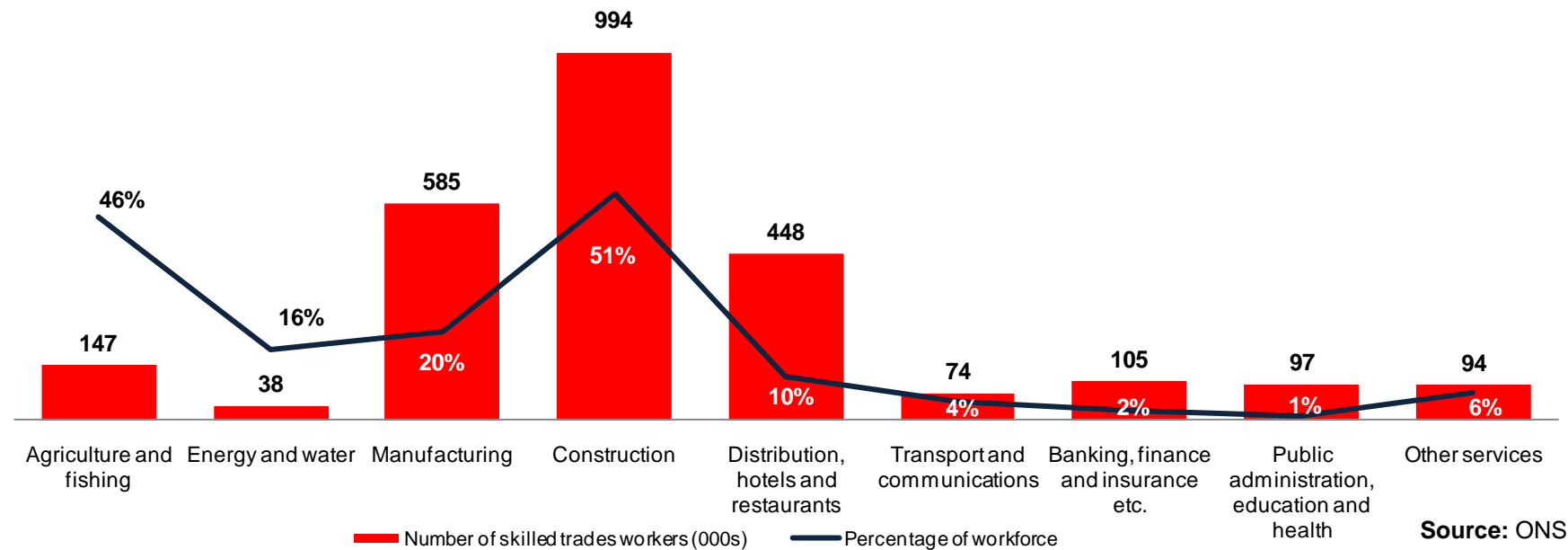
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APPENDICES

The Future – skilled trades

Number of skilled trades and occupations employees in England by sector (000s)



▪ Apprenticeship training

- SFA funding 50% with SMEs

▪ Regulation

- Gas safe
- Construction skills certification scheme (CSCS)

▪ Environment

- Sustainable buildings bill
- £550bn investment into low carbon infrastructure over 10 years (Green investment bank report)

Selected transaction multiples: 2001-2011

Select precedent transactions (disclosed values over £10 million)

Date	Target	Bidder	Enterprise Value (£m)	Description	Multiples TEV/		
					Revenue	EBITDA	EBIT
Mar-11	EDI	Pearson	105	Educational and quality assurance services	3.6x	10.3x	11.4x
Mar-11	Nautilus	RPS Group	16	Geosciences and petroleum engineering training provider	1.6x	NA	NA
May-10	Melorio	Pearson	104	Vocational training and apprenticeships programs	1.8x	6.3x	7.6x
Jan-10	JHP Training	LDC	56	Apprenticeship and National Vocational Qualifications	1.3x	7.8x	8.4x
Jun-09	BPP Holdings	Apollo Global	335	Provider of professional education	2.0x	12.2x	15.6x
Nov-08	Zenos Learning	Melorio	34	Training provider funded through the UK government	3.0x	30.5x	39.3x
Aug-08	Xpertise Group	QA-IQ	13	IT, professional soft skills and managed training	0.6x	15.2x	24.0x
Jun-08	Flagship Training	VT Group	102	Training solutions and support services	0.6x	5.9x	6.0x
Dec-07	7city Group	Gresham	36	Financial training services	3.2x	27.6x	32.7x
Nov-07	The Matchett Group	Wilmington	18	Training to professional markets	2.5x	13.3x	19.1x
Oct-07	Construction Learning World	Melorio	35	Training services in construction industry	4.7x	13.5x	NA
Sep-07	Mechanical and Electrical Training	Spice	16	Training provider for plumbers and electricians	4.2x	NA	19.5x
Sep-07	Protocol Skills (First4Skills)	CBPE	47	Provider of vocational training	1.3x	9.1x	10.3x
Feb-07	GE Commercial Aviation Training	STAR Capital	180	Commercial aviation training	8.4x	NM	NM
Dec-06	Quantica Training	Carter & Carter	10	Work-based learning programmes	3.5x	11.9x	12.7x
				Min	0.2x	5.9x	6.0x
				Average	2.0x	18.4x	20.9x
				Median	1.6x	11.9x	12.1x
				Max	8.4x	124.5x	142.3x

Selected transaction multiples: 2001-2011

Date	Target	Bidder	Enterprise Value (£m)	Description	Multiples TEV/		
					Revenue	EBITDA	EBIT
Oct-06	Aspect Education	Kaplan	20	Provider of English language instruction	0.6x	17.9x	23.4x
May-06	Retail Motor Industry Training	Carter & Carter	22	Training programmes for automotive technicians	0.9x	11.5x	18.3x
Feb-06	Fern Training and Development	Carter & Carter	14	Training to unemployed and disabled people	0.9x	14.3x	17.8x
Feb-06	Touchstone Learning & Skills	VT Group	12	Training and development for organisations	NA	7.4x	7.9x
Jan-06	Hotel and Catering Training Company	VT Group	10	Hotel and catering training company	0.7x	6.6x	8.8x
Aug-05	Assa Training & Learning	Carter & Carter	24	Adult vocational skills training services	0.9x	7.5x	10.8x
Apr-04	Moody International	Close Brothers	30	Technical, consulting and training services	2.8x	124.5x	142.3x
Oct-03	Home Learning College	ECI Partners	26	Distance learning courses	2.0x	NA	NA
Apr-03	Petrofac Training	3i Group	8	Training and consultancy services	0.5x	27.9x	NM
Apr-03	Reed Executive	James Reed	63	Human resources and recruitment services	0.2x	NA	8.3x
Mar-03	FTC Kaplan	Kaplan	55	Professional qualifications and business education	1.6x	NA	8.4x
Dec-02	The Longhirst Group	NVM	10	Training and conferencing organisation	0.8x	NA	NA
May-02	Mercia Group	Finmatica	13	Training for the accountancy profession	1.5x	5.9x	8.3x
Dec-01	Industrial Society	The Capita Group	24	Courses and training for employees	1.7x	NA	NA
				Min	0.2x	5.9x	6.0x
				Average	2.0x	18.4x	20.9x
				Median	1.6x	11.9x	12.1x
				Max	8.4x	124.5x	142.3x