

Key observations

Education is a sector that has all the elements that investors look for including growth, stable cash flow and, depending on the sub-sector, high barriers to entry. For these reasons the sector has been relatively un-disrupted compared to other industries since the beginning of 2017. Key themes that will resonate throughout 2017 will include some of the following...

In the UK, larger employers must now pay an apprenticeship levy. The pool of cash raised should find its way back into vocational training businesses. Furthermore, in the medium to long term, the sector will see an increasing role for private education and this will simply create more opportunities to invest. Also, many segments of the education sector remain highly fragmented and investors continue to look for buy and build or roll-up strategies. The latter theme was very pronounced in the nursery segment this year, where we saw a flurry of activity. Notable transactions included the acquisition of the 90 nurseries of Asquith Nurseries by Bright Horizons and Treetops Nurseries with 61 settings was bought by Busy Bees.

The UK remains uniquely positioned internationally and demand for a British education is ever increasing. At the same time, the UK is a technology centre that should continue to drive the Ed-Tech sector – providing Brexit doesn't stop the flow of talent to the UK.



Education specialists, Adam Street Advisers, is at the forefront of these trends and advises both private equity and trade buyers looking for investment or acquisition opportunities in the UK and Europe.



Nursery Schools – Nurseries remain one of the most active segments of the education sector. The segment is extremely “hot” with several consolidators sweeping up nursery groups, both big and small. Complete Childcare acquired Yellow Brick Nursery Group, adding the four nurseries to its portfolio of 10. Busy Bees has acquired Positive Steps which operates eight nurseries for a rumoured £25 million. Busy Bees also acquired Treetops Nurseries, which operates 61 settings and provides over 4,400 places, for a reported £93 million from private equity investor Epris. The move brings the total number of nurseries operated by Busy Bees to 329, providing around 28,500 childcare places. The largest deal in the segment was Bright Horizons acquiring Asquith for £166 million. Asquith operates 90 nurseries throughout the UK with roughly half located within the south-east Greater London area. The addition of Asquith brings Bright Horizons' total number of nurseries in the UK to more than 300 and more than 1,000 worldwide. Kids Planet is poised for a major growth spurt after securing £10 million of long-term investment from the Business Growth Fund (BGF).

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E-Learning Technologies – Over time Adam Street would expect the Ed-Tech sector to gain momentum and occupy pride of place in our newsletter in the near future. Interest in the sector is reflected in an increasing number of transactions. Northstar Ventures invested in Caspian Learning, a developer of 3D games and simulations for the education and training markets. This transaction highlights both the growing importance of technology in learning but also the increasing application of game technology.

NCFE acquired ForSkills, an e-learning business that provides diagnostic assessments and learning resources for Functional Skills qualifications to organisations across the UK. Learning Pool acquired Mind Click, making it the largest provider of Totara learning management systems. Prospects acquired Optimus Education, a UK-based company that provides a range of online courses to enhance professional development, in an effort to build a one-stop-shop that helps primary and secondary school leadership teams manage staff development. Furthermore, Global University Systems acquired Arden University an online distance and blended learning university with 6,500 students.

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Further and Higher Education – Interest in the further education sector remains strong but requires specialist knowledge and understanding to navigate government policy. The Government's insistence of the inclusion of foreign students in net immigration targets could be an issue for some higher education providers. Likewise, the delayed Government decision surrounding funding allocations in the apprenticeship training sector poses a similar frustration.

Despite uncertainty, interest in the space is illustrated by the following transactions. Newcastle-based PTM Group has acquired Blyth-based Winnovation Training in a deal which sees it break into a new market (Winnovation delivers around 100 courses in social care training). QA acquired The Training Foundation and Mercia Group, part of listed company Wilmington, acquired SWAT Group, a provider of training and technical compliance support to accountancy firms.

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Working together with private equity

The macroeconomic argument for private equity investment in the education sector is clear: the market is large but fragmented, grows steadily and is partially protected from economic downturns. Private Equity (PE) investors are increasingly taking note.

How then does private equity involvement impact the business from an owner's or management team's perspective?

The dynamic is primarily driven by the type of private equity investor and along with that comes the type of transaction. The most common investment strategies in private equity include: venture capital (providing early stage capital), growth capital (supporting companies to grow), leveraged buyouts (acquisition of a mature business funded largely by debt), and distressed investments (restructuring underperforming businesses). How the deal type impacts a business owner's life under private equity is largely driven by the transaction structure (e.g. majority control or minority, management incentivisation etc) and the attitude of the PE firm.

For PE firms, most value is created in the early stages of the holding period. The investment holding timeframe is usually three to five years, but the most intensive period is arguably the first four to six months. In order to realise a onetime, short-to medium-term value-creation opportunity, buyers typically intervene at this stage. Most PE firms prefer not to get engaged in day-to-day decision making on a continued basis afterwards. Rather they prefer to set the strategy with the management teams and

monitor the performance on a monthly basis. So, how to get the most out of your PE partner – some key lessons learnt:

- **Choose your partner carefully.** Make sure the culture fits. This may sound trivial but in stressful situations your team needs to be aligned on a personal as much as a financial basis. Moreover, what does the PE firm have to offer other than cash? This is crucial and needs to be aligned with what the company needs;
- **Then, once the deal is struck, leverage the PE firm's expertise.** They have strong capabilities and impressive partners to leverage. This can include, recruitment of key professionals, scaling internationally, providing potential client introductions, and implementing best-in-class systems that they learnt from working with other portfolio companies;
- **Agree to a realistic business plan for the company** and align this to specific goals. Don't try to impress by overselling yourself. A PE firm will review you, as the (former) owner or CEO, against those metrics, sometimes forensically. Make sure, therefore, that your reporting allows for such detailed reviews and prepare properly for such meetings;



- **Be proactive when it comes to your team.** Assess your organisation structure and staff and understand your current team's ability to execute the business plan. Build contingency into your plan if you are uncertain;
- **Finally, remember the business is no longer solely your own** – you have financial partners. Treat them and their money with respect, seek their opinion at Board meetings, involve them in the vision you have and the journey should be a pleasant and lucrative one.

When the PE firm eventually decides to exit its investment, it may be to another, larger PE fund. You may decide to "go-again" by rolling over from one PE investor to the next. This time you may decide to rollover a small minority stake and be a passive investor. Alternatively, you may have the vision, drive and stamina to lead the buyout and drive the business to new heights. The second time around the results and rewards can be exponentially greater than the first time.

Case Study



THE FACTS

ATL is a privately owned company that provides training and skills services. It specialises in the leisure and hospitality sectors and has a strong portfolio of long standing clients and an established reputation in the market. ATL provides both SFA funded apprenticeship training and also commercial training for self-funded learners. The split between the two business areas is circa 70:30. ATL has an annual turnover of just over £30 million and is making EBITDA of circa £7.5 million, with a projected annual growth over the next three years to at least £45 million of revenues and EBITDA margin improvement to 30 percent. Much of the growth is centred on the opportunities presented by the new Apprenticeship regime. ATL is owned 85 percent by its two founding shareholders, with the balance of 15 percent held by management under incentive arrangements.



THE OBJECTIVE

The Founders of the business are nearing retirement age and want to realise some cash to de-risk their personal financial circumstances by selling a significant majority stake in the business. They are currently involved in the business in a non-executive capacity, and are willing to rollover some of their equity alongside an incoming investor.



THE asa DIAGNOSIS

The Founders of ATL appointed advisers (ASA of course!) that they had a long-standing relationship with and trusted to explore their options. The apprenticeship and corporate training sectors are red-hot at the moment and advisers were able to run a highly competitive process which included both private equity investors and strategic acquirers.

ATL offered private-equity investors a platform for growth and consolidation in a highly fragmented sector. A small number of PE investors were highly engaged throughout the process and had clearly done their research on the sector and understood the political issues and government policies surrounding funding. They went through to the second round of bidding.

The Founders were very impressed with the quality of the individual fund managers that they were dealing with, their knowledge of the sector and their track record of growing and exiting businesses. In the end the Founders and Management were able to realise 70% of their shareholding, rolling over the balance into a new equity structure that ranked pari passu with the PE investor. Both Founders and Management now have the opportunity to benefit from further wealth creation.

In addition to the rollover, as part of the negotiations around management terms, an equity pool of up to 25% was created to incentivise existing and new management to achieve the growth plan over the next 3 to 5 years.

Eighteen months on, the business is trading way ahead of forecast and the PE investors, Founders and Management are on track for a successful and prosperous exit.

Deal tracker

Date	Target	Bidder	EV (£m)	Target Description
May-17	Lara Group	iCollege	NA	Education Software
Mar-17	Tree Tops Nurseries	Busy Bees Holdings	£93.0	Nursery Schools
Mar-17	Pivotal Education	Crisis Prevention Institute	NA	Training
Feb-17	NetDimensions	Learning Technologies Group	£51.3	Education Software
Feb-17	Childcare4u	ICP Nurseries	NA	Nursery Schools
Feb-17	Mitre Group	Private Group Led by Peter George and Robin Sibson	NA	Training
Feb-17	Acorn Training Consultants	Babington Business College	NA	Training
Feb-17	Connect Education & Care	RM Group	£64.4	Education Support
Jan-17	Communicaid Group	Learninglight Holdings	NA	Training
Jan-17	Tomorrow's Guides / Magic Nurseries	Les Petits Chaperons Rouges (LPCR)	NA	Nursery Schools
Dec-16	Real Results Training	Ember Group	NA	Training (Consultancy Services)
Dec-16	ACS Aviation	Cloud Global Group	NA	Training
Nov-16	Pera Training	Talent Training (UK)	NA	Training
Nov-16	Asquith Day Nurseries & Pre-Schools	Bright Horizons Family Solutions	£166.0	Nursery Schools
Nov-16	OPP	CPP	NA	Training (Consultancy Services)
Nov-16	Interact Learning	City and Guilds of London Institute	NA	Training (Compliance)
Nov-16	Education & Media Services (ITEC)	The Vocational Training Charitable Trust (VTCT)	NA	Awarding Organisation
Nov-16	IBAT College	Global University Systems	NA	Higher Education
Nov-16	The Training Foundation	QA Limited	NA	Vocational Training
Nov-16	Optimus Education	Prospects Education Services	£1.5	E-learning
Nov-16	Inspiring Learning	Bridgepoint	£100.0	Educational Services
Sep-16	Mind Click	Learning Pool	NA	E-learning
Sep-16	Astrum Education Group	Sailing Capital Advisors (HK)	NA	Education Services
Aug-16	Mtrec	Trust Tech Inc	NA	Training Recruitment
Aug-16	Kids Planet Day Nurseries	Business Growth Fund	NA	Nursery Schools
Aug-16	Yellow Brick Nursery	Complete Childcare	NA	Nursery Schools
Aug-16	Positive Steps Nurseries	Busy Bees Holdings	NA	Nursery Schools
Aug-16	Winnovation	PTM Group	£0.5	Vocational Training
Aug-16	Arden University	Global University Systems	£11.5	Higher Education
Aug-16	Unicorn Day Nurseries	Bright Horizons	NA	Nursery Schools
Aug-16	Acorn Care and Education	The National Fostering Agency	£400.0	Special Education Needs
Jul-16	SWAT Group	Mercia Group	£5.4	Training and Technical Compliance Support
Jul-16	For Skills	NCFE	NA	E-learning
Jul-16	Caspian Learning	Northstar Ventures	NA	Training
Jul-16	Lean Education and Development	Lead Holdings	NA	Education/Development
Jun-16	Eaton House School	Sovereign Capital Partners LLP	NA	Schools Operator
Jun-16	Bilfinger Salmis UK Skills Centre	Advanced Industrial Solutions	NA	Education
Jun-16	Cogbrooks	Nesta Impact, DC Thomson, Scottish Investment Bank	£1.3	E-learning
Jun-16	Radiowaves Schools	City & Guilds	NA	Social Media/Education
Jun-16	North East Chamber of Commerce (Training)	Middlesbrough College	NA	Training
Jun-16	Life Time Training	Silverfleet Capital	NA	Training (Multi-sector)
Jun-16	Outsource Education Group	Seetec	NA	Training (Multi-sector)
May-16	Learning Pool	Private group led by Carlyle Cardinal Ireland	£4.5	E-learning
May-16	Bushbabies Childrens Nurseries	Busy Bees Holdings	NA	Nursery Schools
May-16	Smartstyle Technology Training	Independent Training Services	NA	Training
May-16	The Redland High School for Girls	The Red Maids' School	NA	Private Schools Operator
May-16	Getmyfirstjob	Nesta Impact Investments	NA	Training Recruitment
May-16	Farleigh Group	Wealth at Work	NA	Training (Financial Services)
May-16	GL Education Group	Levine Leichtman Capital Partners	£218.0	Educational Assessment
May-16	University of Stirling	US institutional Investor (Placement)	NA	Higher Education
May-16	Learning Possibilities	Niveda Group, Impact Ventures	NA	E-learning
Apr-16	Bascule	Dulwich Day Nursery Group	NA	Nursery Schools
Apr-16	KinderCare (Harrogate)	Treetops Nurseries	NA	Nursery Schools
Apr-16	Derby Business College	DBC Academies	NA	Training
Apr-16	Babington College	RJD Partners	£22.3	Training (Multi-sector)
Mar-16	Options Group	Outcomes First Group	NA	Special Education Needs
Mar-16	Redline Aviation Security	Mobius Equity Partners	£3.7	Training (Security)
Jan-16	Brightwave	Capita	NA	E-learning
Dec-15	ROC North West	CareTech	£11.4	Special Education Needs
Dec-15	Smart Education	TES Global	NA	Education Recruitment
Dec-15	MPW	Kaplan	£135.0	Sixth Form Colleges
Nov-15	Trax Care	Care 4 Children	£3.5	Special Education Needs
Oct-15	Alcumus	Inflexion Private Equity	£92.0	Training (Compliance)
Aug-15	Wealth at Work	Equistone Partners	£50.0	Training (Financial Services)

“Education is the kindling of a flame, not the filling of a vessel”

SOCRATES

ASA Group client highlights

Target



Acquirer



Target



Acquirer



Target



(Management)

Acquirer



Target



Acquirer



Target



Acquirer



Target



Investor

Private Investors

Target



Investor



Target



Acquirer



Target



Acquirer



* UCFB Wembley and London Preschool were both growth capital transactions.

About ASA Group

The ASA Group is regarded as one of the leading advisers in the education and healthcare sectors and has a global network of acquirers and investors that we are in regular contact with. Our team of 70 professionals includes highly experienced M&A, private equity and debt advisers. As sector specialists we are ideally positioned to advise shareholders and management teams on a wide range of transactions.

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