

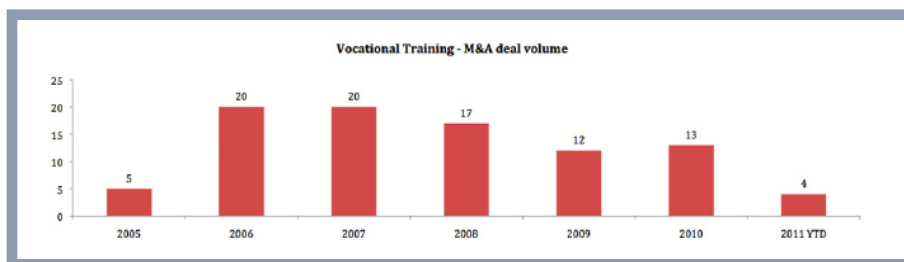
## Sector Insight 09/11 #4

### Vocational Training Article

BUSINESS SERVICES, EDUCATION & TRAINING

## Vocational training: Consolidation set to continue as funding landscape changes

*So far 2011 has only seen four deals of any notable size complete in the vocational training sector. This compares to 13 deals for the full year in 2010 and 12 deals in 2009. Despite this, PMSI believes there are a number of factors that will push up activity over the medium term.*



*The sector has a number of strong structural drivers of growth*

### The value of a university degree is decreasing, while the cost of a degree will double

According to the Office for National Statistics the 'graduate premium' – the financial benefit that degree qualified people enjoy above those without degrees – is falling. In 1993, graduates earned, on average, 95% more than those who did not go to university. Last year the premium had fallen to 85%. This comes as the average debt students take on is set to more than double from £26,000 in 2011 to £53,400 in 2012.

### Jobs cuts are resulting in more over 25's taking up training and apprenticeships...

The recession has resulted in a considerable amount of restructuring within the UK workforce and one result of this has been that many older workers have returned to the training market. This can be seen in recent data on apprenticeships starts that show the number of over 25's starting an apprenticeship rose from 36,000 in the 2009/10 calendar year to 121,000 in 2010/11. One of the big reasons for this is employers putting existing members of staff, who tend to be older, onto their schemes rather than taking on new and younger apprentices.

### ...in the short term this means higher youth unemployment, but over the longer term should boost demand for training as this demographic enters the workforce

Adults under the age of 25 have been particularly hard-hit by the current economic downturn. Figures published in August reported that the number of 19-24 years olds neither in education,

**Sector Insight** continued

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employment or training (NEETs) had risen to 19%, up from 16.4% the previous year. Assuming some normality eventually returns to the economy, over the longer term this will mean strong demand for training as this NEETs group return to the labour market.

**In addition changes to the funding landscape have seen adult apprenticeships receive a boost**

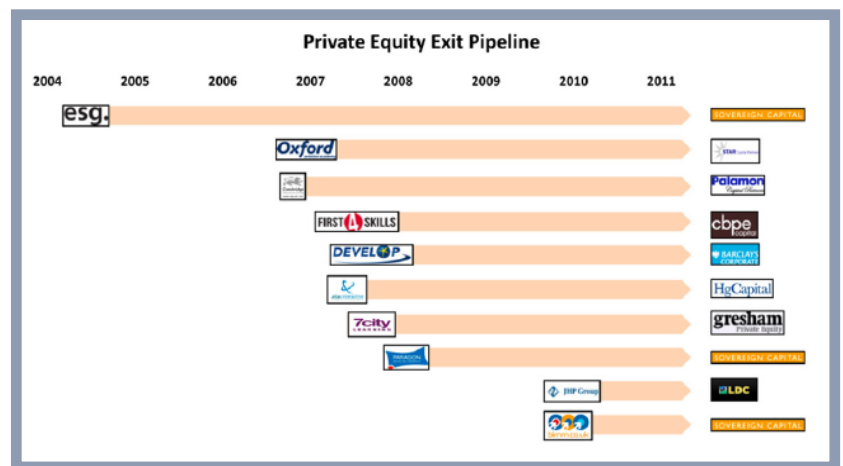
In 2010 the Coalition Government detailed plans to add 75,000 apprenticeships per year over the period to 2015, increasing spending on adult training by £250m. This is a clear boost to firms providing apprenticeships, but was more than offset by cuts in other areas, such as abolishing the Train-to-Gain programme and cutting cash for colleges and adult training by a quarter.

**This should result in more M&A activity over the medium term**

PMSI believes these factors add up to strong medium growth in the sector, which will make it attractive to trade consolidators and private equity alike.

We expect major trade consolidators including Pearson-owned Melorio, Babcock (who acquired VT Training) and London PLUS listed Woodspeen Training – all of whom have been largely absent from the market since mid-2010 – to return to deal-making.

Private Equity has also been reasonably quiet, though a few notable deals have completed in the last two years, including LDC's investment in JHP Training and Sovereign Capital's investment in BIMM and Tech Music Schools. What is more interesting for future M&A volumes is the lack of exits since 2009, meaning there is a healthy pipeline of deals completed between 2007 and 2009 that should be coming to market.



If you would like to discuss this topic further, please do not hesitate to get in touch:

**Jake Tyler**  
 Consultant

**020 8347 3503**

[jtyler@pmsi-consulting.com](mailto:jtyler@pmsi-consulting.com)