



PARAGON
skills for industry



SOVEREIGN CAPITAL

THE UK'S BUY & BUILD SPECIALIST

INVESTING IN **EDUCATION AND TRAINING SERVICES**



SOVEREIGN CAPITAL HAS A GROWING REPUTATION FOR EXCELLENCE IN EDUCATION AND TRAINING SERVICES, WITH A PORTFOLIO OF MARKET-LEADING SCHOOLS AND EMPLOYABILITY SKILLS PROVIDERS.



PARAGON EDUCATION AND SKILLS LIMITED

Sovereign's research team has developed a deep knowledge and understanding of the education and training market: its dynamics, trends and opportunities. Sovereign's understanding of the adult training sector has led to its successful investment in esg, which has grown through Sovereign's proven Buy & Build strategy into one of the top five employability and skills providers in the country. This strong track record in the education and training sector led to Paragon to partner with Sovereign as it seeks to grow its work-based training business from its base in the South West to become a major national training and skills provider.

Paragon specialises in providing apprenticeships in the Engineering, Motor Maintenance, Marine Engineering, Care and Business and Commerce sectors. This is a large and highly fragmented market within the region, with excellent opportunities for consolidation.

A survey of employers with apprentices trained by Paragon showed that satisfaction levels are extremely high. Paragon's training is seen as a key way to develop employee productivity and skills and to prepare organisations for the future. It is particularly renowned for the quality and professionalism of its staff and many respondents also commented on the strength of Paragon's relationships with both employers and apprentices.

The existing management team will remain with the business, with Gavin Freed leading the business through the buy and build process and Adrian Humphries continuing to support it in a non-executive capacity.



GAVIN FREED, CHIEF EXECUTIVE OF PARAGON, EXPLAINS WHY HE KNEW SOVEREIGN WAS THE RIGHT PARTNER FOR PARAGON

In 2007, Paragon had reached a crossroads. With learners and employers rating their services very highly, the management team knew they had created a company with the potential to become a leading player in the growing work-based learning marketplace. However, the management team recognised that maximising the opportunities would require additional funding.

Gavin Freed and Adrian Humphries began conversations with a number of private equity companies but quickly realised that Sovereign Capital was the only potential investor with the experience that would enable them to achieve their growth potential.

"Sovereign is the number one education-oriented private equity house focused on buy and build strategies," says Gavin. "They were the only guys who could demonstrate that they understood the market dynamics and the main players and that certainly wasn't always the case with the other organisations we talked to. They also understand that at the core of sustainable business growth is a great team of people who love what they do. We felt they were a natural extension of our management team that could help the organisation to achieve its full potential!"

For Gavin, it was critical any partner would share his vision of aligning business growth with delivering the highest standards of work-based learning provision within a supportive working environment – a business culture he has worked hard to create and which he is not prepared to compromise.

"We are now actively looking to bring other smaller providers into the Paragon group. There is an exciting opportunity to develop a national work-based learning provider that sets the quality standard. This is a growth market that is crying out for more capacity provided by long term, employer-focused providers. We knew Paragon needed investment to meet our business development challenges and with Sovereign's backing we have the funding needed to pursue both organic and acquisition growth opportunities."

< *Gavin Freed*

PLANS FOR THE FUTURE

Sovereign began by working with the management team to recruit Group Finance Director Adam Carswell. Together, the team is now:

- seeking an experienced Chairman and Non-Executive Director to complete the team
- identifying a number of bolt-on opportunities. It anticipates announcing the first acquisition shortly
- standardising administration and workplace assessment processes, to enable a higher apprentice/assessor ratio and build on the existing reputation for high quality assessments.

The South West Learning and Skills Council (LSC) is highly supportive of Sovereign's acquisition of Paragon, which it considers an important strategic provider. Paragon's specialisms are a very close match with the South West Regional Development Agency and LSC's priority investment areas and its services are highly regarded by local employers, including Sunseeker, the luxury motor yacht company, and Agincare, the national live-in and home care providers. This positions Paragon very well to cope with any prospective economic or political changes.

The Government has recently committed to reduce the numbers of NEETs (Not in Employment, Education or Training) by making academic or vocational learning mandatory for 16 to 18 year olds. This policy is backed by a 31% increase in LSC budget over the next four years and a commitment to make apprenticeships a mainstream education opportunity by 2013.

In addition to this market growth, there are also significant geographical expansion opportunities for Paragon, most obviously in Devon, Cornwall and the South East. Already one of the largest companies in a market where only 15 providers have more than 1,000 learners a year, Paragon has a clear opportunity to become the market leader both in number of learners and quality of provision.

Sovereign has committed to supporting Paragon with over £10 million of additional funding to drive consolidation in the sector. As the regulatory burden increases and LSCs look to source more training from a smaller pool of providers, the benefits of joining a successful and well-resourced group are clear:

Paragon intends to grow organically as well as by acquisition. If you would like to have a confidential conversation with us to discuss whether your business might fit with Paragon, please call Matthew Owen or Jonny Burr on 020 7282 6944 or visit our website: www.sovereigncapital.co.uk.

SOVEREIGN'S RECENT SUCCESSES IN THE EDUCATION SECTOR

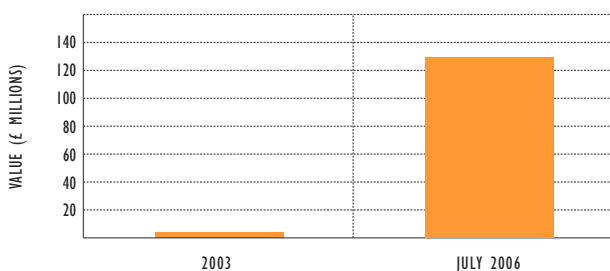
esg

esg has grown from Sovereign Capital's initial £3.5m investment in Pelcombe Training (now Sencia) in December 2004. The Group has since grown to include STL Limited, Orient Gold and Triangle Training. Together, these businesses enable esg to offer nationwide work-based training programmes including apprenticeships and Train To Gain. By working together to share best practices, the quality of the training provided has improved and esg is now one of the top five players in the employability and training skills sector.

EMPLOYEES TRAINED 2007	3,000
JOBSEEKERS RETURNED TO EMPLOYMENT	2,200
BOLT-ON ACQUISITIONS	3

SENAD

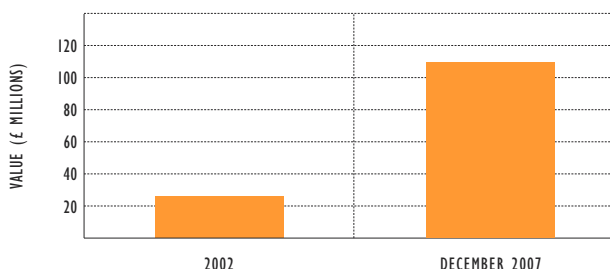
By the time of exit, SENAD was the pre-eminent dedicated provider of special educational needs schools, having added 400 pupil places.



INCREASE IN PUPIL PLACES	58%
INCREASE IN NUMBER OF SCHOOLS	133%
BOLT-ON ACQUISITIONS	4

Alpha Plus

During the period of ownership, Alpha Plus grew by eight schools to offer 1,100 new pupil places. It also set up the Best Practice Network for educational psychology.



INCREASE IN PUPIL PLACES	44%
INCREASE IN NUMBER OF SCHOOLS	55%
BOLT-ON ACQUISITIONS	3

ADRIAN HUMPHRIES, FOUNDER OF PARAGON, ON GROWING HIS BUSINESS WITH SOVEREIGN

Adrian Humphries, the founder of Paragon and the vendor said: "As the majority shareholder, and principal of Paragon, I had been anxious to make sure that the company continued to grow and improve the quality of its facilities for the benefit of its learners and staff. The Skills agenda ensured that the opportunities for the sector (and in particular, for private providers), had never been so great, and it was important that we try and maximise the opportunity to grow the business whilst at the same time achieving our improvement goals.

"For a private company, funding growth and substantial inward investment is a massive financial undertaking, and for me Sovereign provided the perfect solution. They already had significant expertise in the education sector and were as committed to the Skills agenda as we were. Their size and structure meant that we were dealing with a small and well informed team, who had access to sufficient capital to fund the investment plans.

"Once the terms of the deal had been agreed, the whole transaction was carried out in an open and amicable fashion, with both parties looking beyond the deal.

"Four months after completing the sale to Sovereign, I remain convinced that it was the right decision. Selling a company, and remaining with it can be a difficult and upsetting experience.

"Sovereign have been attentive to the sensitivities of this, and I still feel part of the new organisation, and remain just as excited about its future as I did when it was mine.

"I have been involved in a large number of sale and purchase agreements over the years, and I can honestly say that the sale of Paragon to Sovereign has been the most straight forward of them all."



< Adrian Humphries

"FOUR MONTHS AFTER COMPLETING THE SALE TO SOVEREIGN, I REMAIN CONVINCED THAT IT WAS THE RIGHT DECISION."

ADRIAN HUMPHRIES, FOUNDER

SOVEREIGN CAPITAL

25 Victoria Street London SW1H 0EX

T : 020 7340 8800

F : 020 7340 8811

E : info@sovereigncapital.co.uk

I : www.sovereigncapital.co.uk

Sovereign Capital, the UK private equity Buy & Build specialist, has a strong track record and specific expertise in the service based sectors of healthcare, education & training and business support services. Sovereign Capital is focused on investing in lower mid-market UK consolidators requiring £5m–£20m of equity.

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