

# Opportunity of a Lifetime

Lifetime has quietly grown to become one of the UK's largest skills businesses. How will investors respond when it comes up for sale early next year, asks **Daniel Thomas**

It is hard not to be impressed by the list of apprenticeship contracts Lifetime has won over the last three years. There were the pub chains Mitchells & Butlers, with 44,000 employees, and Greene King, with an estimated 30,000. That's not to mention Bupa, Matalan, Pizza Express and WHSmith, among a raft of other high street names (see box 2).

The former fitness training business is now the country's third largest skills provider, having drawn down £38 million in government funding in 2014. Total sales will have almost doubled from £24 million in 2011 to a forecast £44 million in 2015, while ebitda should hit £12 million (see box 1).

For a chief executive who only joined the company in 2011, Alex Khan is admirably understated about these successes. He won't even gloat at the fact most of this year's big contracts were won off his former employer, Babcock.

However, the Welshman's composure is about to be put to the test as never before, as Lifetime's private equity (PE) owners, Sovereign Capital, prepare the business for a sale later this year or early next. Much is riding on the deal which one expert says could be worth around

£100 million. But investors have hardly touched skills in the last five years, after funding for the sector was slashed, regulations cartwheeled and some businesses got burnt.

Things are clearly much brighter now, as the government has placed apprenticeships high on its agenda and increased their funding – but it is unclear whether investors feel it's safe to go back in the water just yet.

## Lust for Lifetime?

Lifetime of course has thrived despite the sector's vagaries. Founded by Heather Frankham in 1995, the firm initially ran courses for fitness instructors, but it branched out into apprenticeships in 2001. Today it still has a B2C commercial training arm focused on fitness, but government-funded training is its sweet spot, with the firm delivering both right across Britain.

"We train about 15,000 apprentices a year, about 50% of which are with large-ish national employers, and we probably train about 2,500 people through commercial courses," says Khan.

"About 80-90% of our revenues come from state-backed apprenticeships, but the corporate training business is

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growing at a faster rate.”

The firm works in just four sectors: fitness, care, retail and hospitality, with the latter its biggest. This has brought a degree of risk, as the firm's success rates have fallen by “1-2%” due to its exposure to hospitality, a sector known for its high staff turnover. “The sector generally yields a lower national average,” Khan says, “but our hospitality success rates are still 7% or 8% above the national average.” He was also informed during a recent contract review that Lifetime is considered low risk by the SFA.

He adds that the firm prefers to be a master of a few sectors rather than flirting with many, which rarely works. In fact, Lifetime will stake out a sector for at least a year before entering it, and even then spend a further 12 establishing itself to ensure traction.

“The sectors we are in are big and all still have a lot of potential, so a lot of our growth could come through better penetration to our client base,” Khan adds. “We're in a good position where we don't actually need to go and win a huge amount more business in order to recognise some of the growth plans we have.”



Certainly the wind is behind the firm, as its recent contract wins demonstrate. The skills sector is also in the midst of a renaissance, the regulation and funding climates having improved demonstrably. Key here is the government's pledge to deliver three million apprenticeship starts by 2020 – up from two million last parliament, a huge expansion and core to its strategy to lower youth unemployment. George Osborne has also promised a levy on big business to fund this, which will extend to state organisations like the NHS and police (which have never run apprenticeship schemes before but now surely will).

Khan says the target is entirely achievable, all things being equal. “There's been a lot of rhetoric about increases of 36% annually – but actually that's based on last year's figures, which weren't normal because of the introduction of 24+ learner loans for apprenticeships, which resulted in fewer starts.

That policy has been reversed and from an economic perspective the country's in better shape, he adds. “There are more people being employed so achieving that sort of macro number is actually not a big issue.”

## Reservations

The government still has loose ends to tie up, though, he concedes. One is the potential “double whammy” of the living wage and apprenticeship levy putting off big business from hiring apprentices in the first place. And then there's the government's proposal to make SMEs pay toward the cost of training for the first time – considered by everyone from the CBI to the Association of Employment & Learning Providers to be close to madness.

“I don't think we should underestimate the impact that would have, and if there's anything that would derail the government's ambitions to grow apprenticeships, it is this,” says Khan.

As the sale approaches, Sovereign Capital will be hoping that investors can see a bigger picture beyond the policy headaches. Making a convincing pitch won't be easy though. There have been next to no skills deals in the last few years involving PE, and many remember the hellish demise of previous training

TABLE 1: FINANCIALS

	Mar-11	Mar-12	Jul-13	Jul-14	Jul-15
Months	12	12	16	12	12
	£m	£m	£m	£m	£m
					Forecast
Revenue	24	31.2	41.5	38.3	44.6
EBITDA	7.2	7.7	8.7	10.1	12.5

NB: Financial reporting was changed in March 2012 to align with academic year – hence the 16-month reporting period in the year to July 2013.

► programmes like Train to Gain which made wrecks of some providers. As such, the sales of Lifetime, and to a lesser extent 3AAA and Babington Group, will be a crucial test of investor confidence. Either PE will overcome its trepidation, emboldened by the government's growth plans, or take a pass, in which case Sovereign will be praying that a trade player seeking consolidation comes along.

Most analysts who spoke to *EducationInvestor* do expect Lifetime to find a buyer, but few expect the sale to be simple. One says that the government's clear commitment to "vocational training and employability, in spite of budget pressures" will reassure many looking at the business. The firm is also a "much bigger business than most people imagine" with strong ebitda levels.

However, while they feel Lifetime's management is "credible, with the right sort of experience of running larger vocational training businesses", the firm's size and increasing public recognition could give rise to issues.

"Just look at what happened with Serco's reputation due to its debatable performance on a number of government

contracts," they say.

Matt Robb, managing director at Parthenon-EY, says that when it comes to skills in general, buyers are more likely to be comfortable with the risk around a business if it is reflected in its price tag.

When weighing this up, investors should consider Lifetime's diversity of funding streams. "Of the vocational specialists Lifetime has done one of the best jobs of diversification I think, and so that makes it relatively lower political risk," says Robb. "They have a bit of B2C, learner loans and grants for their apprenticeships, so it spreads the risk to a degree."

However, he says there are eventualities the firm would find harder to mitigate against – one being that longer-term employer engagement in the apprenticeship programme doesn't turn out to be high enough and this leads the government to rethink the programme. Another, is that we could see further education colleges gradually starved of funding start to fail en masse.

"It would take a long while to happen, if it did happen. But we could see colleges begin to chase marginal revenue, including offering apprenticeships at



Alex Khan, chief executive, Lifetime

much lower prices, and that would heap competitive pressure on independent providers," says Robb.

## Ploughing ahead

Khan prefers not to speculate about the deal, focusing instead on the company's plans for growth. Lifetime has just restructured its commercial team and hired a new director, which it says is paying dividends. The business has also invested heavily in its curriculum and technology, which it believes differentiates it in a homogenous delivery market (and perhaps explains its success in recent tenders) and readies Lifetime for the introduction of new standards in 2017.

Khan expects the rapid sales growth of the last few years to slow, but only to a degree, and he sees ample room for growth in core sectors like care and hospitality. When pushed, he does acknowledge the risks – perceived or otherwise – around government-funded education businesses, but suggests it is more important to take a longer-term view.

"Apprenticeships have had a brilliant profile from government over the last few years. They are now the topic of discussion at boardroom level, rather than just in learning development and human resources teams.

"And for the very first time we have an absolute cast iron guarantee that apprentice numbers will be grown. I don't think there's a better time to be operating in the sector." ■

## BOX 2: APPRENTICESHIP CONTRACT WINS IN 2012-2015

- Mitchells & Butlers (previous provider: Babcock)
- Greene King (previous provider: Charnwood)
- Prezzo (no existing apprenticeship provision)
- Pizza Express (no existing apprenticeship provision)
- Carluccio's (no existing apprenticeship provision)
- Côte (no existing apprenticeship provision)
- Punch (Charnwood)
- SPIIT (Charnwood)
- Marstons (Babcock)
- Travelodge (Babcock)
- La Tasca (no existing apprenticeship provision)
- TGI Fridays (no existing apprenticeship provision)
- Hilton (no existing apprenticeship provision)
- New Look (First 4 Skills)
- Cineworld (First 4 Skills)
- Matalan (InTraining)
- WHSmith (no existing apprenticeship provision)
- Leisure Connection (Icon)
- Bupa (no existing apprenticeship provision)