STERLING PARTNERS

Sterling Partners Investment Thesis Challenge (SPITC)

November 2013

INSPIRED GROWTH

STERLING PARTNERS: FIRM OVERVIEW

Proven, operationally focused team with top-tier returns

Who We Are	› **25+ year history and entrepreneurial background** › ~$5 billion of AUM across institutional funds and co-investment program[1] › Top quartile performance in small and mid-market control funds
What We Do	› **Business model investors with an "all seasons" strategy** › Deep experience in education, healthcare and business services › Control investments with up to $200M of equity in each company
How We Do It	› **Differentiated operational approach to building businesses** › Dedicated resources in human capital, finance, operations, strategy, and governance › Experienced and large team

(1) AUM = unrealized net asset value of our institutional funds plus uncalled committed capital plus the unrealized net asset value of co-investments in existing portfolio companies

STERLING PARTNERS: SECTOR EXPERIENCE & AREAS OF FOCUS

Historic success and experience in our core sectors has driven our business model focus and investment strategy

Education		Healthcare		Business Services	
Experience	20+ yrs	Experience	20+ yrs	Experience	20+ yrs
# of investments[1]	13	# of investments[1]	15	# of investments[1]	20

Sylvan Learning
LAUREATE EDUCATION, INC.
The InfiLaw System
CONNECTIONS ACADEMY®

Ameritox Medication Monitoring Solutions
SterilMed®
PARADIGM
FOUNDATIONS RECOVERY NETWORK

io
ATLANTIC INDUSTRIAL A Company on the Rise
Cornerstone RECORDS MANAGEMENT
LIVINGSTON

(1) Does not include pre-institutional fund investments as well as 12 investments classified as "Other" (e.g., specialty manufacturing, information services)

STERLING PARTNERS INVESTMENT THESIS CHALLENGE (SPITC)

- Sterling Partners is sponsoring an investment thesis competition for students at the Kellogg School of Management
- SPITC debuted in 2011. Multiple Chicago-area private equity firms participated including Sterling Partners, Madison Dearborn, and Lake Capital
- Goal is to provide (i) opportunity for students to work with private equity professionals to develop an investment thesis and (ii) idea generation for participating firms
- Investment thesis focus
    - Focused on industry segment, not specific deal opportunity (eg take private of a specific company)
    - Selected industry segment should provide opportunities for late stage buyout or growth equity investments (as opposed to venture)
- Sterling primarily invests in service companies; sectors of focus include healthcare, education and business services

HOW DOES IT WORK?

Phase I

- Form 2-3 person teams
- Preliminary investment thesis submission due in January 2014
    - Up to 8 page slide deck or word document
    - Identify thesis and rationale, team members and project plan/milestones

Phase 2

- Sterling Partners selects investment theses which it is interested in pursuing
    - Sterling assigns a “sponsor” to selected student teams and works with teams to further develop theses through Q1 and early Q2 2014
- Selected teams acknowledge Sterling’s exclusive right to use the investment thesis
- Financial support / expense coverage of up to $2,000 per team
- Other private equity firms may choose to participate, although there will be no overlap in theses
    - Almost half of teams submitting theses last year were sponsored by a PE firm

Phase 3

- Teams present theses to Sterling Investment Committee in April or May
    - **Winning teams receive $5,000 prize (multiple winners may be selected)**

INVESTMENT THESIS: KEY ELEMENTS

Investment Thesis Overview

- **Why the Industry**
  - Long term trends
  - Market size & breakdown
  - Market growth
  - Growth drivers
  - Industry dynamics
- **Why the Business Model**
  - Business model characteristics
  - Map the market & value chain
  - Addresses key pain point
  - Fits PE model
  - Targets exist
- **Why Now**
  - Timing impetus
  - Market impetus
  - Path to invest
  - POV on market evolution
- **Post Closing Strategy to Win**
  - Operational value adds
    - Strategy
    - Human Capital
    - IT
    - Governance
  - Other value adds

Sample *Long Term* Trends

- Population changes
- Compliance and risk management
- Suppressed natural gas prices
- Environmental sustainability
- Aging infrastructure

Sample Business Model Characteristics

- Platform capable of high growth
- Sustainable and scalable
- Differentiated strategy
- Recurring revenue
- Attractive exit alternatives
- Low customer concentration
- Opportunities for operational improvement
- Entrenched customers (e.g. stickiness)
- Defensible position/barriers to entry
- Profitable and positive cash flow
- Operating leverage
- Minimal adoption risk
- High value proposition

APPENDIX

HEALTHCARE PORTFOLIO

- **Ameritox**: specialty toxicology laboratory
- **Centerre**: post-actue care rehabilitation hospitals
- **First Choice**: Network of free-standing emergency rooms
- **Foundations Recovery Network**: provider of behavioral healthcare svcs
- **Pacific Interpreters**: provides interpreting services in healthcare industry
- **Remedi**: regional long-term care pharmacy

EDUCATION PORTFOLIO

- **Ashworth**: post-secondary and career-oriented distance education
- **Educate**: provider of branded education services (e.g., Sylvan Learning)
- **Educate Online**: online provider of live tutorial instruction
- **InfiLaw**: consortium of independent, community based law schools
- **Laureate**: global provider of for-profit, post-secondary education services
- **Meritas**: network of proprietary K-12 schools
- **Progressus**: school-based and early intervention therapy services
- **School of Rock**: national provider of performance-based music education
- **Tribeca Flashpoint Media Arts Academy**: digital media arts college

BUSINESS SERVICES / OTHER PORTFOLIO

- **Avectra**: provider of membership management software solutions
- **Continental Case**: provider of refrigeration refurbishment services
- **Cornerstone Records**: full service record and information management co.
- **Desert NDT**: provides non-destructive testing svcs to midstream oil & gas customers
- **Foundation Partners**: provider of end-of-life transition services to families
- **GEM**: provides de-gassing, vapor control and water treatment services
- **io**: designs, builds and operates data centers
- **Livingston**: provider of customs brokerage, transportation, and logistics svcs
- **Mosaid:** intellectual property company focused on communications technologies
- **Optimer Brands**: builds companies with unique textile technology
- **Prospect Mortgage**: retail mortgage consolidation business
- **SAVO**: provider of sales enablement solutions
- **SecureNet**: provider of credit and debit card processing