

STERLING PARTNERS

Sterling Partners Investment Thesis Challenge (SPITC)

November 2014

**INSPIRED
GROWTH**

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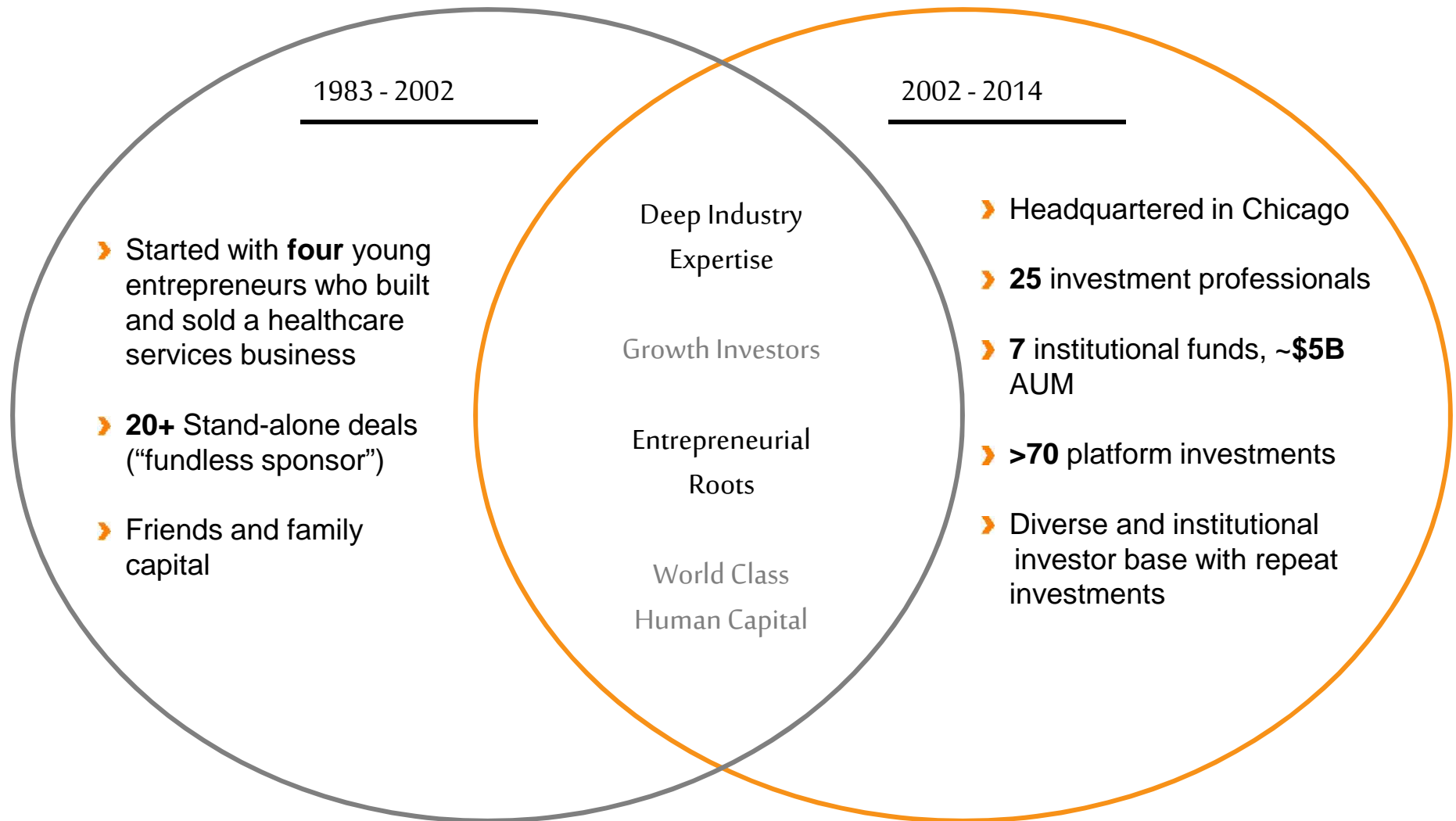
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September 2014 v3

30 YEAR HISTORY OF SUCCESSFUL INVESTING

Our fundamental beliefs in how to create value remain consistent



AUM = Unrealized fair market value of Sterling portfolio investments in our institutional funds + uncalled commitments + all other fund level assets, including cash and cash equivalents + the unrealized fair market value of certain SEC defined co-investments in existing.

TYPICAL PORTFOLIO INVESTMENT CHARACTERISTICS

SECTORS	SIZE	STRUCTURE
› Healthcare services	› Equity check: \$50 - \$150m	› U.S. based businesses
› Education	› Enterprise Value: \$100 - \$500m	› Controlling equity stake (>50%)
› Business services	› Revenue: \$30 - \$300m	› Meaningful seller equity rollover (15 – 25%)
	› EBITDA: \$5 - \$40m	› Leverage levels prudently tailored to business model and investment thesis

EXAMPLES OF STERLING DEALS BY SECTOR

Healthcare Services



Network of free-standing emergency rooms



Core measure and registry abstraction services to hospitals



Specialty toxicology laboratory

Education



PlattForm

Enrollment and marketing services to colleges and universities



Network of ABA accredited law schools



Nationally accredited distance-learning school

Business Services



Non-destructive testing ("NDT") services to the midstream oil & gas sector



Property and casualty insurance



Ecommerce fulfillment provider

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 1

- › Form 2-3 person teams
- › *Kellogg students work with Heizer Center advisors (professors and PE professionals)*
- › 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 2015
- › *Kellogg students selected for Phase 2 receive course credit*
- › 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

ACTIVE PORTFOLIO COMPANIES



Adeptus Health (NYSE: ADPT) (HC): network of free-standing emergency rooms



Ameritox (HC): specialty toxicology laboratory



Ashworth (ED): post-secondary and career-oriented distance education



BRACE (BS): provides scaffolding, insulation, painting, coating, and fire-proofing services to the energy, petrochemical, manufacturing, and agricultural sectors



Conversant (BS): intellectual property company; focus on communications technology



Educate (ED): provider of branded education services (e.g., Sylvan Learning)



Educate Online (ED): online provider of college readiness services



Foundation Partners: provider of end-of-life transition services to families



GEM MTS (BS): Provides de-gassing, vapor control and water treatment services



Infilaw (ED): consortium of independent, community based law schools

As of November 2014 BS = Business Services ED = Education HC = Healthcare Services

ACTIVE PORTFOLIO COMPANIES



Innotrac (BS): eCommerce provider integrating digital technology, fulfillment, contact center and business intelligence solutions to support global brands



IO (BS): designs, builds and operates data centers



KidsCare (ED): multi-site pediatric dental and orthodontic service provider



Laureate (ED): global provider of for-profit, post-secondary education services



Leman (Chengdu) (ED): international K-12 grade school in Chengdu, China



Livingston (BS): customs brokerage, transportation, and logistics services



Longitude Licensing (BS): monetization of intellectual property



Meritas (ED): network of proprietary K-12 schools



Optimer: develops, manufactures and distributes textile-related products and technologies



Pingora (BS): specialized asset manager focused on investing in and servicing of new production performing mortgage servicing right (MSR) portfolios



PlattForm (ED): provider of enrollment management and marketing services to the education industry

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ACTIVE PORTFOLIO COMPANIES



Progressus (ED): school-based and early intervention therapy services



Prospect (BS): retail mortgage origination business



Q-Centrix (HC): core measure and registry abstraction services



Remedi / Artromick (HS): regional long-term care pharmacy



Results Physiotherapy (HC): outpatient orthopedic physical therapy company



Savo (BS): provider of sales enablement solutions



School of Rock (ED): national provider of performance-based music education



Spartan (ED): aviation maintenance, non-destructive testing and pilot training



Susiecakes: all-american home-style bakeries



Tribeca (ED): digital media arts college

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CHICAGO

401 N. Michigan Ave, 33rd Floor, Chicago, IL 60611

BALTIMORE

650 S. Exeter St, Suite 1000, Baltimore, MD 21202

MIAMI

701 Brickell Ave, Suite 1700, Miami, FL 33131