

M&A INDUSTRY REPORT

Business Services

FOCUS Investment Banking is a leading middle-market investment bank with deep industry expertise, a nationwide footprint and a global reach.

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M&A INDUSTRY OVERVIEW

Middle market mergers & acquisitions slowed in 2022, at least compared to 2021's record and probably unrepeatable volume. But that's not necessarily bad news. Transactions managed by FOCUS declined to 31 from 40, but 31 is still a record compared to any other year except 2021.

Volume in 2021 was mainly driven by business owner concerns over capital gains tax policy changes proposed by the Biden Administration that would have negatively impacted deal proceeds. Ultimately, those changes were never enacted, although a few states did pass their own transaction taxes. In addition, many deals that were delayed by the Covid lockdown in 2020 got done in 2021 instead. The rise in 2021 M&A volume, therefore, was largely a one-time aberration, we believe. In 2022, M&A volume returned to pre-Covid levels, and we expect that to continue in 2023.

Business Services sector outperforms

The sharp rise in interest rates engineered by the Federal Reserve in 2022 reduced valuations and created uncertainty for some deals, as buyers tried to forecast future economic trends. However, the business products and services sector managed to outperform the rest of the market, according to a pair of recent reports from Pitchbook covering the first three quarters of 2022.

"The business products & services sector rotated back into favor in Q3," Pitchbook's Global M&A reported for the third quarter. "Compared to the prior year, deal count surged in Q3 with a total of 2,399 transactions. Large strategic buyers have been leading the charge, completing 17 deals in the quarter at a value of \$1 billion or more. PE (private equity) has also been active, accounting for 40.5% of all deals in the sector."

The report notes that the business products & services sector "comprises a broad mix of primarily non-tech businesses, spanning everything from manufacturing to professional services to transportation. What attracts corporate and PE buyers alike is its high proportion of boot-strapped and founder-owned businesses."

There were more than 7,600 acquisitions of private business products & services companies in the first three quarters of last year, “twice as many as any other sector,” the report revealed. “This comes at a time when both strategics and sponsors are postponing exits in hopes of a recovery in values, so having this source of sellers is important to maintaining deal flow.” By contrast, total global M&A activity fell nearly 30% in the third quarter compared to the peak reached in last year’s fourth quarter, its third quarterly decline in a row. However, Pitchbook noted that deal volume “is on track to surpass the pace of deals set prior to the COVID-19 pandemic.”

Click [here](#) to continue reading about the middle market M&A outlook.

2023 CONSIDERATIONS FOR UNCERTAIN TIMES

As the Fed continues to tighten monetary policy to try to control inflation, two things could happen. If it raises interest rates too much, the Fed could throw the economy into recession, the dreaded “hard landing.” But even if it manages to engineer a “soft landing,” business activity is still likely to decline.

The totality of bad economic news—related to geopolitical tensions, supply chain disruptions, inflation, and rising interest rates—has the potential to negatively impact dealmaking and valuations. Most economists in the U.S. are predicting a mild recession and soft landing to the economy in 2023. In response, we believe, many companies will look inward to shore up their balance sheets, conserve cash and reduce debt, while dealing with the potential of slower demand for their products and services.

There is a greater risk of deal impacts from rising cost of capital in 2023 than what we saw last year. Interest rates have gone up, with the federal funds rate target range ending 2022 at 4.25-4.5%, with the potential for an additional one-point increase in 2023. The single biggest concern is how much leverage banks are willing to provide buyers.

However, this is not a catastrophic situation for business buyers. The cost of capital is still pretty cheap compared to prior inflationary times in the U.S. Indeed, we haven't talked to a single buyer who said they intend to pull back from dealmaking because of this. There is some evidence that technology deals are seeing negative valuation impacts and some softening of demand, but that is not a broad market condition.

Is your business services firm prepared for a slower economy?

Of course, the quickest way to handle a slower economy is to simply lay off extraneous employees and try to cut other expenses. However, that means taking a very short-term view of the situation. It also likely means you may not be able to adequately service your existing clients or handle any new business that may come your way. Finally, when the economy improves as most experts predict, it will be much harder and more expensive to hire workers to meet increased demand.

But there are steps you can take now to help you weather the expected coming storm and get a jump on the next upcycle.

Most experts recommend not making any hasty decisions. Recessions could actually help your business if you provide outsourced business services. When companies downsize, they outsource more of their back-office and other functions, such as finance and human resources, which means more work for consultants and contractors. Remember, companies hire you to do the jobs they can't do as well or as cost-effectively as you can.

But how do you best do that, and prosper, in a slower growth environment, where your clients are likely going to ask you to do more with less?

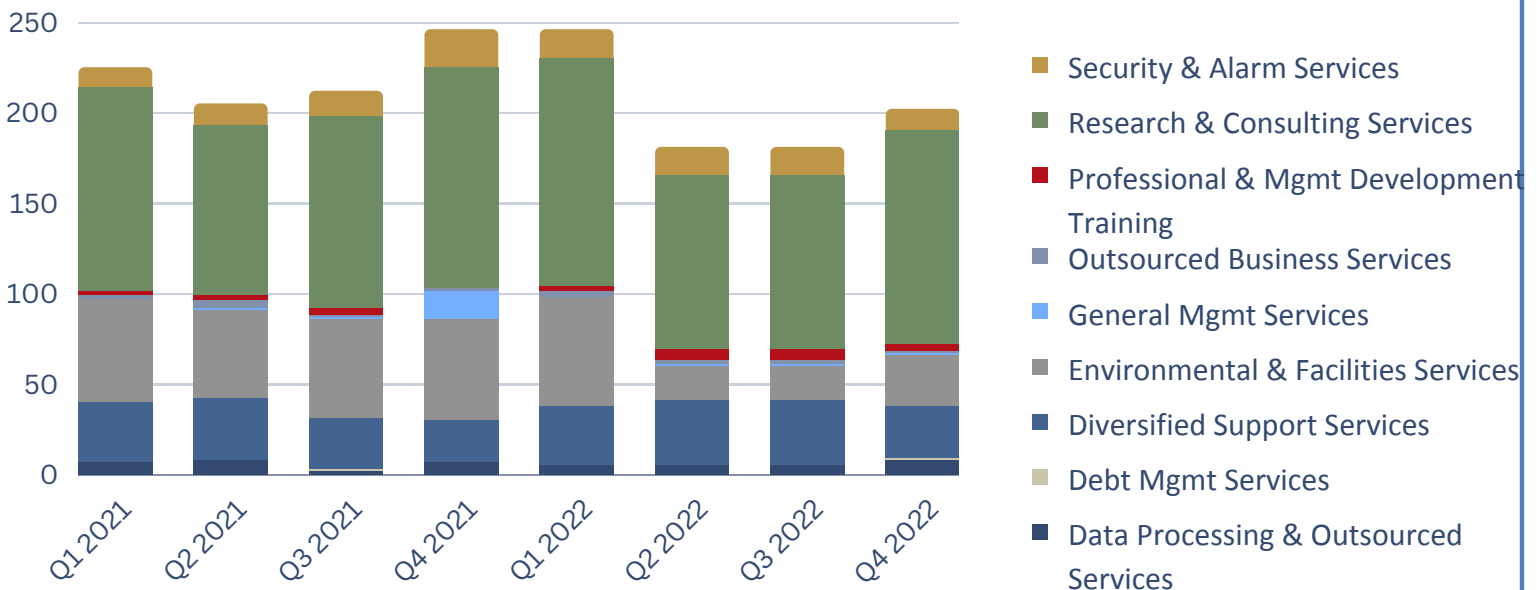
Here are some possible solutions to consider:

- Contact your existing clients to understand their needs and ways you can help them.
- Establish billing rates that recognize the value-added aspect of your services. It may be time to increase rates.
- Explore new revenue streams and client opportunities.
- Take advantage of any client service downtime to upgrade your technology to the latest offerings.

Click [here](#) to read more about the aspects to consider.

NOTABLE TRANSACTIONS & ACTIVITY

- Large transaction activity declined in the second quarter, with fewer deals in excess of \$500 million, while the middle market and lower middle market continued at a steady pace.
- In 2022, the acquisition of security companies continued at a rapid pace, with buyers including Sciens Building Solutions, Allied Universal Security, and Guardian Security.
- Professional service acquisitions continued to be robust, with substantial activity in architectural and accounting firms. PE firms made substantial investments in the consulting divisions of accounting firms, such as EisnerAmper and Citrin Cooperman, and then aggressively pursued add-on acquisitions.
- In the Building Services sector, the acquisition of pest control companies continued to be active. Landscape services transactions declined in the later part of the year after a robust first quarter.
- The most notable transaction in 2022 was Bain Capital’s purchase of VXI Global Solutions from The Carlyle Group. VXI has 40,000 employees and offers business process outsourcing and IT outsourcing and consulting services.



OUR TEAM



Barry Calogero
Managing Director



John Bradshaw
Managing Director



John Grady
Managing Director



Kelly Kittrell
Managing Director



Jim Sowers
Managing Director



Anna Brumby White
Principal

RECENT DEALS

This announcement appears as a matter of record only.

aeCyberSolutions™
a division of
ae Solutions

has been acquired by

Deloitte.

The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to aeSolutions.

FOCUS
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This announcement appears as a matter of record only.

 **MICROCONSULT, INC.**
www.microconsultinc.com


has been acquired by

 **Certified Group**
Laboratory Testing | Regulatory Consulting


The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to Microconsult, Inc.

FOCUS
Investment Banking


This announcement appears as a matter of record only.

 **SAGE**
MANAGEMENT

has been acquired by

 **rib** | FIXED COST
REDUCTION

a portfolio company of

 **O2** O2 Investment Partners

The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to Sage Management.

FOCUS
Investment Banking

This announcement appears as a matter of record only.

 **cantey**
TECH CONSULTING

and its subsidiary

 **cantey**


received an investment from

LNC
PARTNERS

The undersigned assisted in the negotiations and acted as exclusive financial advisor to Cantey Tech Consulting.

FOCUS
Investment Banking

This announcement appears as a matter of record only.

 **io** integration

has been acquired by

bluprint X


The undersigned assisted in negotiating the transaction and acted as financial advisor to IO Integration.

FOCUS
Investment Banking

This announcement appears as a matter of record only.

 **Avar**
Consulting, Inc.


has been acquired by

 **AMDEX**

The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to Avar Consulting, Inc.

FOCUS
Investment Banking

This announcement appears as a matter of record only.

 **QUEEN**
CONSULTING GROUP


has been acquired by

TALENT GROUP


The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to Queen Consulting Group.

FOCUS
Investment Banking

This announcement appears as a matter of record only.

 **BUSINESS**
INTEGRA
TECHNOLOGY

has acquired

 **Aquila**
TECHNOLOGY

a wholly owned subsidiary of

Zensar

The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to Business Integra.

FOCUS
Investment Banking

This announcement appears as a matter of record only.

 **NETWORK SUPPORT CO**
IT PEACE OF MIND

has been acquired by

 **Logically**

a portfolio company of

 **Riverside**

The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to The Network Support Company, LLC.

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IN THE MARKET

Digital Design Agency

Project EDGE (Company) is a full-service digital design group driven to create beautiful and effective branded commerce experiences. They specialize in delivering UX/UI, strategy, and technology solutions for industry-leading brands in various industries including Apparel and Accessories, Health and Personal Care and Beauty, Furniture and Home Furnishings, Food and Beverage and Others. The Company's highly collaborative approach and their dedication to high-touch relationships builds the trust needed to consistently deliver quality and innovation in an efficient and agile way. Edge's commitment to this approach puts its reputation front and center, which has been the hallmark of its continued growth and success.

Advertising Production Agency - under LOI

Founded in 2014, Project Marina ("Project Marina" or "the Company") is a leading provider of production and agency services in the advertising industry and is known as a hybrid alternative to the Agency of Record model. Known as the "special forces" of advertising and production, the Company specializes in sweeping positioning campaigns in diluted markets and leverages those experiences into long-term retainer relationships with its clients.

Project Marina offers agency, creative, placement, optimization, and result analysis services to its clients. Throughout the years Project Marina has attracted a wide variety of clients from large Fortune 500 companies to high-growth mid-size start-ups.

Credit Market Middle and Back Office Services - close to LOI

Diligence provides a comprehensive suite of middle office services that support direct lending hedge funds, banks, insurance companies, and other financial firms. The Company combines its team's deep expertise and broad capabilities with digital tools to help clients address challenges and optimize performance. Diligence's services are highly scalable and can be applied across different asset classes.

To learn more about the FOCUS Business Services services team click [here](#).