

# 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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## BUSINESS SERVICES M&A INDUSTRY OVERVIEW

Inflation, rising interest rates and global economic uncertainty are the main themes for 2023 so far. Yet M&A deal activity in the middle market remains fairly steady as investors have plenty of capital to invest and continue to concentrate on quality assets. After a relatively weak start to the year, we would not be surprised to see a nice rebound in the second half as the market adjusts to this new higher-rate environment and the possibility of a decline in inflation, which might lead the Federal Reserve to ease off the monetary brake pedal and avoid a recession.

Estimates of the amount of “dry powder” still available for private equity to invest range from \$2 trillion (KPMG estimates) to as much as \$3.7 trillion (Bain & Co.). But that doesn’t mean that money is burning a hole in their pockets. Rather, we believe PE firms will be more discerning in making acquisitions this year.

Specifically, PE firms are showing increasing interest in smaller businesses as a way to diversify their portfolios and generate higher returns. They are particularly attracted to small businesses with strong growth potential, good cash flow, and solid management teams. Likewise, large corporations are also looking to acquire small businesses as a way to expand their product lines or enter new markets. Thus, small businesses that have unique technologies or products, intellectual property, or customer bases can be attractive targets for large corporations seeking to grow their businesses.

Sellers, meanwhile, can use this opportunity to cash out and retire or divest themselves of non-core or underperforming units.

Indeed, despite the backdrop of higher rates and the fear of a possible recession, this may be an opportune time to get deals done. As Bain writes in its 2023 Global Private Equity Report, “Deals done through a downturn generate superior returns over time. Leaders ... stay aggressive and aren’t deterred by lingering adverse capital conditions. If a deal targets a good asset at a good price, it may be worth getting it done with more equity or a higher price on the debt than you’d like. You can always fix the balance sheet when conditions improve, but waiting risks losing a valuable opportunity to profit from the rebound.”

Companies in demand are those making the investments that show the most promise in powering revenue growth, efficiency and greater profitability in the future. Among the most critical investments they can make are in technology—specifically digitization, automation, and artificial intelligence (AI)—and adopting environmental, social and governance (ESG) goals in their operations (see the next page).

As KPMG writes in its 2022 M&A Trends in Private Equity report, “there has been a sharp change in attitude toward ESG’s contribution to value, such as its ability to help drive revenues through customer growth and product and service development.... This will compel companies—many with the help of Private Equity—to implement a better capital structure, technologies, and operating model for improved profitability.”

## NEWS & INSIGHTS: ESG

Adhering to environmental, social, and governance (ESG) principles isn't just a matter for large, publicly-traded companies. It's increasingly becoming a must for small and medium-sized businesses, too. Companies that prioritize sustainability, good governance, and social responsibility are likely to be more attractive to their customers, supply chain partners, employees, investors, and prospective acquirers, benefit from government incentives, and become less risky—all of which can make them more profitable and thus more valuable in the event of a sale.

Conversely, companies that ignore or perform poorly in ESG criteria are more likely to be left behind. According to Grant Thornton, "ESG credentials are no longer merely a 'nice to have': they are a must have for much of the mid-market." The accounting firm found that "sustainability is now a major priority, with more than six in 10 businesses (62%) believing sustainability to be as important or more important than financial success."

But that doesn't mean ESG and financial success are mutually exclusive. In the past several years more and more stakeholders have taken a greater interest in ESG and rewarded companies that have a focus on sustainability, social responsibility, corporate honesty and transparency, employee well-being and workforce diversity. While many people see this as merely "doing the right thing," there is also often an economic payoff. In other words, companies can "do well by doing good." While increasing revenue and profits are almost always the corporate goal, ESG can expedite the process and make it sustainable.

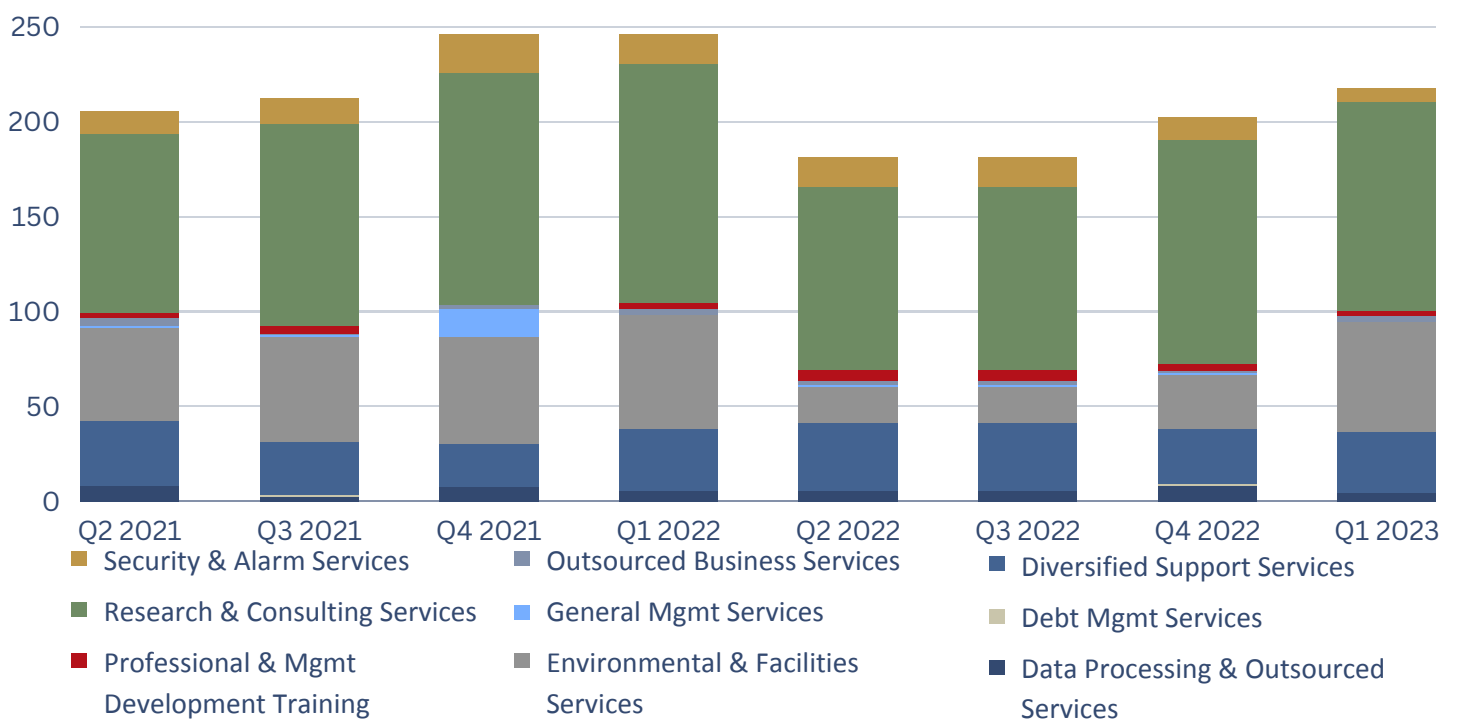
How can ESG manifest itself in your small or medium-sized business?

- Employees
- Diversity & Inclusion
- Environment
- Supply Chain
- Customers
- Regulation
- Community relations
- Investors

Adopting and implementing an ESG program is just one way small and medium-sized companies in the business services industry can enhance their performance and their market value once it comes time to sell. In subsequent blogs we'll look at other ways companies can improve revenue, profitability, and valuation and stay ahead of the competition.

## NOTABLE TRANSACTIONS & ACTIVITY

- The 1st quarter showed volatility with the collapse of Silvergate, Signature Bank, Silicon Valley Bank and the rescue of Credit Suisse; however, the private equity market has been largely business as usual. While credit markets are strained, equity capital will continue to drive M&A activity in the Business Services sector as PEGs are looking for bolt on acquisitions (as opposed to platforms) with strong assets.
- Over the last 12 months, the S&P 500 was down 9.6%, and while no middle market segment outperformed the S&P 500, the Business Service sector showed the least amount of decline of 12% from Q1 2022. The industries that showed the biggest drop in number of transactions were security alarm service companies that declined by 56% and research and consulting services that declined by 13%. However, while there were fewer research and consulting acquisitions, there were some notable large transactions including Atlas Technical Consulting acquiring GI Management for \$500M.
- ESG continued to drive M&A activity in the first quarter and expected to continue throughout the year. One notable transaction was the acquisition of Thompson Industrial Service by Clean Harbors for \$100 million in the first quarter.
- While volatile equity markets and credit availability have tempered M&A activity in the Business Service sector, it still outperformed the broader market and is expected to continue into Q2 2023.



## RECENT TRANSACTIONS

*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**  
Investment Banking

*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](#).**

## OUR TEAM



**Barry Calogero**  
Managing Director



**John Bradshaw**  
Senior Advisor



**Kelly Kittrell**  
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**Jim Sowers**  
Managing Director



**Anna Brumby White**  
Principal