

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: WHAT DOES 2024 LOOK LIKE?

The business services sector in 2023 was characterized by buyers attracted to enterprises boasting robust cash flow, consistent revenue streams, steadfast market conditions, and discernible, reliable demand fueled by continuous, essential requirements. In 2024, we believe investors will prioritize business services companies that harness the capabilities of generative AI to overcome labor challenges and deliver enhanced value to clients.

Common elements that investors often seek include:

- 1. Healthy Financials:** Investors are interested in companies with strong financial performance, including consistent revenue growth, healthy profit margins, and positive cash flow.
- 2. Recurring Revenue:** Businesses with a significant portion of recurring revenue are often favored.
- 3. Differentiated Strategies:** Companies that have unique and effective strategies to address challenges in their industry are appealing to investors. This could involve innovative technologies, efficient operational models, or distinctive approaches to serving customers.
- 4. Adaptability and Innovation:** Investors value companies that demonstrate adaptability to market changes and a commitment to innovation. This includes embracing new technologies, staying ahead of industry trends, and being proactive in addressing challenges.
- 5. Generative AI and Technology Adoption:** In today's business landscape, there's increasing interest in companies that leverage advanced technologies, such as generative AI, to enhance efficiency, productivity, and competitiveness.
- 6. Scalability:** Investors often seek businesses with the potential for scalability, meaning they can grow operations efficiently without proportionate increases in costs. Scalable businesses can capture more market share without compromising profitability.

NEWS & INSIGHTS: EVOLUTION AND GROWTH IN THE BUSINESS SERVICES MARKET

In the dynamic landscape of business services, the market is bifurcated into two key segments: Infrastructure Services and Professional Services. These segments have witnessed significant consolidation, a trend that continues to shape the industry.

Infrastructure Services: Landscaping, HVAC, and the Appeal to Private Equity

The Infrastructure Services sector has undergone substantial transformation, with a multitude of large companies now dominating the landscape. Activities ranging from landscaping to HVAC services have seen a surge in consolidation, and this trend shows no signs of abating. What makes this sector particularly attractive is its straightforward nature, making it a favorite among private equity investors.

Private equity players find solace in Infrastructure Services because of its comprehensibility. They assert that understanding and navigating this sector is relatively uncomplicated, allowing them to grasp the fundamentals easily. This simplicity, in turn, facilitates their ability to add significant value to these companies. As a result, the Infrastructure Services market remains a hotspot for investment and growth.

Professional Services: A People-Centric Paradigm

On the other side of the spectrum lies Professional Services, an arena predominantly shaped by the individuals within the organizations. The inherent value of these companies is intricately linked to the expertise and skills of their workforce. Industries such as consulting and law firms are witnessing a surge in Professional Services companies entering the market with a substantial amount of interest.

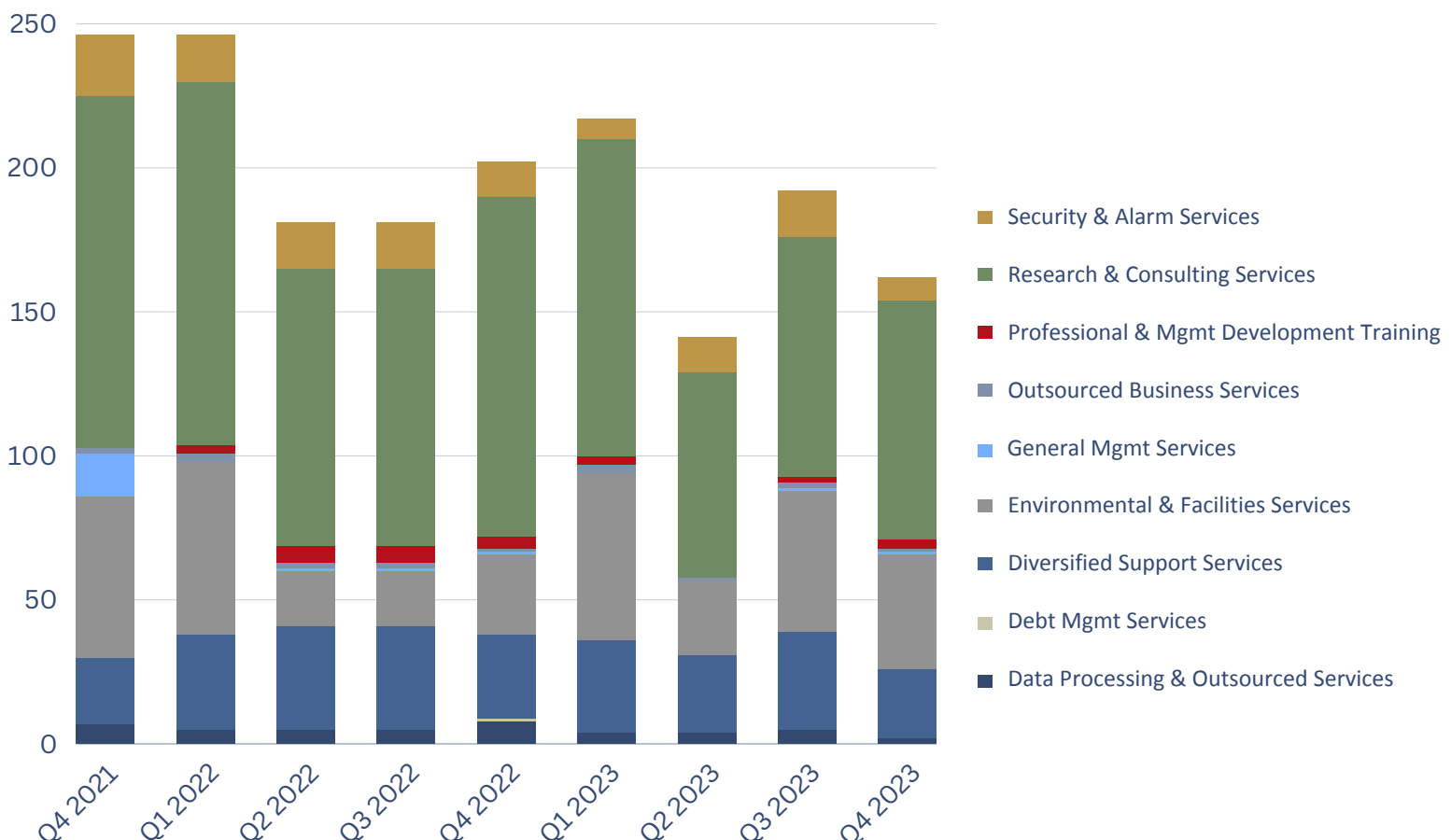
The market for Professional Services is currently experiencing robust growth, primarily due to the influx of companies offering value across various industries. These companies are defined by the quality and expertise of their personnel, making them crucial players in today's evolving business landscape.

Learn more about FOCUS' Business Service practice.



NOTABLE TRANSACTIONS & ACTIVITY

- The year 2023 was a challenging period for buyers and sellers in the M&A market and the volatility accounted for the depressed number of overall closings for the year. Agreeing on a price became one of the biggest challenges to dealmaking due to increased interest rates, high inflation, bank failures, geopolitical unrest and economic uncertainty, which resulted in lower valuations from buyers, set against higher valuation expectations from sellers. The number of global M&A transactions fell by over 20% while venture capital and private equity saw a decline of 39% and 35%, respectively.
- The Business Services sector was not immune to market trends and the fourth quarter experienced a 16% decline in the number of transactions. There were 162 announced business service transactions closing in the quarter, down from 193 in the third quarter.
- Research and Consulting Service companies made up the largest number of business service transactions with 83 for the quarter. Additionally, Environmental and Facility Services made up the second largest subsector of transactions with 40 closings, down 11% from the previous quarter. Aegion continues to be an active acquirer in the Environmental and Facility Service subsector with the acquisition of wastewater maintenance companies 11 Enviro Group and AP Civil Solutions.

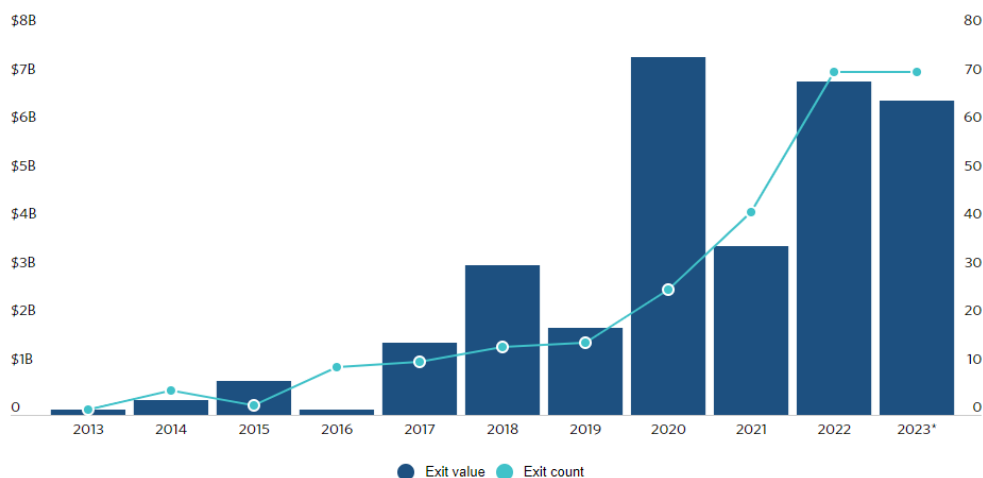


2024 BUSINESS SERVICES SECTOR M&A FORECAST

The M&A environment is expected to improve in 2024 with several economic factors driving volume. Inflation has fallen, interest rates have stabilized and are expected to drop in the second quarter of the year, private equity still has \$1.7 trillion worth of dry power to invest, and credit markets are starting to improve. However, buyers are increasingly looking for sellers to conduct a Quality of Earnings review prior to going to market to bolster confidence in company financials, and the increased scrutiny that sellers have experienced in past years during the due diligence process is likely to continue, thus increasing closing timelines.

That being said, over the past couple of years, Private Equity firms have sought unconventional avenues for liquidity due to a scarcity of exit opportunities. One increasingly favored financial instrument is the continuation vehicle, a form of secondary transaction enabling PE firms to recapitalize aging funds and secure unrealized gains on assets. According to PitchBook data, the first 11 months of 2023 witnessed 71 exit deals structured through continuation funds.

The 2024 projection, as reported by Pitchbook, suggests that the number of continuation vehicles is likely to exceed 100. This expectation arises from the mounting pressure on GPs to return capital to their investors, as noted by analysts at PitchBook.



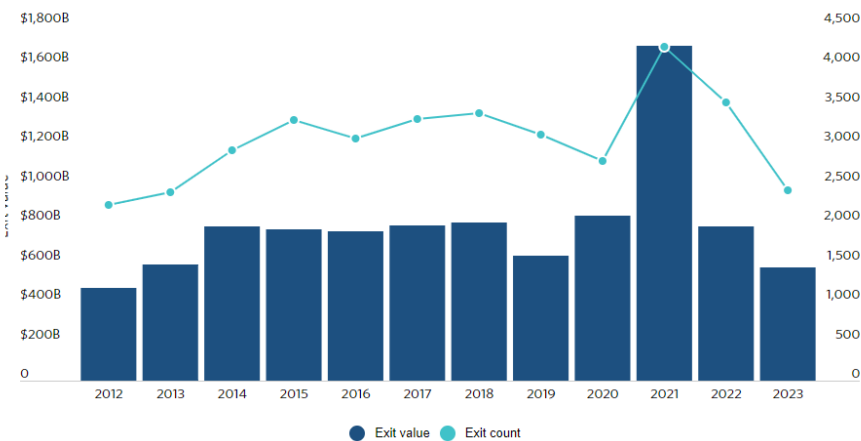
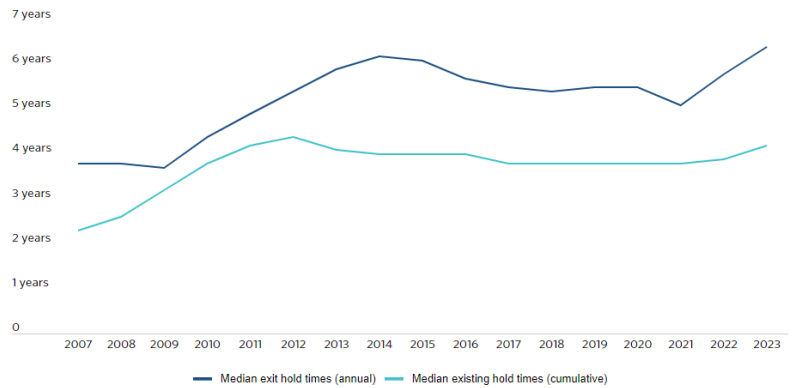
Analysts predict that the median time a portfolio company remains within a PE fund will reach an unprecedented 4.4 years by the end of this year. As of the conclusion of Q3 2023, US PE funds retained their existing assets for a median duration of 4.2 years, marking the highest figure since 2012, according to PitchBook data.

Source: PitchBook

PRIVATE EQUITY PREDICTIONS FOR 2024

Per Pitchbook, the exit of a private equity investment holds a pivotal role in the capital formation chain for buyout funds. Without a resurgence in opportunities to sell or take investments public, the recovery of various activities, including fundraising and deal-making, appears unlikely.

"Everything hinges on the exit velocity," emphasized Tim Clarke, PitchBook's lead PE analyst.



The total value of PE-backed exits experienced a year-over-year decline of 26.6%, reaching \$574.2 billion, the lowest since 2012, according to PitchBook's 2023 Annual Global PE First Look.

All these factors indicate that private equity (PE) funds are providing less capital to their Limited Partners (LPs), and the scarcity of distributions is expected

to impede buyout fundraising in the coming year, potentially reaching its slowest pace since 2019, as estimated by PitchBook analysts.

In the past year, PE firms globally raised \$556.1 billion across 593 vehicles, marking the lowest fund count since 2012, according to preliminary data compiled by PitchBook. Tim Clarke, PitchBook's lead PE analyst, suggests that if the IPO market reopens, M&A activity picks up, and secondary volume continues to grow, buyout firms may witness a resurgence in capital inflow.

That being said, everything FOCUS is hearing and observing is showing signals for a solid 2024 year ahead. Valuations are still strong and buyers are looking for good assets. Funding is being secured and transactions are closing in a timely manner.

Source: PitchBook

AT A GLANCE

IO INTEGRATION

- Founded in 2001
- Global leader in marketing and creative operations technology
- Services the world's top brands and agencies
- Commitment to innovation and progress

“Our focus has always been on the right technology, implemented by the best people, for the success of the customer base. As the technology landscape continues to evolve, and the competition for attracting and retaining talent becomes increasingly fierce, we felt that joining forces with BlueprintX would ensure continued success. Our complementary offerings, shared goals, and combined geographical reach make us stronger together, promising a very bright future.”

Mike Holt
IO Integration, CEO

FOCUS

Investment Banking

CASE STUDY

PROCESS & OVERVIEW

IO Integration, a global leader in creative operations technology, has been acquired by BlueprintX. The strategy was focused on accelerating growth, increasing scale, and expanding capabilities, in line with the needs of BlueprintX's customers. Its customers and partners needed to move faster in this digital transition to compete in new and existing markets. IO Integration is a strategic fit commercially, operationally, and culturally.



Highly Targeted Outreach



Multiple Offers



4 Months Total Transaction Process



60 Days Due Diligence

TRANSACTION RESULTS

The combined capabilities of the Adobe partner companies provide clients with access to an end-to-end solution for digital collaboration and digital customer engagement, while creating one of the world's largest independent consultancies in this space. Driven by customer demand for end-to-end solutions over siloed technology platforms, the acquisition brings together two existing powerhouses to address this evolving market need. The acquisition doubles BlueprintX's size and integrates adjacent products and services for Marketing & Creative Operations Cloud platforms into its existing digital customer engagement capabilities, which currently work primarily with Adobe Experience Cloud and Salesforce. Strengthening its geographical reach, the addition of IO Integration bolsters BlueprintX's existing locations in the Europe, Middle East and Africa (EMEA) and Asia-Pacific (APAC) regions, while greatly enhancing its current presence in North America. This enhanced U.S. foundation will be used to expand the group's offerings in digital collaboration and delivery across all regions. It will also build more digital customer engagement capacity and capability while providing a foundation for the newly-formed product development practice.

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.

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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 Investment Partners

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

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This announcement appears as a matter of record only.

LABRADOR
has acquired
Argyle

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

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
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This announcement appears as a matter of record only.

io io integration
has been acquired by
bluprintX

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

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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.

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This announcement appears as a matter of record only.

Stonebridge CONSULTING
has been acquired by
SIERRADIGITAL

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

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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
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
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.

FOCUS
Investment Banking

This announcement appears as a matter of record only.

GENERAL INFORMATICS
has been recapitalized by
ROSEWOOD PRIVATE INVESTMENTS

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

FOCUS
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Top 5 Investment Bank 2022



OUR TEAM



Barry Calogero
Managing Director



John Bradshaw
Senior Advisor



Anna Brumby White
Principal



Kelly Kittrell
Managing Director



Bob Maiden
Managing Director



Jim Sowers
Managing Director



April Taylor
Managing Director



Alex Williams
Principal



Download the FOCUS Business Services Information Sheet