

Key Trends in Knowledge Economy M&A

A guide for business owners and investors

January 28th, 2021

Growing equity, realizing value



Why we are running this webinar



- Equiteq helps owners and partners of Knowledge Economy firms to grow, acquire and realize equity value



- Last year, Covid-19 impacted markets, supply chains, technologies and talent across the Knowledge Economy



- It's now clear that disruption to sector M&A was very short term, with Q4 2020 volumes back to near-record levels, and activity levels stronger than ever



- The M&A market outlook for 2021 is extremely positive, but challenging to navigate, as a number of key long-term trends accelerate

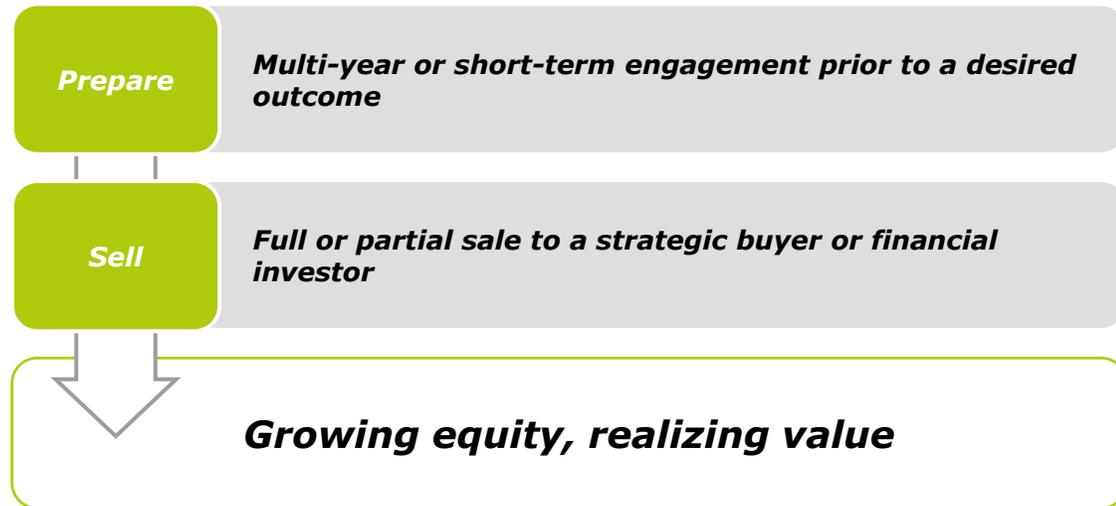


- This webinar aims to help you understand and navigate those trends

The global Knowledge Economy M&A and strategic advisory firm

Equiteq leverages its long-term engagement model and deep Knowledge Economy expertise to advise clients in the maximisation of their equity value, with our truly global presence allowing us to provide either a local or cross-border team

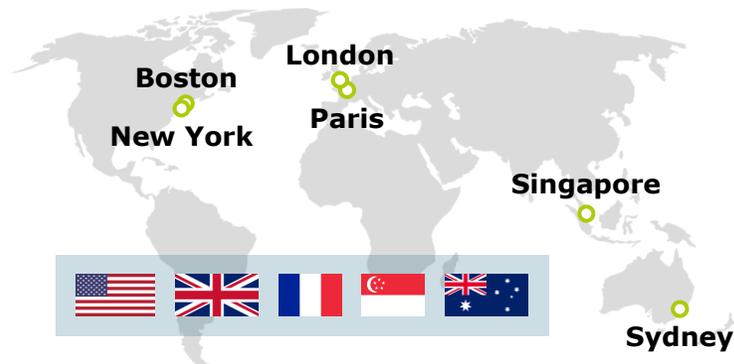
Long-term engagement model



50 employees

6 offices

4 continents



Why Equiteq is best-placed to deliver value to our clients

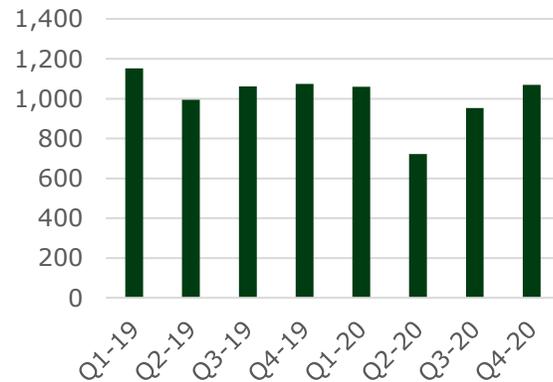


It's now clear that Covid-19 disruption to sector M&A was very short term

We predicted all the way through the crisis that fundamental transaction rationale drivers would prevail

Knowledge Economy M&A in 2020

Global Deal Volumes by Quarter



It is now clear that COVID-19 had a transient impact on sector deal flow...



Short and specific FY20-related earn-outs



Receptivity to COVID normalisation



Resilient sector firms outperforming expectations

55%

of buyers say that the number of available opportunities has fallen during the pandemic

Shortage of high quality assets in the market

... with minimal impact on valuations

Sector M&A Buoyant

- M&A back to near record levels

↑
Gap

Knowledge Economy Performing

- Knowledge Economy Share indices at all time highs
- Sector firms doing relatively well – e.g. UK consulting revenues up 2%

↑
Gap

Global Recession

- World trade in goods and services down 9%

... as sector M&A partly disconnected from economic fundamentals

The outlook for 2021 is extremely positive – but markets will be challenging to navigate as long-term trends accelerate

M&A market disruption has been deeper and more complex than it appears - there will be winner and losers in a crowded market

Knowledge Economy M&A in 2021

"Seeing intense competition for white hot larger scale assets... so pivoting to acquiring subscale providers." **PE-backed ITMS provider**

"Covid didn't change multiples – it just made people wait." **Global MS Dynamics provider**

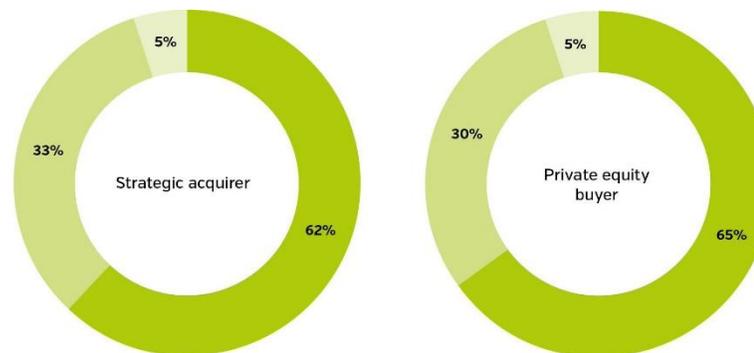
"Looking to accelerate M&A in 2021 to lift topline CAGR from 10% to 20%" **Global strategy consulting firm**

All indications are that current / short-term activity levels are higher than ever...

Equiteq Buyer Survey (Nov 2020)

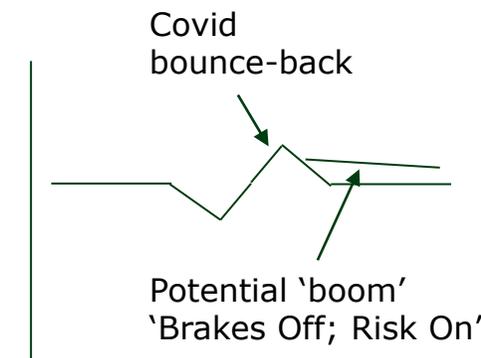
Volume of deals over the next 2-3 years

More
Same amount
Fewer



>60% of sector investors agree that COVID-19 will strengthen M&A in the longer term

...meaning longer-term strength as buyers and investors seek to increase their inorganic growth... accelerated further by Covid-19...



Challenges in a crowded market:

Sellers: standing out

Buyers: winning the right deals

...leading to strong, but challenging, markets this year

A number of long-term trends are driving sector-specific M&A¹, and some are accelerating

Understanding how these trends are shaping the market will help navigate a busy market

	<i>Trend:</i>	<i>Rate of Change:</i>
1	The adoption of digital is accelerating	
2	Emerging technologies are being commercialised rapidly	
3	There is convergence across the sector and delivery models are blending	
4	Private equity participation in the knowledge economy is increasing	
5	Next-generation technology platforms are emerging	
6	Vertical software solutions are playing an increasing role	
7	Buyers are returning to nearshore locations for access to new skills	
8	Shareholders are aligning expectations and addressing structural risks	

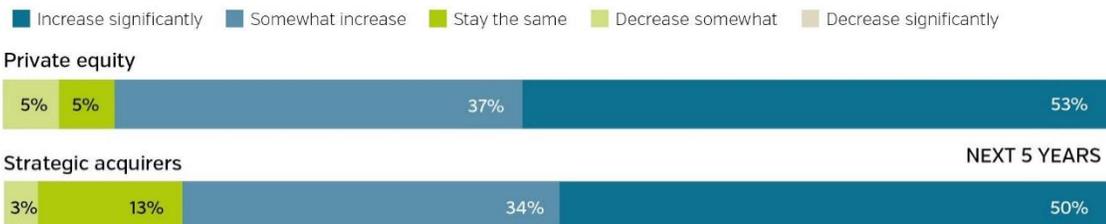
1. Over-and-above more general M&A tailwinds – e.g. record levels of dry powder, the need for inorganic growth to augment growth plans

Trend 1: The adoption of digital is accelerating

Datapoints

- 2020 Buyers Report found that the acquisition of **digital advisory capabilities is now a key priority for 82%** of Knowledge Economy buyers
- **2/3rd of strategic acquirers say Digital is in their top 3** M&A demand drivers
- **Over 50% expect to increase digital M&A significantly** in next 5 years

FIRMS EXPECT THE DIGITAL INVESTMENT MEGA TREND TO ACCELERATE IN THE NEXT FIVE YEARS
Percentage of firms that expect investment in digitally-focused businesses to change



TOP THREE DEMAND DRIVERS FOR M&A WITHIN STRATEGIC ACQUIRERS' ORGANISATIONS

67%

Latest capabilities to advise clients on new digital technologies

54%

Broader service offering

31%

New service-enhancing digital tools

Equiteq's Viewpoint – Seller Priorities

- Companies enabling digital transformation went from nice to have, to mandatory, to the most important utility of an organization
- Companies leveraging cloud-native data solutions to solve client business issues are seen as highly valuable
- The increase in public cloud adoption has created an arms race amongst buyers looking to keep pace with client demands
- Solving client problems using technology is more important than expertise within a specific technology stack

Equiteq's Viewpoint – Buyer / Investor Priorities

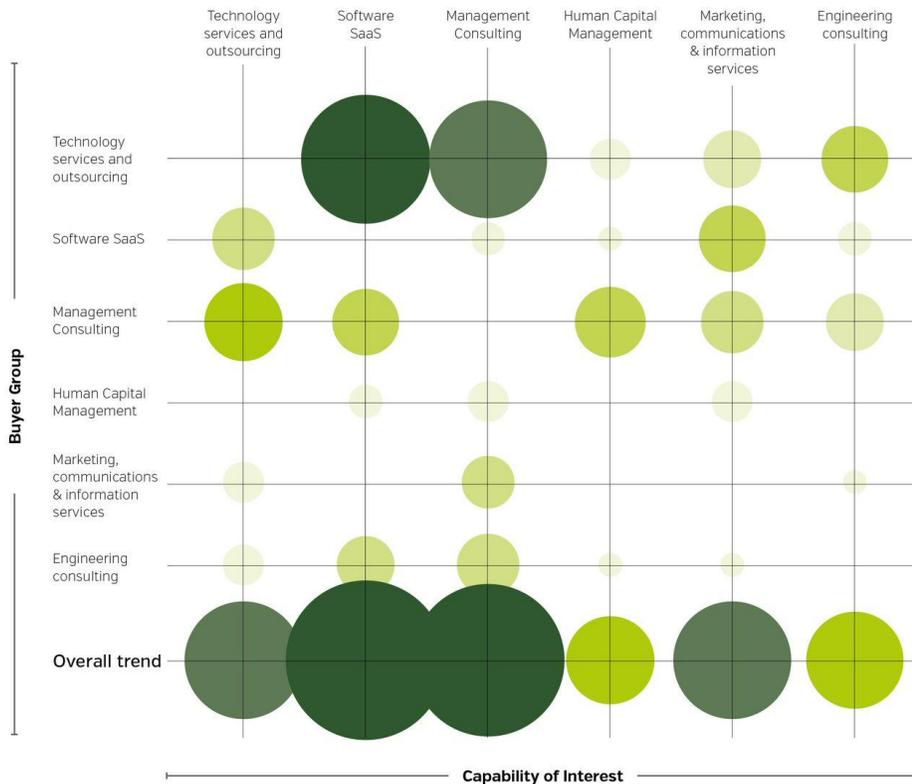
- “No covid discount in the technology services sector, interest in Snowflake, Salesforce, AWS” – Corp Dev ~\$1B Consulting Firm 1/25/21
- “We’re being forced to look at multi-cloud service providers (Azure, AWS) but being forced to look at smaller deals as it is becoming so competitive.” - Corp Dev, PE Portco
- “Valuations are at pre-covid levels, looking for more front-end digital capabilities, hard to differentiate to sellers” – Corp Dev ~1\$B+ IT Outsourcer

Trend 3: There is M&A convergence across the sectors and delivery models are blending

Datapoints

CROSS-SECTOR INTEREST VARIES BUT CENTRES AROUND ACQUIRING SAAS CAPABILITIES

Cross-segment acquisition interest - Size of bubble illustrates relative scale of cross-segment interest



54%

of deals in the Knowledge Economy were made cross-sector or cross-sub-sector in 2020

Equiteq's Viewpoint – Seller Priorities

- Make sure you remain at the forefront of Innovation
- Position your services to address emerging hot market issues
- Increase the proportion of recurring revenue, by packaging your offering and leveraging 3rd party technologies
- Evolve your delivery model toward subscription / SaaS model even at the risk of revenue growth erosion during the transition year

Equiteq's Viewpoint – Buyer / Investor Priorities

- Focus on businesses which have developed specific expertise on emerging trends and leading technologies
- Emphasis to be put on companies where Innovation is part of their DNA
- Premium for companies who successfully transformed their delivery model, embedding services in high value added packaged solutions

Trend 6: Vertical software solutions are increasingly popular

Datapoints

- The application software sector has matured
 - Few horizontal “whitespaces” remain
 - Opportunities now being exploited in more specialized vertical industry sectors/subsectors
- Provide complete, end-to-end workflow automation solutions; enabled by SaaS/Cloud delivery model
 - Examples: real estate, insurance, non-profits, legal, even auto repair shops and community sports leagues
- Subscription revenue models, typically with high “stickiness”, lower sales & marketing expenses and higher margins; defensible competitive positions
- Very attractive to Private Equity buyers
 - Recurring revenue, strong cash flows
 - Few existing dominant competitors
 - Opportunity to create a much larger platform via add-on acquisitions as well as organic growth

Equiteq’s Viewpoint – Seller Priorities

- Invest in infrastructure needed to develop a solid and scalable company platform long before a possible transaction
 - Management team, especially the Finance team
 - Technology platform
 - Flesh out organic and inorganic growth opportunities
- Growth trumps high profitability to drive valuation and buyer interest
- Be open to developing relationships with financial/strategic buyers

Equiteq’s Viewpoint – Buyer / Investor Priorities

- Seek attractive niche end-markets with large enough TAM
- Robust 2 to 5 year growth opportunities, particularly a strategic acquisition roadmap in new and adjacent areas
- Revenue visibility is key; truly recurring with solid gross margins
- Strong KPIs: low churn, high net revenue retention, good LTV/CAC ratio

Take-aways and Q&A

Take-aways and Q&A

Equiteq's Viewpoint – Seller Priorities

- Self-identification vs. key trends. What is their impact on:
 - Market proposition?
 - Business and delivery models?
 - Value?
- Importance of positioning to stand-out
- Consideration of timings
 - Crowded 2021 market vs. 'wait until 2022' crowd (risks)

Equiteq's Viewpoint – Buyer / Investor Priorities

- Clarity of origination strategy
- Smart ways to play markets
- Sharpening the buy-side story

Pre-registered Q&A

- What KPIs will sellers need to hit to be attractive?
- In this environment should I be focusing on growth or profitability? And for growth, organic or inorganic?
- Has Covid impacted buyer interest in emerging markets?
- How mature is the 'virtual deal' a year into Covid? And virtual integration?

Further help

For a confidential discussion, please make contact with today's panellists:



Jeff Becker

Managing Director

Tel: +1 646 350-2827

Mobile: + 1 973 953-1775

jeff.becker@equiteq.com



Paul Dondos

Managing Director

Tel: +44 203 651 0622

Mobile: +44 7384 254 200

paul.dondos@equiteq.com



Sylvaine Masson

Director M&A Services

Tel: +(65) 3109 1955

Mobile: +(65) 8284 6383

sylvaine.masson@equiteq.com



Greg Fincke

Managing Director

Tel: +1 212 256-1120 x102

Mobile: +1 917 828-5090

greg.fincke@equiteq.com


Equiteq

