



# WHY 2021 WILL BE A RECORD YEAR FOR M&A IN THE KNOWLEDGE ECONOMY - CONSULTING, SOFTWARE & TECHNOLOGY SERVICES

Paul Dondos, Managing Director, Equiteq

Phil Baxter, Associate Director, Equiteq

Webinar

Wednesday, 21 April 2021, 14:00 BST

# A Word From Today's Chairman



**Professor Michael Mainelli**

Executive Chairman

Z/Yen Group

# FS Club

## Platinum Sponsors



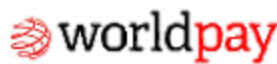
## Gold Sponsors



## Silver Sponsors



## Bronze Sponsors



## Personal Sponsors



# Today's Agenda



- 14:00 – 14:05 Chairman's Introduction
- 14:05 – 14:25 Keynote Presentation – Paul Dondos & Phil Baxter
- 14:25 – 14:45 Questions & Answers

# Today's Speakers



**Paul Dondos**

Managing Director

Equiteq



**Phil Baxter**

Associate Director

Equiteq



# Why 2021 Will Be A Record Year For M&A In the Knowledge Economy

**M&A in Consulting, Software and Technology Services**

April 21st, 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, Q1 2021 volumes 10% ahead of last year, 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

# First, a poll

*What is your main interest in M&A in the Knowledge Economy?*

---

- |   |  |
|---|--|
| 1 | <b>As a buyer of assets in the sector</b>                                  |
| 2 | <b>As a seller of assets in the sector</b>                                 |
| 3 | <b>As an investor in public or private assets in the sector</b>            |
| 4 | <b>As a participant who wants increased awareness of market conditions</b> |



# 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*

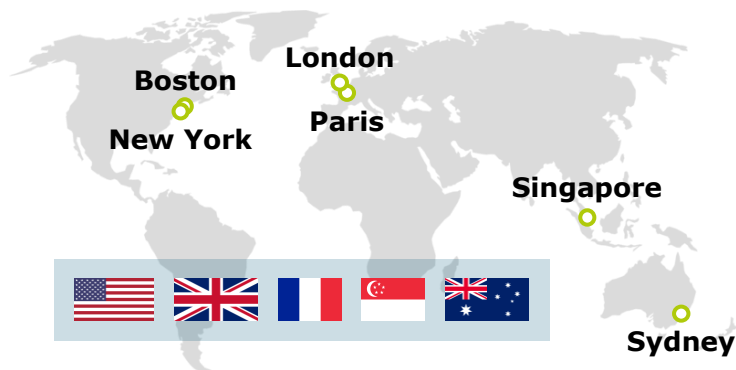
## Long-term engagement model



50 employees

6 offices

4 continents



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

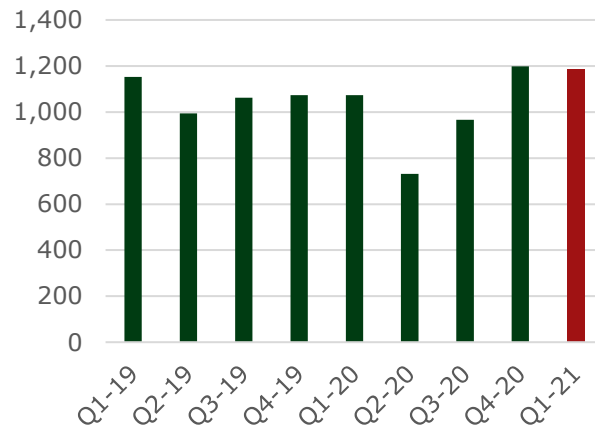


# It's now clear that Covid-19 disruption to sector M&A was very short term

*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<sup>1</sup>



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**



**Knowledge Economy Performing**



**Global Recession**

- M&A volumes back at record levels
- Knowledge Economy Share indices at all time highs
- Sector firms doing relatively well – e.g. UK consulting revenues up 2%
- 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**

"Fear of Missing Out is driving valuations and activity. Too much money flowing after too few deals." **Global digital transformation company**

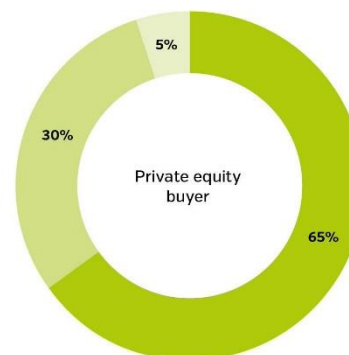
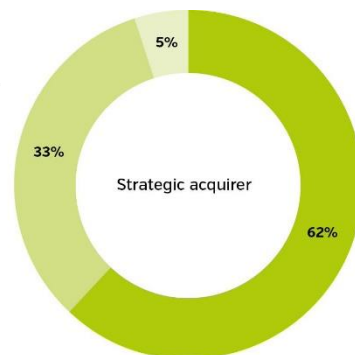
"Our strategy to double revenue every 5-7 years requires \$1bn of acquisitions a year." **Global tech services firm**

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

### Equiteq Buyer Survey (Nov 2020)

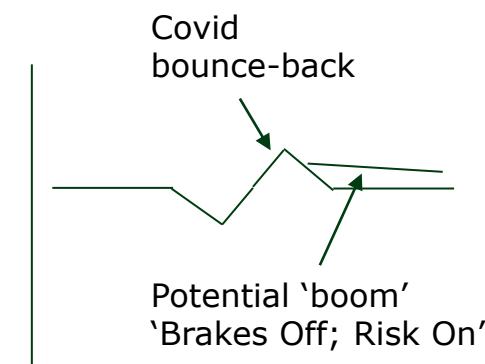
Volume of deals over the next 2-3 years

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

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
- **2/3<sup>rd</sup> 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

■ Increase significantly ■ Somewhat increase ■ Stay the same ■ Decrease somewhat ■ Decrease significantly

Private equity



Strategic acquirers



NEXT 5 YEARS

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
- “There’s a lot of demand for assets in digital transformation space, even at premium valuations” – Corp Dev, Global IT Outsourcer

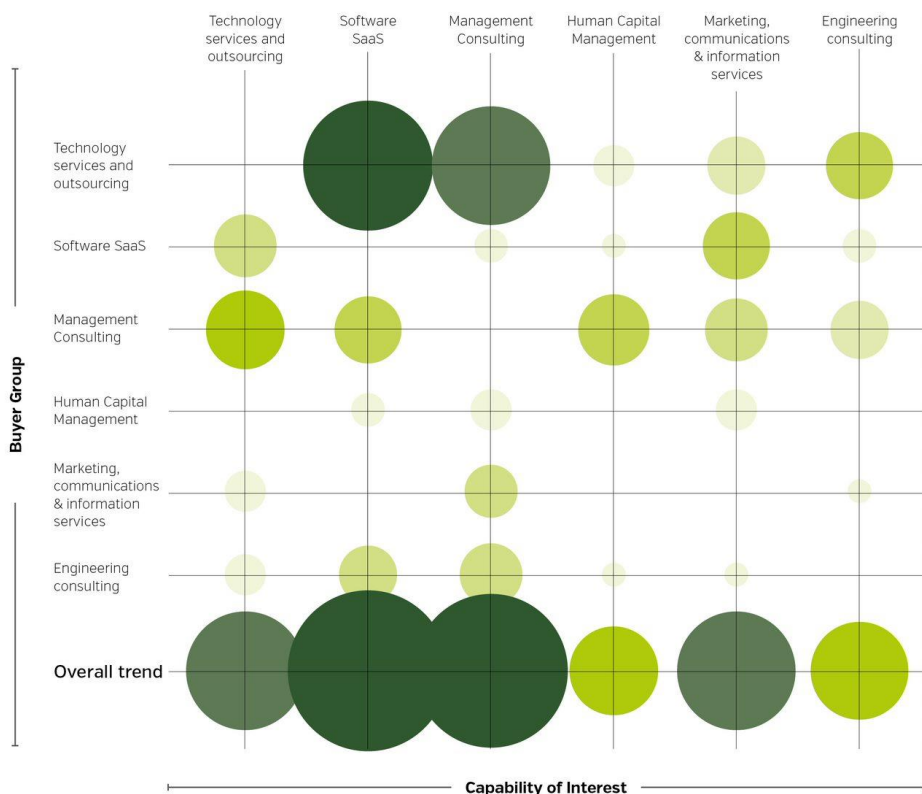


# Trend 3: There is M&A convergence across the sectors and delivery models are blending

## 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 3<sup>rd</sup> 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)



**Paul Dondos**  
Managing Director  
Tel: +44 203 651 0622  
Mobile: +44 7384 254 200  
[paul.dondos@equiteq.com](mailto:paul.dondos@equiteq.com)

## Equiteq's Viewpoint – Buyer / Investor Priorities

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



**Phil Baxter**  
Associate Director, Advisory  
Tel: +44 203 651 0601  
Mobile: +44 7785 381 971  
[phil.baxter@equiteq.com](mailto:phil.baxter@equiteq.com)



# FS Club

## Platinum Sponsors



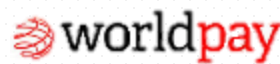
## Gold Sponsors



## Silver Sponsors



## Bronze Sponsors



## Personal Sponsors





# Thank You For Listening



## Forthcoming Events

- Fri, 23 Apr (12:00-12:45) If We Have Financial Services Bills, What Should Be In A Digital Services Bill?
- Mon, 26 Apr (10:00-10:45) The Future Of Work – Is The Office Building Obsolete?
- Tue, 27 Apr (15:00-15:45) The Role of Employee Share Schemes In Achieving The UN Sustainable Development Goals
- Wed, 28 Apr (12:00-12:45) Is Data The New Money? Ocean Protocol And Data As A New Asset Class

Visit <https://fsclub.zyen.com/events/forthcoming-events/>