Equiteq

Global Buyers Report 2024

Contents

Executive Summary

I am delighted to present the latest findings from our ninth annual survey of global Strategic buyers and Private Equity investors acquiring businesses across the Knowledge Economy.

The 2024 Knowledge Economy Global Buyers Report shares our proprietary insights into the buyer trends shaping M&A activity in the coming 12 months. Based on rigorous data and the contextual insights of the Equiteq global team, this report distills the opinions of buyers across the Knowledge Economy's core sectors of management consulting technology services and outsourcing.

Our findings last year suggested that buyers expected a softening of M&A activity during 2023 as they sought to ride out the inflationary environment that was impacting deal-making activity.

However, that is not to say we have seen a dearth of transactions. Volumes and valuations may be down from the levels of 2021 (a high-water mark now being misused as a benchmark) but we have still seen robust levels of deal-making across the Knowledge Economy, even if those deals were more complex to complete. With buyers expecting greater capital availability and more deals next year, this is a positive sign of stability returning to the market.

82%

of respondents expect more or the same amount of capital to be available next year

Respondents are also bullish in their long-term outlook, suggesting that any slight softening of activity is likely to be relatively short-lived simply because the drivers of investment in the Knowledge Economy are so strong. Underlying macro trends such as digital transformation remain pivotal and perennial, though buyer interests are broadening as the rapid emergence of innovative technology like AI signposts the next tech revolution.

Buyer interests appear to have moderated on multiple fronts as appetites broaden and new opportunities arise, especially for innovative firms helping to modernize digital service lines, such as MNEMO Mexico, a cybersecurity firm utilizing AI in its solutions that was acquired by Accenture in late 2023 . Yet many of these areas, AI included, remain nascent with only the most active of first-movers cherry-picking the few companies demonstrating the potential scalability that buyers are in search of. The pursuit of innovation and scale is not an easy one. However, with capital to deploy, exciting developments in the sector, and signs of greater economic stability on the horizon, we can take many positives from this year's findings with buyers actively seeking to deploy funds across the Knowledge Economy.

David Jorgenson
CEO, Equiteq

Artificial Intelligence

Key Takeaways

1. More than half of buyers have already made at least one deal to gain access to AI capabilities and technologies

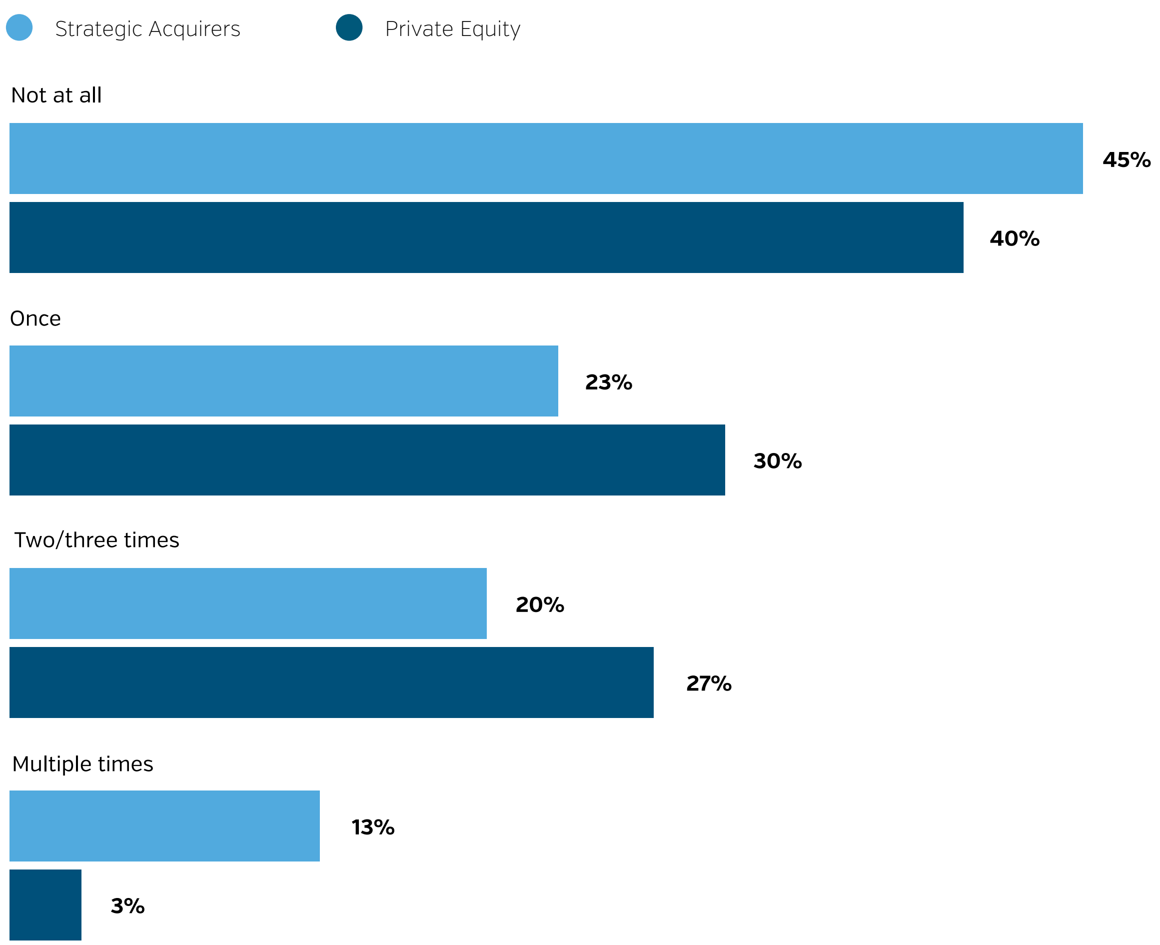
2. The primary driver for acquiring AI capabilities is to enhance services and drive differentiation

3. Buyers hold broad-based interests across multiple AI technologies including predictive analysis, machine learning, and cybersecurity

Artificial Intelligence (AI) is experiencing a surge in attention among buyers, driven by its transformative potential to unlock outstanding results through innovation. Given this context, we wanted to dig into the sentiment of buyers to uncover the drivers of interest and better understand why AI is an increasingly prevalent buzzword across multiple industries.

Our findings suggest that more than half of buyers have already made at least one deal to gain access to AI capabilities and technologies, with some making multiple acquisitions. Among those leading deal-making in the space are the major consultancies - with McKinsey and Accenture particularly active - as each looks to solidify its position as a global consulting leader at the forefront of the AI wave.

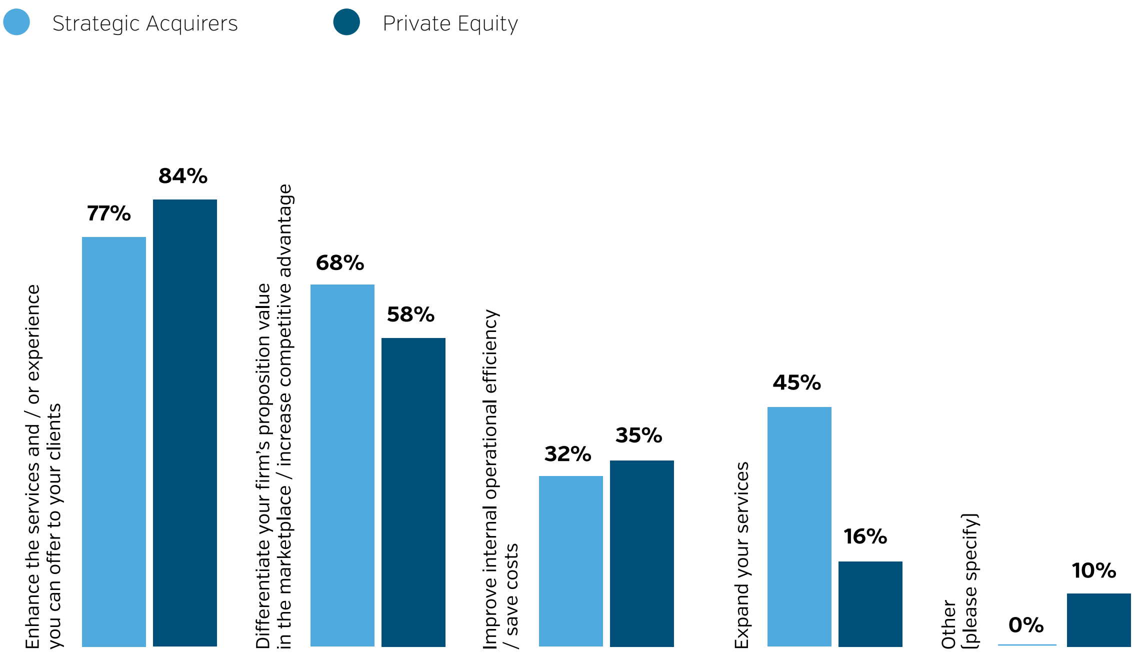
Frequency of AI acquisitions



AI Capabilities

Respondents say that the primary driver for acquiring AI capabilities is to enhance services and drive differentiation. A clear majority of Strategic Acquirers named service / experience enhancement and greater differentiation as key drivers. These factors were also important to Private Equity respondents, although on behalf of their portfolio companies. Our findings suggest that, for now at least, buyers are seeing greater potential in differentiating their services through AI and building a competitive advantage than utilizing it to improve efficiency and cost savings.

Key reasons for acquiring AI capabilities



"We're seeing a big focus on developing and delivering personalized experiences and journeys to resolve any kind of customer or product issues," says Arun Nayak, Managing Director at Equiteq in APAC. "Getting it right can drive retention and brand loyalty, and the large transformation we're seeing in this space is being powered by AI that can tailor the experiences of customers."

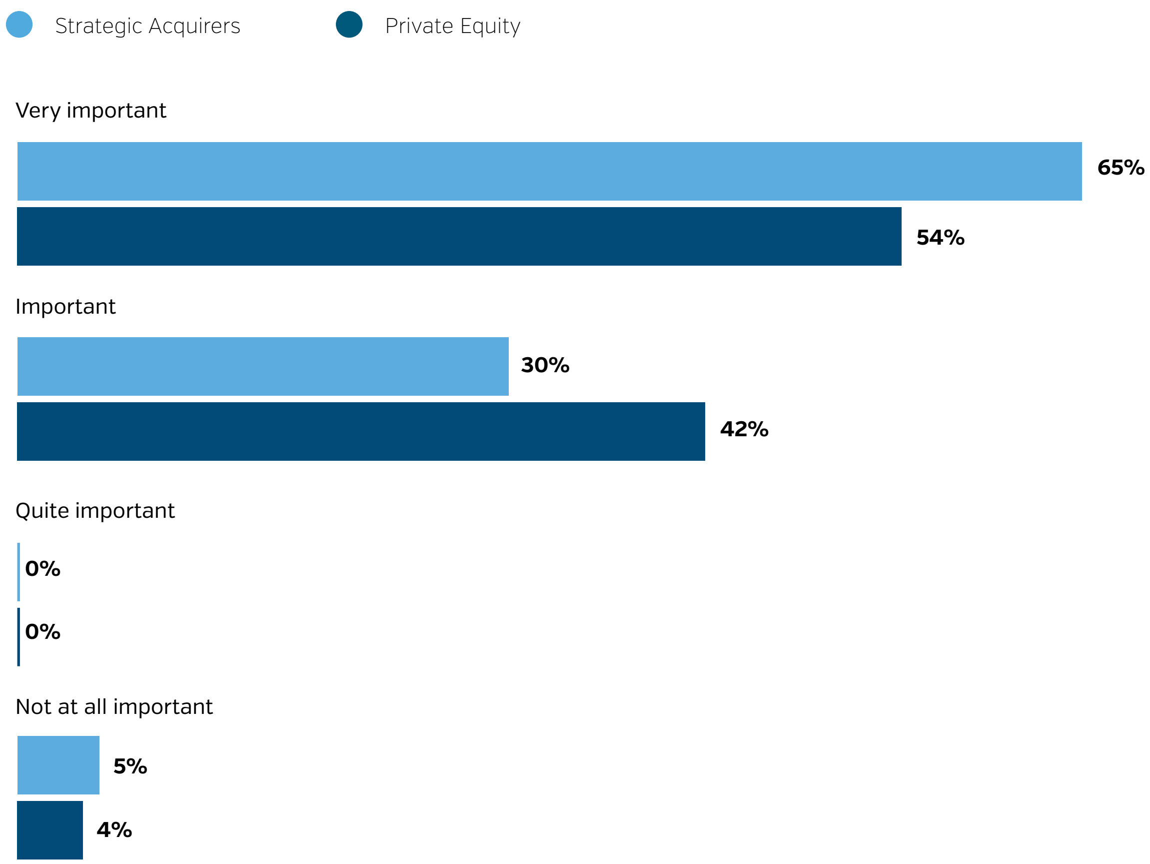
Despite participants seeing strong drivers for M&A, the overall appetite for AI M&A appears quite conservative. Most buyers and investors only anticipate a small number of targets, with only a very small minority - the most active of first movers - expecting to acquire multiple firms.

> AI is a key area of interest for buyers but for the time being the revenues being generated from projects remain fairly small compared to the core IT spend that companies have right now

"AI is a key area of interest for buyers but for the time being the revenues being generated from projects remain fairly small compared to the core IT spend that companies have right now," says Sylvaine Masson, Managing Director, Head of APAC at Equiteq. "The challenge for dealmakers is that there's just not many companies that are true AI players for the time being, and so this has an impact on the number of transactions that would be possible in this specific space."

For the transactions that do take place, respondents were adamant that undertaking the appropriate due diligence on the AI capabilities of targets was 'Important' (34%) or 'Very Important' (56%). Given the early-stage nature of the technology, such behavior could be suggestive of a healthy degree of skepticism around what remains a nascent digital service line.

Importance of AI Due Diligence

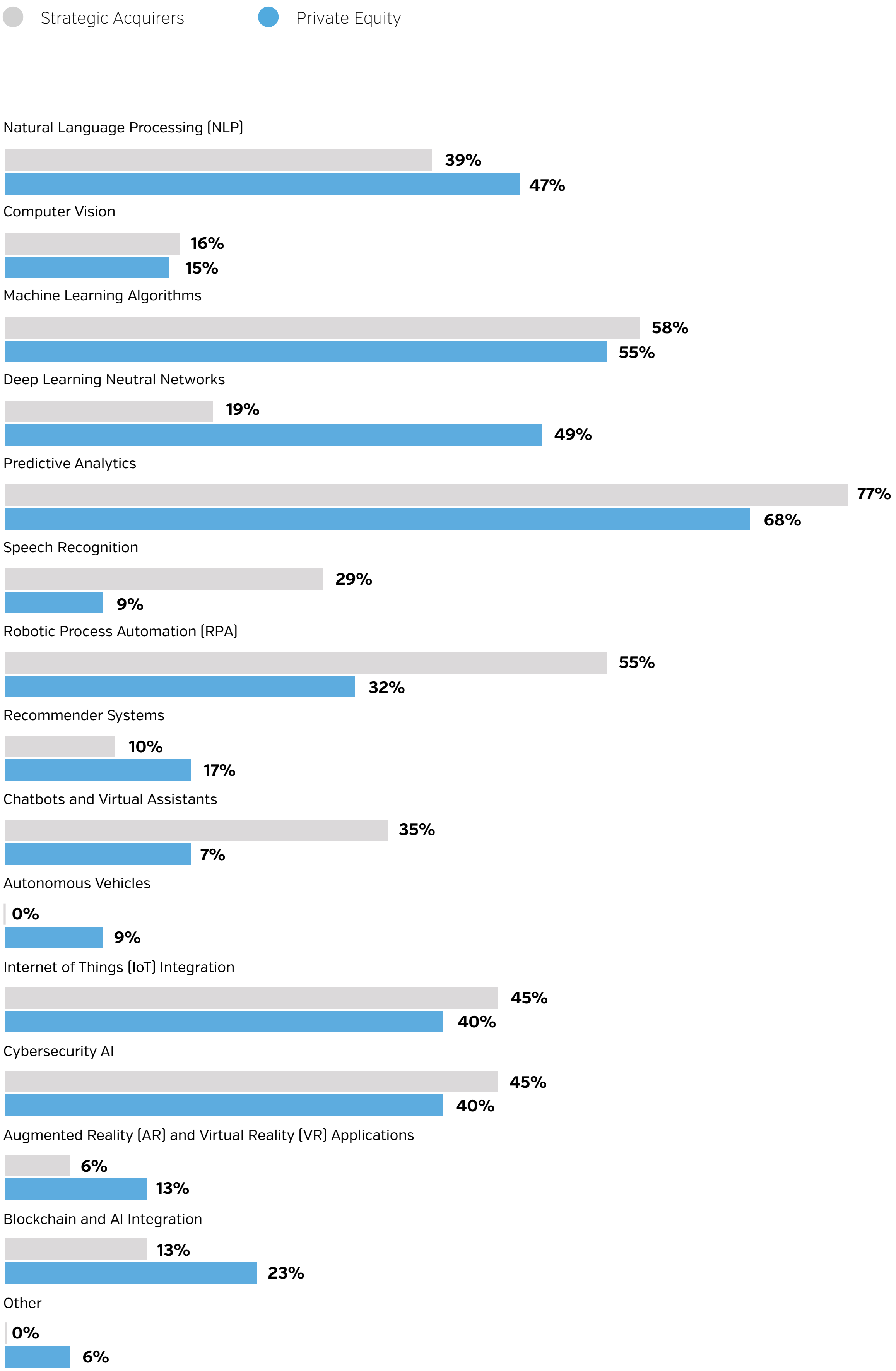


AI Technologies

There are broad-based interests across multiple AI technologies with those deemed most relevant for M&A being predictive analysis (75%), machine learning (ML) (55%), and cybersecurity (41%). Both Strategics and Private Equity respondents mentioned the same technologies with interests focussed on what might be seen as the most 'commercialized' of AI technologies.

"With the volume and velocity of data that is being generated today, any kind of language learning model or machine learning model that needs to be built - data is integral to that. Predictive analytics is already a big driver of M&A activity and so it makes sense to see AI ride this wave too," says Nayak. "We've seen tools like AI-text generators quickly become commoditized but things get more complex around applications of AI for data and cybersecurity reasons, so buyers are looking for companies with this more specialist expertise."

AI Technologies most relevant to M&A



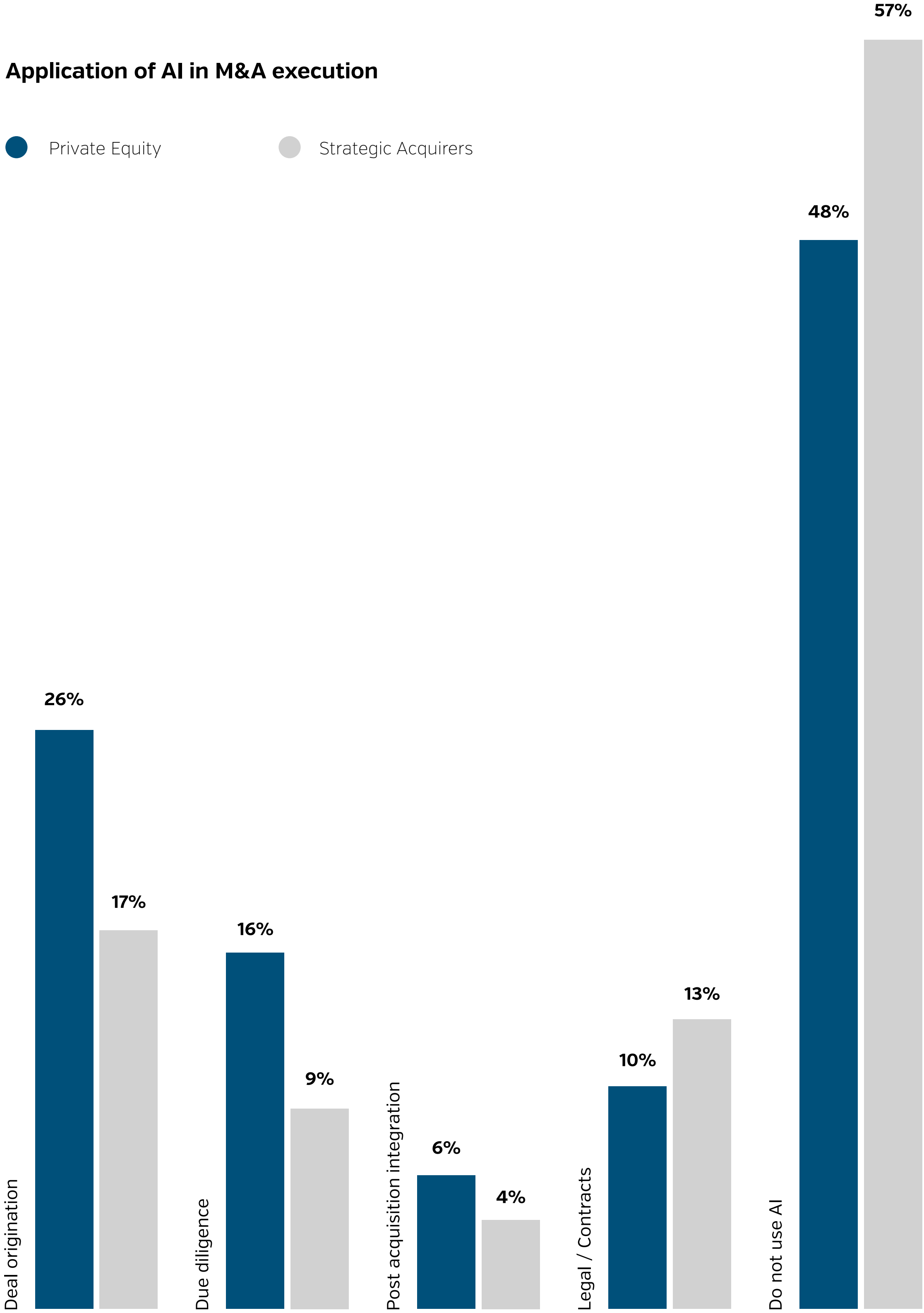
"Things get more complex around applications of AI for data and cybersecurity reasons, so buyers are looking for companies with this more specialist expertise

AI for Deal Making

We are also seeing some buyers and investors start to use AI in their own M&A processes, albeit a majority say they don't currently deploy such technologies. The utilization of AI is slightly greater among Private Equity with a sixth (16%) using AI for some aspects of due diligence and more than a quarter of respondents (26%) adopting technologies to identify targets and originate deals - although almost one-in-five Strategic respondents (17%) also said they were leveraging AI to originate their own deals.

Given the rapid advancements being made in the space and favorable digital tailwinds, we should expect buyer interests in AI to persist for the foreseeable future even if we have yet to see the possibilities of dealmaking in the space truly manifest.

Application of AI in M&A execution



Propensity for Acquisitions

Key Takeaways

1.

The outlook for deal volumes in 2024 remains strong, though still off the record highs from two years ago

2.

Few buyers expect a decrease in capital availability, with the majority expecting deal sizes to be largely the same next year

3.

Buyers are paying greater attention to opportunities in the Healthcare vertical, which has replaced financial services as the #1 vertical of interest

Despite the expectation of buyers in prior surveys for strong market heat to persist in the wake of a super-charged, post-pandemic deal-making environment, this has not come to pass. However, while myriad macroeconomic and geopolitical challenges have posed difficulties to those looking to make deals during 2023, buyer sentiment suggests the outlook for deal-making is becoming more positive even if caution remains.

"Buyers have been understandably cautious right now due to the world uncertainties and the lack of business predictability which has translated into a downturn in volume, appetite, and fluidity of the market," says Alexandre Steiner, Managing Director at Equiteq in Paris, France. "However, what's interesting is that valuations have been quite protected and this is a positive trend that we expect to continue looking ahead to next year."

> "We've had a year of companies essentially adjusting their business plans month on month [and] now we're starting to see greater stability in this regard, which should have a positive effect on deal-making activity among buyers

Despite persisting economic uncertainty, our findings suggest the propensity for M&A looks strong for the foreseeable future as buyers look to take advantage of greater market stability that showed signs of emerging during H2. This is reflected in our findings with few expecting to execute smaller deals.

"What we've seen is clearly a stabilizing interest rate environment, which is a positive symptom of the market cooling down from an interest rate perspective," says Jerome Glynn-Smith, Managing Director, Head of Europe, at Equiteq in London, UK. "Whereas we've had a year of companies in the Knowledge Economy essentially adjusting their business plans month on month, now we're starting to see greater stability in this regard, which should have a positive effect on deal-making activity among buyers."

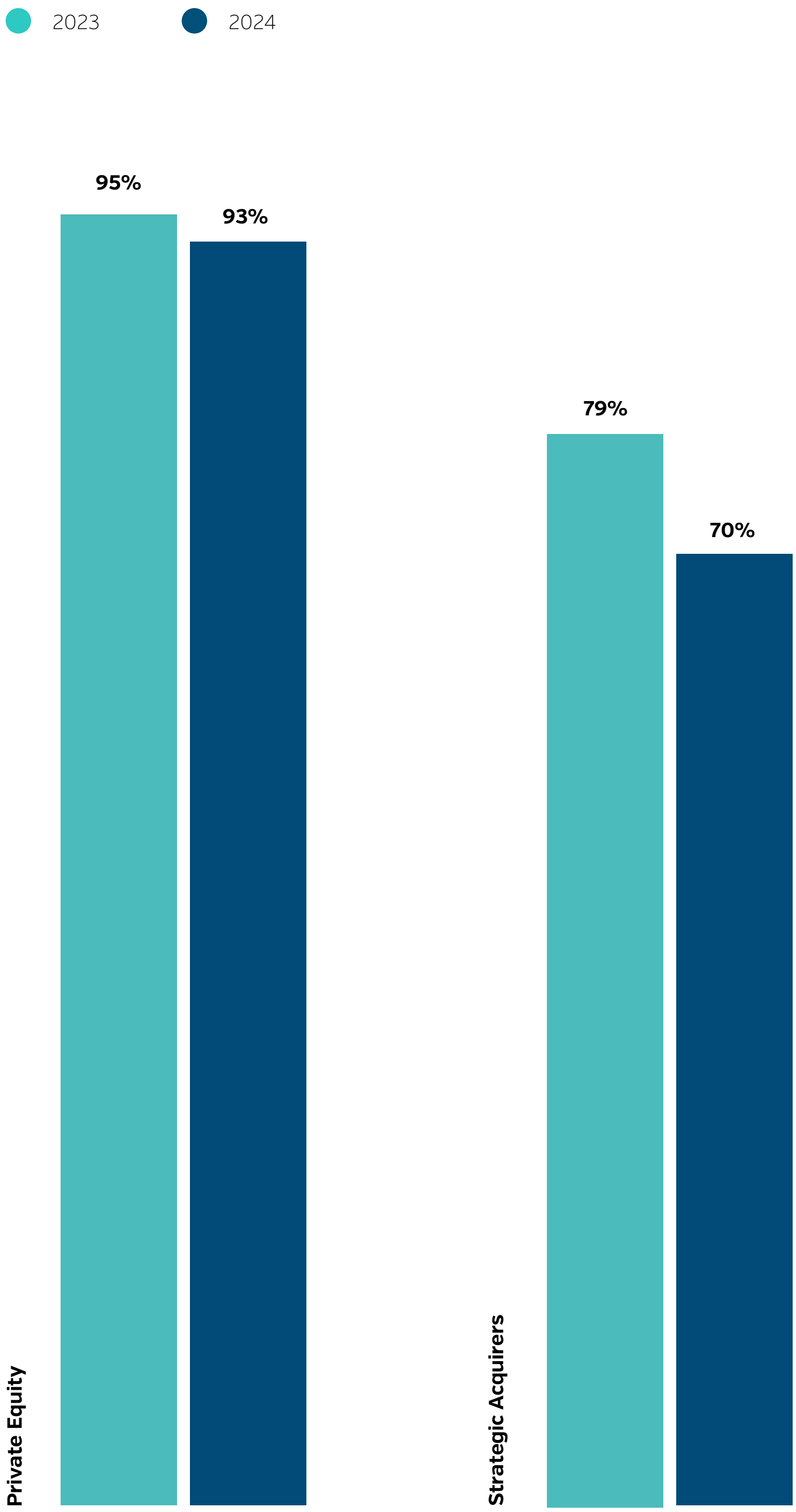
Capital Availability

Our findings show a mixed response to the capital available to buyers and Investors next year. Among Strategics we see a roughly equal proportion of respondents expecting an increase, decrease, or similar amounts of capital. From a macro perspective, our findings are broadly aligned with previous surveys and reflect a gradual, long-term trend toward a less bullish outlook on capital availability among Strategics.

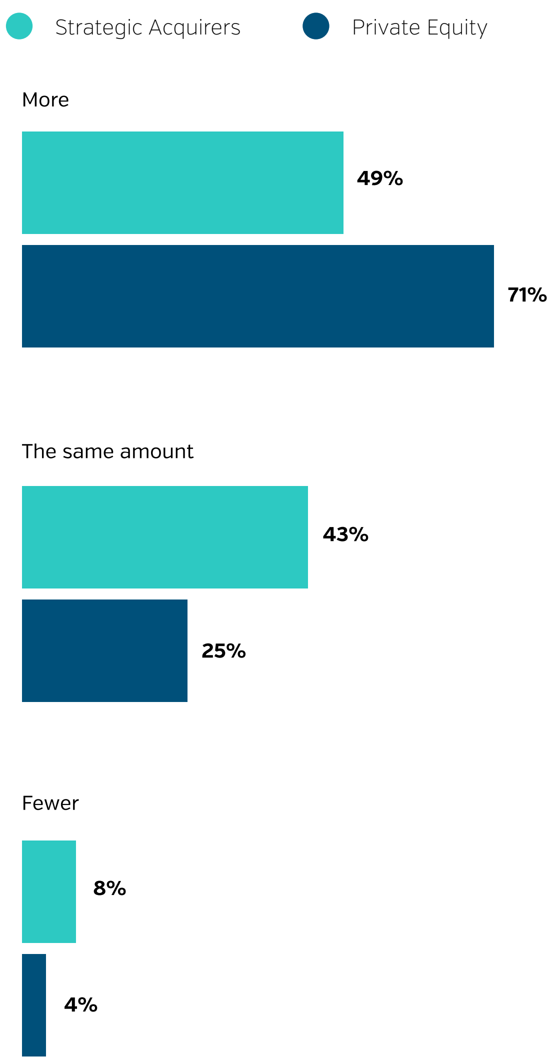
Private Equity respondents continue to sit on record levels of funds with the majority expecting available capital to stay the same (67%). This is a shift from last year when the majority of respondents expected more capital to be available (68%). Given how well-capitalized financial investors are, the need to deploy funds and make up for the slowdown in portfolio companies over the last 12 months is becoming more acute.

"There's still a large amount of cash that exists in the Private Equity world that needs deploying so this will likely encourage more activity in the coming year," says Glynn-Smith. "We've also seen fewer exits from Private Equity houses during 2023 and given the need to recycle capital and demonstrate successful exits, we should expect to see more PE exits throughout 2024 and into 2025."

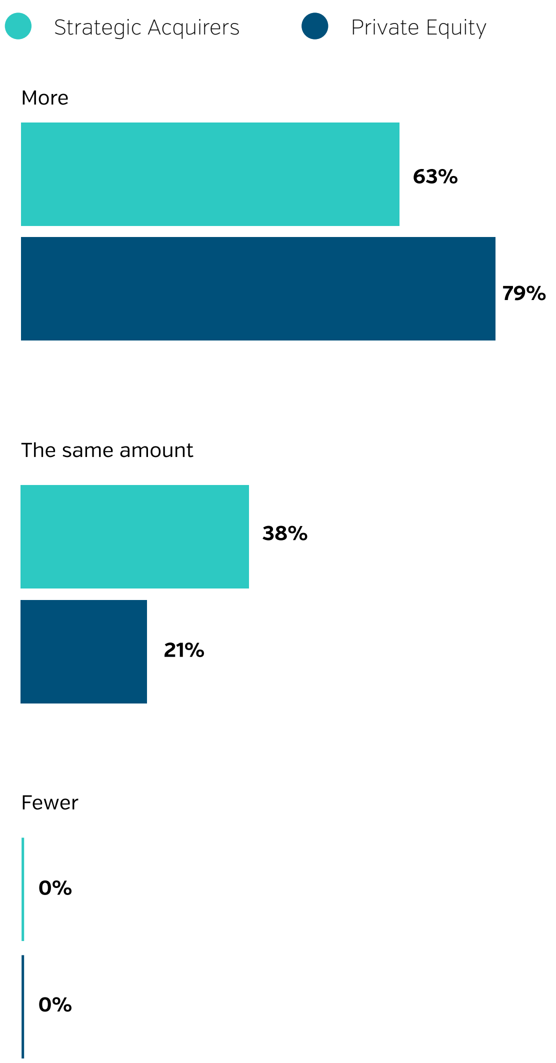
Proportion of buyers that expect capital to increase or stay the same next year



Outlook for acquisition volume in the next 12 months



And the next 2 to 3 years



Deal Volumes

Despite mixed opinions on capital availability, the outlook for deal volumes in 2024 remains strong, although well off the record highs seen two years ago. Nearly half of buyers expect to do more deals next year, with Private Equity respondents (71%) displaying greater optimism than Strategics (49%). Across the board, the proportion of firms expecting to do fewer deals remains very low (~one-in-ten respondents).

Given the ongoing challenge of inflation and a lack of quality business coming to market in 2023, it is perhaps a little surprising to see Private Equity expectations rebound significantly from last year's survey, with a large majority now expecting to do more deals going into 2024 (up 39% year-on-year).

"Private Equity still has a record amount of capital to spend, and is eager to put it to work. Generally, sellers' valuation expectations remained persistently high during the economic dislocation of 2022 and 2023, which hasn't always matched PE valuation attitudes," says John Gannon, Director, Coverage at Equiteq. "This dynamic has recently begun to normalize, so we expect to see PE deploy more capital as market conditions improve."

> Private Equity still has a record amount of capital to spend, and is eager to put it to work. PE valuation attitudes have recently begun to normalize and so we expect to see PE deploy more capital as market conditions improve

In a positive sign, the outlook for deal volumes in the longer term remains extremely strong - in fact, our findings show it at a record high. Almost three-quarters of buyers (71%) expect to increase activity during the next 2-3 years, up from just over half last year and a sign of softening in buyer caution. "People are finding their feet again in terms of business plan achievement and we've seen a lot of deals that didn't close this year so there's going to be a lot of transactions next year in the market," says Glynn-Smith. "This should help foster an environment that might be slightly more buyer-friendly because there'll be a lot of transactions and buyers will have a lot of choice."

Verticals of Interest

For the first time in a number of years, Financial Services (FS) has failed to be named the vertical of highest interest among buyers, having been replaced by Healthcare. There has been a general broadening in the verticals of interest, so while FS remains important, we're seeing a growing number of buyers turning their attention towards both the Healthcare and Life Sciences sectors.

"Big pharma is recognizing that it needs to find new sources of revenue, so that means innovation processes, rationalization and making sure that they balance out their acts towards the full chain of command in the company," says Steiner. "There's a big appetite and a big need for that - and it's a market that is not going to slow down or stop growing because the overall population is both growing and aging."

Given the caution in deal-making activity during 2023, it's no surprise that buyer interests are landing on those verticals proving to be recession-resilient and able to offer more stable revenue streams and client bases. With a large amount of business model transformation dependent on the adoption of new technology in verticals such as Healthcare and FS, both are proving to be increasingly attractive for those looking to deploy capital into M&A.

"There's a big interest in consulting firms that have expertise in Healthcare or Life Sciences or financial services," says Adam Tindall, Managing Director and Co-Head of North America at Equiteq, New York. "Firms that can help organizations adopt a new technology that improves the delivery of service or the efficiency of operations are a commodity that's in fairly high demand."

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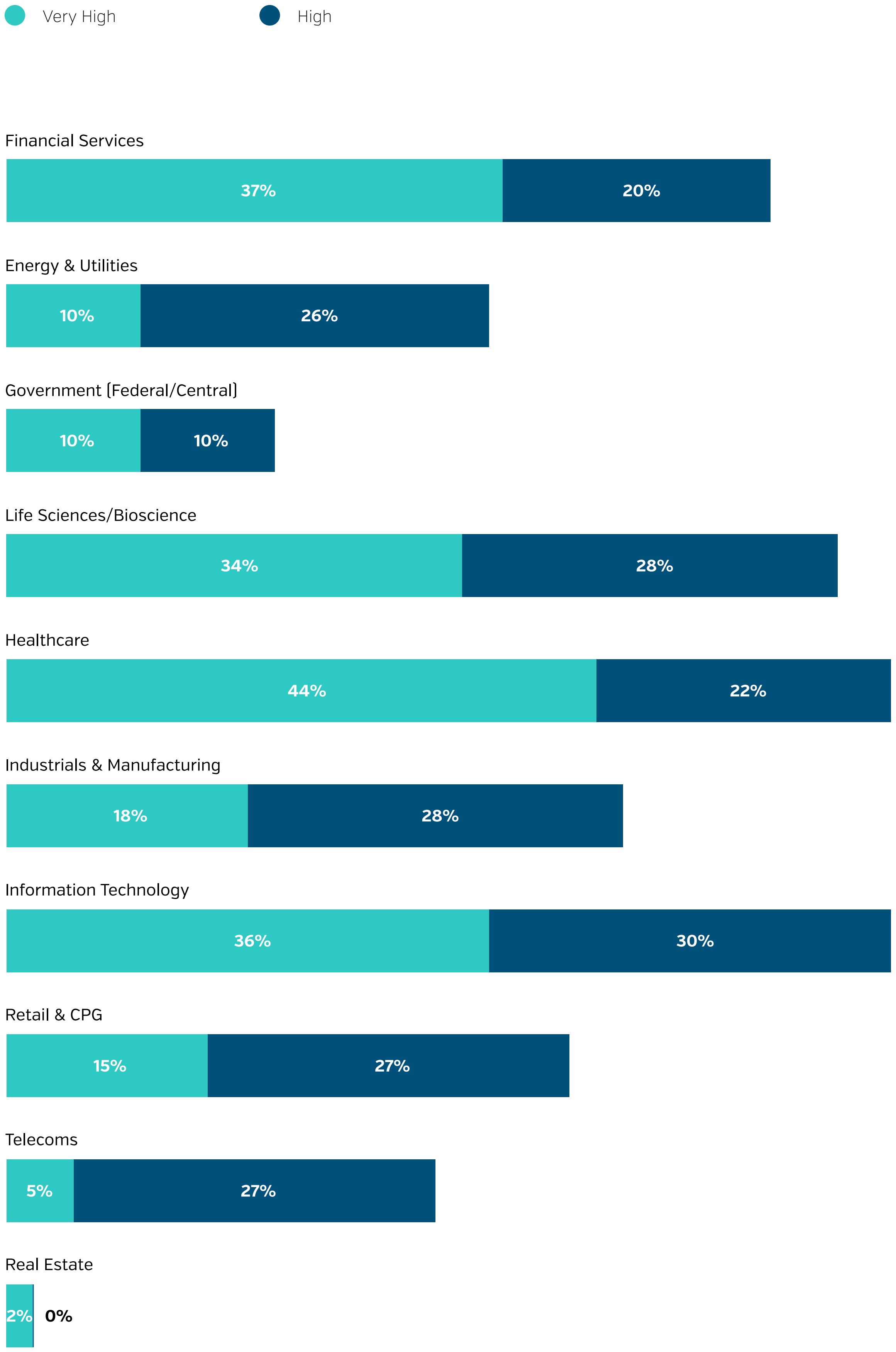
Demand by industry vertical



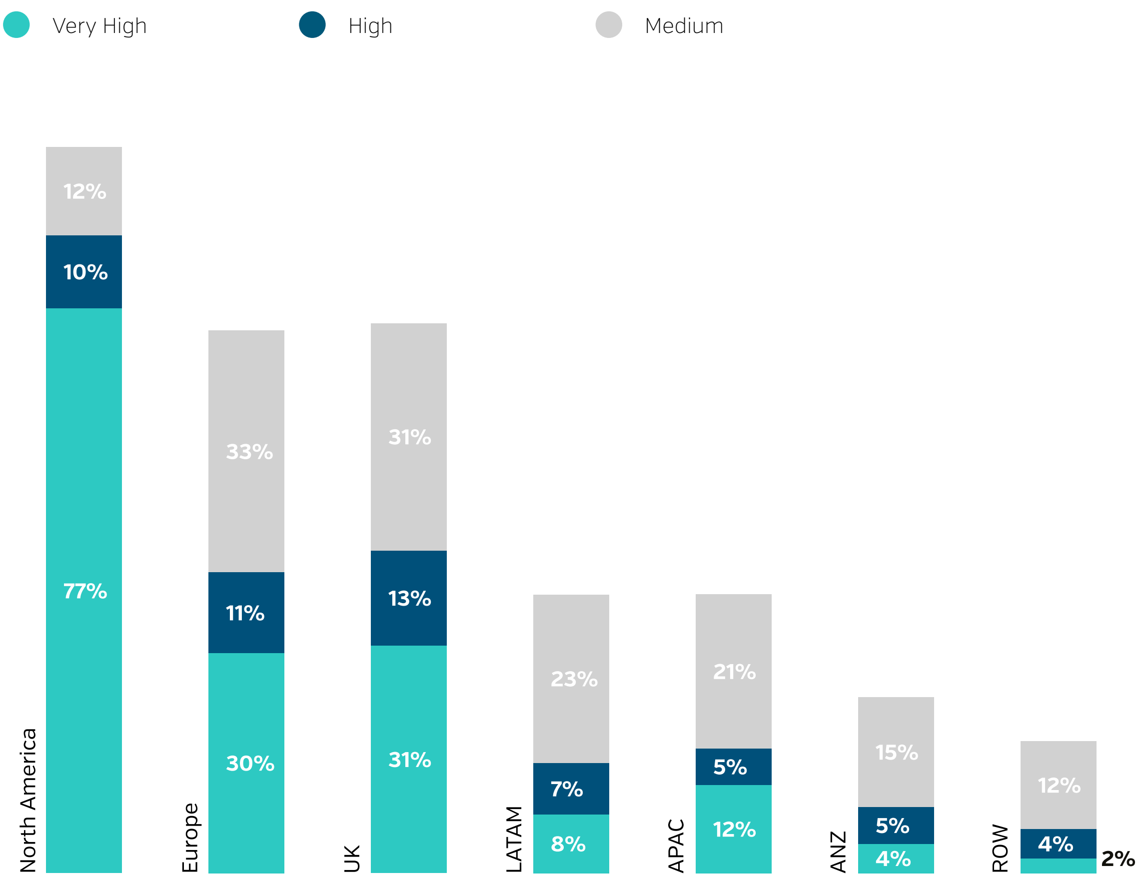
Geographies of Interest

After a drop-back last year, North America has re-asserted its dominant position as the market of most interest with almost eight-in-ten buyers (77%) said they held 'Very High' interest in the region. This is more than double the number of buyers showing 'Very high' interest in both the UK (31%) and Europe (30%), with the latter being particularly noticeable having been slightly ahead of North America in last year's findings (though this count included the UK in Europe's total).

"We are seeing more optimism in North America right now and there's been a lot of positive economic data coming through with third quarter growth in the U.S. higher than predicted,"says Tindall. "Pent up demand is building and there's talk of the Fed starting to scale back interest rates potentially as early as Q1 2024. Even though there is the critical inflection point of an election in 2024, these are both positive lead indicators that M&A will hopefully be strong in the next year."

While North America is far and away the geographical market most in demand among buyers, there is at least moderate interest in all global markets, although in less developed M&A markets like LATAM and APAC this continues only on an absolute basis.

Demand by Geography



Digital and Consulting Industry

Key Takeaways

1.

Buyers are showing interest in a broad set of digital services, with strong appetites for public cloud, data & analytics, and custom app development

2.

Underlying digital megatrends continue to drive buying habits despite a slight moderation of buyer interests across most digital services over the last 12 months

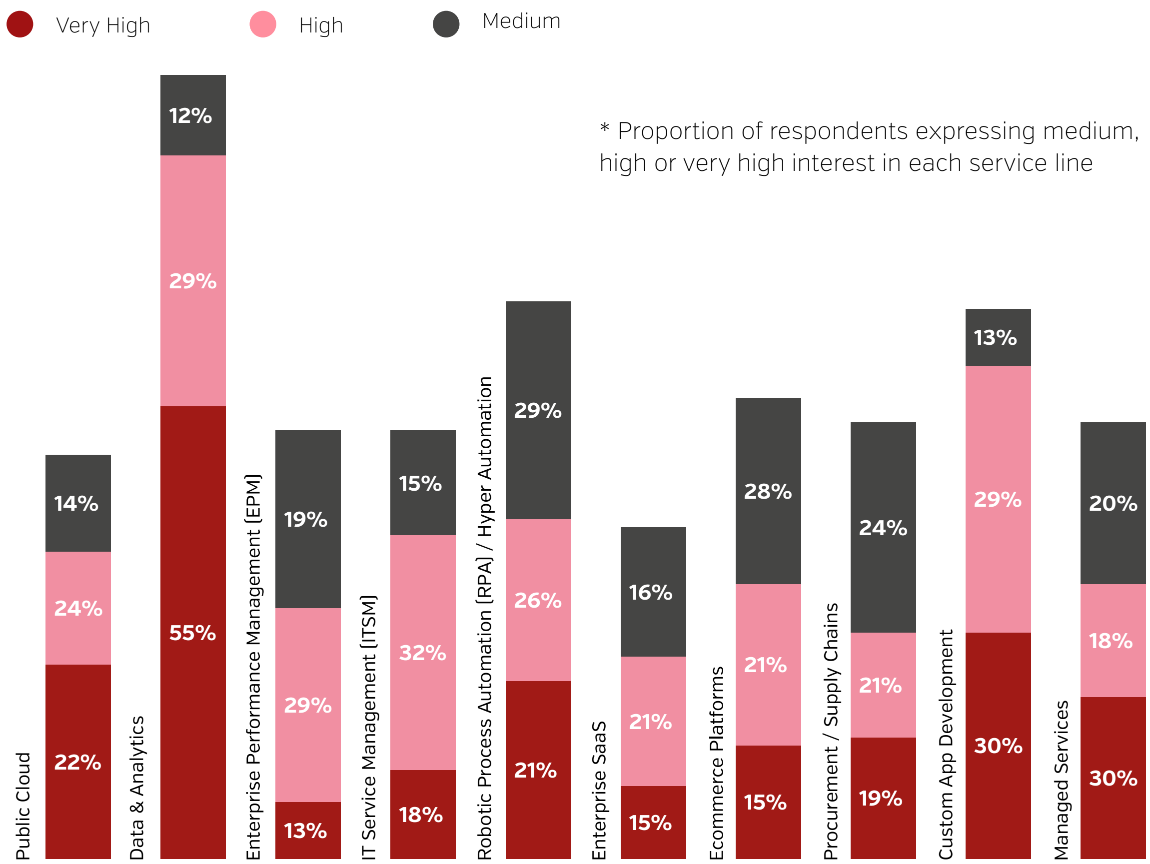
3.

Interest in management consulting practices remains moderate across multiple services lines, though appetites are strongest for strategy and ESG services

Buyer interests stretch across the Knowledge Economy, with long-standing megatrends such as digital transformation continuing to power deal-making activity in the space. Among digital service lines, our findings suggest that buyer appetites for data and analytics are even stronger than they were last year, with 97% of respondents showing an interest in acquiring such capabilities, up from 94%. More than half (56%) of buyers said they had an exceptional interest in data analytics capabilities, ranking them as a 'Very High' acquisition priority.

Beyond analytics, digital transformation continues to drive strong interest in a number of areas, with buyers naming custom app development (28%), Public Cloud (24%), and managed services (20%) as 'Very High' priorities. Buyer interests appear to have moderated year-on-year across a number digital service lines, including Public Cloud where overall buyer interest has fallen from 90% last year to 50% this year - still a high proportion but well shy of the interest levels seen just 12 months ago.

Buyer interest* across Digital service lines in the next 2-3 years



* Proportion of respondents expressing medium, high or very high interest in each service line

We can see this broadening of interests manifest in the activity of Accenture, which has made a noticeable return to the market in recent months with a number of significant deal announcements. These include four deals agreed in the last week of November 2023 alone for firms specializing in data and Cloud consulting capabilities:

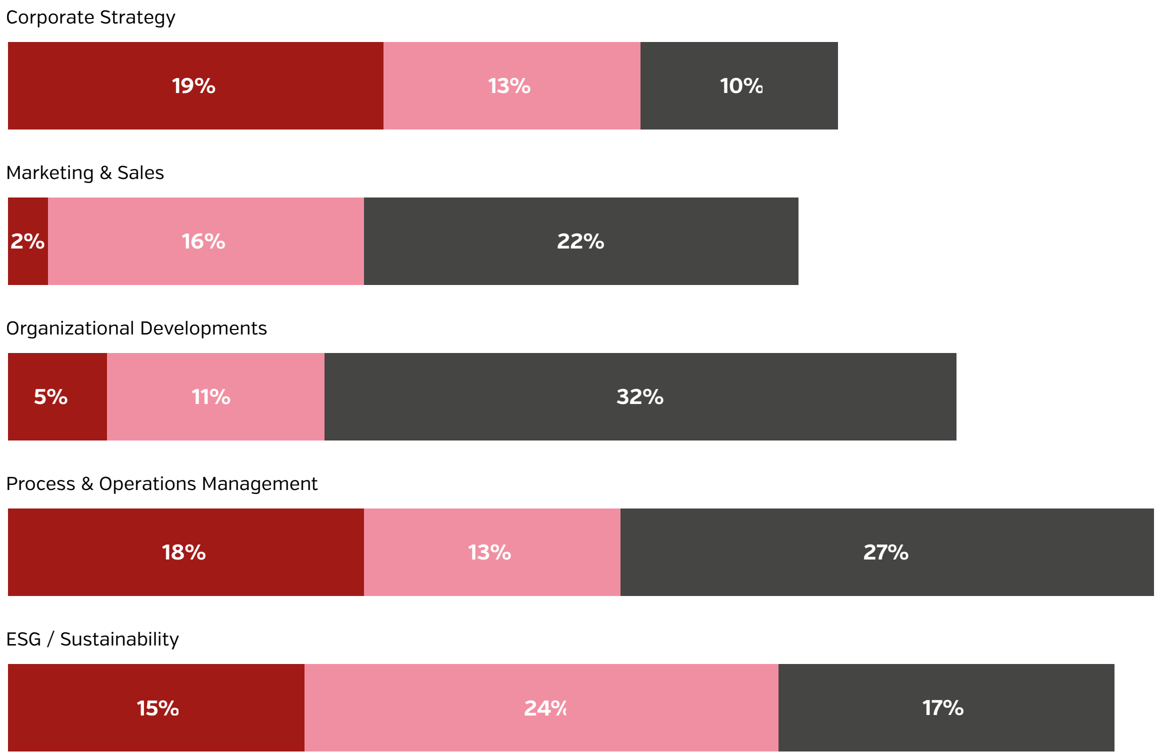
1. Agreement to acquire Rabbit's Tale, a Bangkok-based creative and digital experience agency
2. Acquisition of Ocelot Consulting, a cloud consultancy specializing in full-stack development, data engineering, data science, and strategy and execution for cloud modernization
3. Acquisition of Incapsulate, a leading digital transformation consulting firm that specializes in Cloud solutions in the Salesforce ecosystem
4. Acquisition of Solnet, an IT services provider with deep technology and Cloud-first consulting experience

"Accenture is one of the leaders not just in Europe, but globally, when it comes to acquiring new capabilities - and so other buyers tend to follow because they don't want to miss out on the opportunities," says Emmanuel Kostucki, Managing Director at Equiteq in London, UK. "After a year of doing very few deals, they're now acquiring across all key digital service areas and seeing Accenture acquire 20+ companies in the last few months sends a very strong signal to the market."

> After a year of doing very few deals...seeing Accenture acquire 20+ companies in the last few months sends a very strong signal to the market

Buyer interest* across Management Consulting service lines in the next 2-3 years

* Proportion of respondents expressing medium, high or very high interest in each service line



In the consulting world, our findings show a sharp increase in buyers interested in Corporate Strategy consulting with almost one-in-five (19%) now deeming it a 'Very High' acquisition priority, up from one-in-fourteen (7%) last year. A similar proportion of buyers are interested in Process & Operations Management consulting (18%). Both service lines speak to a demand for expertise in helping to unlock savings, efficiencies, and sustainable growth. Buyers are also showing considerable interest in ESG consulting, though in a nascent space with few players of note we have yet to see the full manifestation of a green consulting revolution.

Data Analytics

Buyer interests in data analytics are spread broadly across multiple ecosystems, driven by the growing number of companies coming to market in the space.

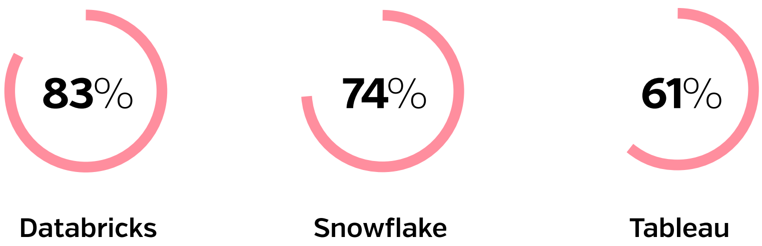
The most prominent ecosystem hotspot is Databricks (83%), followed by Snowflake (74%), Tableau (61%) and Splunk (60%). Splunk is an emerging ecosystem in the market, having seen a surge of interest over the last 12 months following a $28bn takeover by US tech firm, Cisco.

"Data analytics is still the number one subsector where we're seeing a lot more companies coming to market," says Tindall. "We've seen a lot of Snowflake implementation partners and, increasingly, Databricks implementation partners really rise to the top of a number of potential acquirers' criteria in recent times." With the growth of both Snowflake and Databricks in excess of 30% year-on-year, we have also seen a significant uptick in investment by Private Equity in both ecosystems during the past year.

"There's been an insatiable appetite on the part of Private Equity to find scaled assets and start to build a platform in the data analytics space but there's a relative dearth of assets," says Gannon. "Because of this, the highest quality businesses that have come to market in the space this year, even though they were fairly modest in scale, have gone for really high multiples."

Top Three Technology Platforms

*Shown relative to maximum buyer interest across all ecosystems.



Notable deals

Deals advised by Equiteq

bizanalytica acquired by Mastek (Trust. Value. Velocity)

JUST ANALYTICS acquired by rackspace technology

CLEARTELLIGENCE recieves investment from ALIGN CAPITAL PARTNERS

S4 CAPITAL acquires 4 MILE ANALYTICS

Gemserv acquired by Talan

Enterprise Performance Management (EPM)

Buyer interest in the EPM technology service providers space is relatively modest compared to other ecosystems. Yet we have seen some traction in this space during 2023 as difficult times have re-emphasized the need for reliable forecasting capabilities, which has generated some tailwinds for the industry.

Hotspots in the EPM space center on Workday Adaptive Planning and SAP, with the transition to SAP S4/HANA driving a number of deals as the need to migrate legacy systems becomes more acute. The Anaplan ecosystem is also of interest to many buyers, especially following its acquisition by Thoma Bravo for $10.4bn in June, which is likely to fuel the market for services providers. “Workday, SAP, and Microsoft remain the incumbents in this industry and we’re seeing consulting partners to those ecosystems probably prove more resilient than in others,” says Glynn-Smith. “But we’re also seeing the corporate performance management product CCH Tagetik, come up as well as an interesting product to potentially compete with the big players, who however are themselves investing in EPM more than ever.”

Top Three Technology Platforms

*Shown relative to maximum buyer interest across all ecosystems.

54%
Workday Adaptive Planning

50%
SAP

43%
Anaplan

Notable deals

kainos
acquisition of
RAPIDIT

accenture
acquisition of
EINR.

BEDFORD Consulting **
acquisition of
Blooprint

** Equiteq advised Bedford Consulting on an investment from Keensight Capital in May 2022, and this is their second acquisition since then

Public Cloud

Public cloud ecosystems remain well in demand, even if the overall interest of buyers appears to have somewhat moderated. The three main ecosystems remain unchanged and levels of interest in AWS, Azure, and Google Cloud are consistent year-on-year, especially among Private Equity buyers in search of a resilient investment.

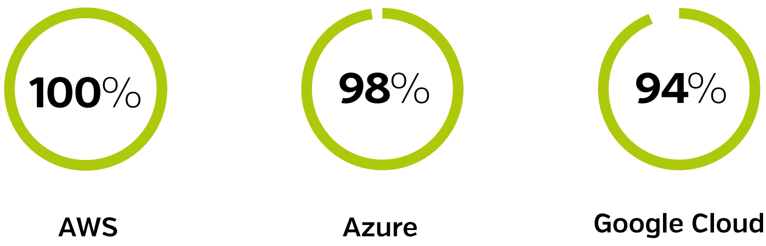
“There’s been a strong desire on the part of Private Equity to double-down on the “winners” in the Cloud world this year,” says Gannon. “And this has perhaps come at the expense of making investments in the longer tail of emerging players.”

With many firms at enterprise level increasingly concerned with how best to harness the growing amount of data generated across their operations there is a need to reduce the complexity of tasks such as Cloud migration, implementation, and integration. Acquiring such specialist expertise is critical and we’re seeing buyers increasingly looking for cloud services firms that can also add wider value to an organization.

“The largest and most significant Cloud deal this year is OpenText’s acquisition of Micro Focus, which is a reflection of the success of Micro Focus’ broad, resilient and deep solutions offering around the Cloud,” says Glynn-Smith. “The take private of the digital transformation firm Kin and Carta by Apax Partners is an interesting deal where we saw a global private equity investing in a technology and business transformation major in a demand challenged market; among other things due to the potential of cloud transformation.”

Top Three Technology Platforms

*Shown relative to maximum buyer interest across all ecosystems.



Notable deals

accenture acquisition of NEXTIRA

3Cloud acquisition of PGSI

Insight acquisition of SADA

Robotic Process Automation (RPA)

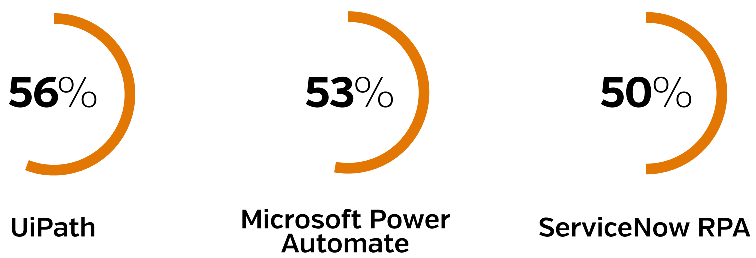
Buyer demand for RPA opportunities is characterized by an appetite that stretches across multiple ecosystems. We have seen demand moderate across the board for RPA during the last 12 months as both demand and supply have slowed. Interest levels remain relatively robust for targets aligned to the UiPath (56%), Microsoft Power Automate (53%), and ServiceNow (50%) ecosystems, despite buyer interest in each falling since our previous study.

The most significant change is a 28% drop in buyer interest for the Blue Prism ecosystem (down from 68% to 40%) as buyers turn to the growing US revenues and scalability associated with UiPath implementation partners. This is reflected in significant deals being made in the space, such as the acquisition of Element Blue, a UiPath Platinum Partner, by Tquila Automation. We are also seeing Microsoft make significant investment into its own RPA offering in an effort to broaden capabilities and capitalize on existing market penetration to fuel adoption of Power Automate.

"The RPA space is one where we have seen a moderation of buyer interest as supply has slowed and there are very few RPA partners that would be classed as pure play," says Tindall. "Most offer a suite of broader digital transformation services that have an RPA component - and that is likely a maturity point. There is some consolidation of smaller players by Private Equity, but this is a space in which many targets are still in the early stages of growth and have yet to break through the glass ceiling of scalability."

Top Three Technology Platforms

*Shown relative to maximum buyer interest across all ecosystems.



Notable deals

Deals advised by Equiteq

tquila	WOOLF PARTNERS	THIRDERA	cognizant
acquisition of	acquisition of	acquisition of	acquisition of
elementBlue	AKARI	SILVERSTORM	THIRDERA

Enterprise Resource Planning (ERP)

The hotspots of M&A interest in the Enterprise SaaS space remain unchanged year-on-year as buyers continue to focus on opportunities in the Salesforce, Microsoft, and SAP ecosystems. While these three ecosystems have driven substantial M&A for a number of years, interest in each has moderated year-on-year. As such buyer interests are down from the recent highs seen in previous studies - e.g. interest in both Salesforce and Microsoft exceeded 80% last year.

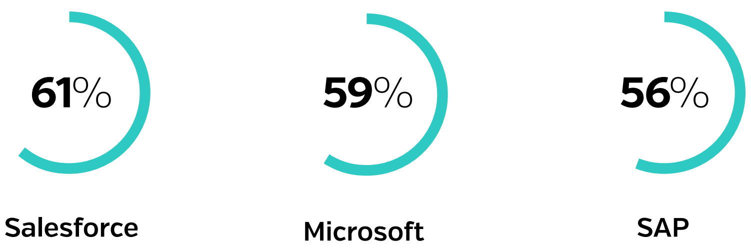
“Salesforce continues to see very strong interest from a Service Cloud, a Sales Cloud and a Marketing Cloud perspective,” says Nayak. “From a Microsoft standpoint, I think going forward we will see a lot more action among buyers because of their relationship with OpenAI, ChatGPT, and the fact that the Azure data stack is a very strong one.”

However, deal volume is down in the Enterprise SaaS space year-on-year, driven by a combination of rising interest rates, the inflation-countering actions of central banks, and increased buyer caution. Given multiples we’ve seen in this space as recently as two years ago, any easing of macroeconomic tension should fuel renewed deal-making activity. This is especially true for Private Equity looking to aggressively invest in IP that can help build a global platform leader.

“This year has been a little slow activity-wise but we’re seeing things start to pick up and should expect interest in SaaS companies to strengthen a bit next year - especially for those partners that can deliver good margins,” says Masson. “I believe we will see a bigger acquisition focus among buyers, in particular Private Equity, for partners that can offer a larger services revenue component compared to licensed revenue, as the former is more resilient to partner-related decisions made by the main software providers.”

Top Three Technology Platforms

*Shown relative to maximum buyer interest across all ecosystems.



Notable deals

accenture acquisition of incapsulate

THRIVE acquisition of STORAGEPIPE

NTT DATA acquisition of sapphire frictionless digital

Custom Software Development

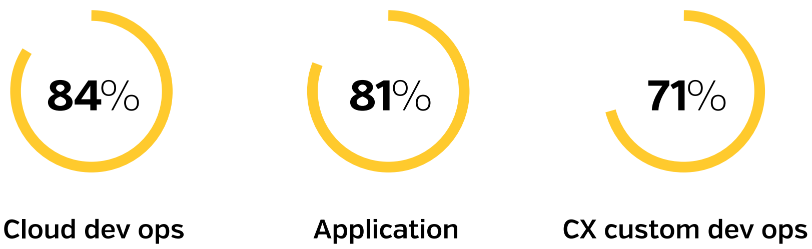
Our findings show that nearly all types of Custom App development are high priorities for buyers and investors. Hotspots of particular interest include Cloud dev ops (84%) and CX dev ops (71%), app development (81%), modernization (70%), and mobile development (61%).

A macro factor driving activity among buyers is the need of larger enterprises to adapt increasingly complex technology stacks to increasingly complex operations. Custom software is critical to unlocking the business value of digital transformation projects and, as such, cloud development remains an important sub ecosystem in the space. Firms capable of resolving key business challenges with tailored solutions will be those that attract the most interest.

“We’re seeing a lot of demand from buyers for custom software development firms that have hybrid delivery models, so the combination of onshore consultants that are able to be client facing and understand what the business needs are, plus offshore such as coders that are able to build the products,” says Tindall. “Having the ability to operate onshore and offshore and be able to solve C-suite challenges through custom software is an area where we’re seeing the most interest in the space.”

Top Three Technology Platforms

*Shown relative to maximum buyer interest across all ecosystems.



Notable deals

DYNTEK rSolutions acquisition of ARCTIQ

TELUS acquisition of WILLOWTREE

CYARA acquisition of centra | cx

Managed Services

Buyers retain broad-based appetites for Managed Service providers across multiple categories, even if such appetites appear to have moderated over the last 12 months. Given the need to shore up supply chains and build more cyber-resilient businesses, it's no surprise that Cybersecurity remains the area of greatest interest to buyers (65%), though this is well down on the 90% showing interest in last year's survey.

"We have seen a slowdown in demand for Managed Services during 2023 as buyers have been a little reluctant to invest," says Kostucki. "Yet there is still a lot of interest in Managed Services providers among buyers because there remains such a large proportion of non-digitalized industries that are still in need of these transformational services."

In the deals that are being made, we've seen buyers increasingly drawn towards firms with the capabilities and IP to modernize traditional managed services. Accenture has been active on this front, completing a number of deals including the late October acquisition of MNEMO Mexico, a privately held managed cybersecurity services firm specializing in advanced cyber defense and response capabilities powered by generative AI.

"Some buyers may see Managed Services as a more resilient business model than others because of its long term SLAs,' says Glynn-Smith. "But it's increasingly been seen as a commodity business unless there is some angle towards either Microsoft capabilities or cyber capabilities - and that's something that we've seen come on pretty strongly in recent times."

Top Three Technology Platforms

*Shown relative to maximum buyer interest across all ecosystems.

Cybersecurity	Application	Infrastructure
65%	63%	54%

Notable deals

accenture acquisition of MNEMO

pax8 acquisition of BAM BOOM! CLOUD

EKCO acquisition of radius technologies

Management Consulting

Despite a softening of deal-making activity in the consulting world over the past 12 months, finding the right experience and expertise to deliver transformative business projects remains an important driver of M&A within the Digital Consulting space. Interest in 'pure play' consulting practices remains moderate compared to other areas of the Knowledge Economy. However, interest is also broad and spread across multiple services lines. There is particular buyer interest in both operational (69%) and ESG/sustainability (65%) consulting services.

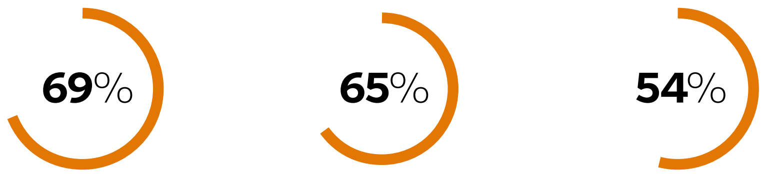
"We're seeing businesses feel quite strongly about the need to rationalize operational requirements like supply chain logistics and procurement, and this is translating into consulting engagements," says Steiner. "There's also more data analysis being used in the supply chain than before and it's something that is increasingly close to the CFO office - so consulting firms that can go in and give greater meaning to data will be of interest to buyers."

The environmental transformation agenda continues to gain traction and this is driving demand - in what remains a relatively nascent space - for consulting expertise that can have a tangible impact on organizational processes. The need to meet ESG regulations and show consistency in this regard underpins much of the buyer activity we see in the space. We are also seeing a growing interest in the 'S' in ESG as social considerations such as diversity and inclusion become more ingrained in the long-term, sustainable success of organizations.

"Buyers are looking to strengthen their presence in this regard but the challenge with M&A in the ESG consulting space is that there's still a real shortage of supply," says Alex Monck, Managing Director at Equiteq in Sydney, Australia. "Buyers are looking for holistic consulting skills backed by experience, but the market is still fairly immature for those services. There's a lot of fragmentation in the market because there's not enough scaled ESG consulting firms to meet demand."

Top Three Technology Platforms

*Shown relative to maximum buyer interest across all ecosystems.



Process & Operations Management | ESG / Sustainability | Infrastructure

Notable deals

CARLYLE acquisition of Anthesis

accenture acquisition of OnProcess

EY acquisition of Attalea Partners

accenture acquisition of 6POINT6

Buyer interest across all major technology ecosystems

This year's survey collected detailed data on buyer and investor interest across major technology ecosystems. This illustration shows the level of interest relative to the maximum buyer interest across all ecosystems.

Enterprise Performance Management (EPM)

Procurement & Supply Chain

Public Cloud

Robotic Process Automation

Enterprise Resource Planning (ERP)

Custom App Dev

IT Service Management

Digital Platforms

Managed Services

Evaluating Deals

Key Takeaways

1.

Quality of management, revenue growth, and profit margins are the most important evaluation considerations for Private Equity

2.

Quality of management, Service lines / capability fit, and cultural fit are the most important evaluation considerations for Strategic Buyers

3.

Last year, we ceased assessing investment thresholds, as there is such consistency in historical data

The assessment criteria of potential acquisition targets remains extremely consistent among buyers and investors year-on-year. Quality of management teams was again named the most important evaluation criteria among respondents, underlining the importance of resilience to buyers in volatile times.

Given the need for close collaboration between investor and management teams to make a success of an investment, Private Equity buyers named management quality (73%) and cultural fit (40%) as their two most important evaluation criteria.

"The question of cultural fit is an interesting one for Private Equity because they're not integrating one business into another," says Tindall. "It's more about making sure that buyers and investors are able to work with the management team and create a culture of synergy in order to deliver on growth objectives over the next three to five years."

The caliber of management (62%) is also a key criteria among Strategic Acquirers, but one much more closely followed in importance by service lines / capability fit (59%), cultural fit (59%) and cross-selling potential (51%). While revenue growth remains important, for Strategics our findings show a strong focus on ensuring the compatibility of people to make a transaction a success, which is consistent with prior surveys.

"What Strategic buyers really mean by cultural fit is: 'will employees like it here or will they leave?'," says Greg Fincke, Managing Director, Co-Head of North America at Equiteq in Boston. "It's a question of staff retention. That's why we encourage parties to get to know each other on a professional and a personal level in the transaction process."

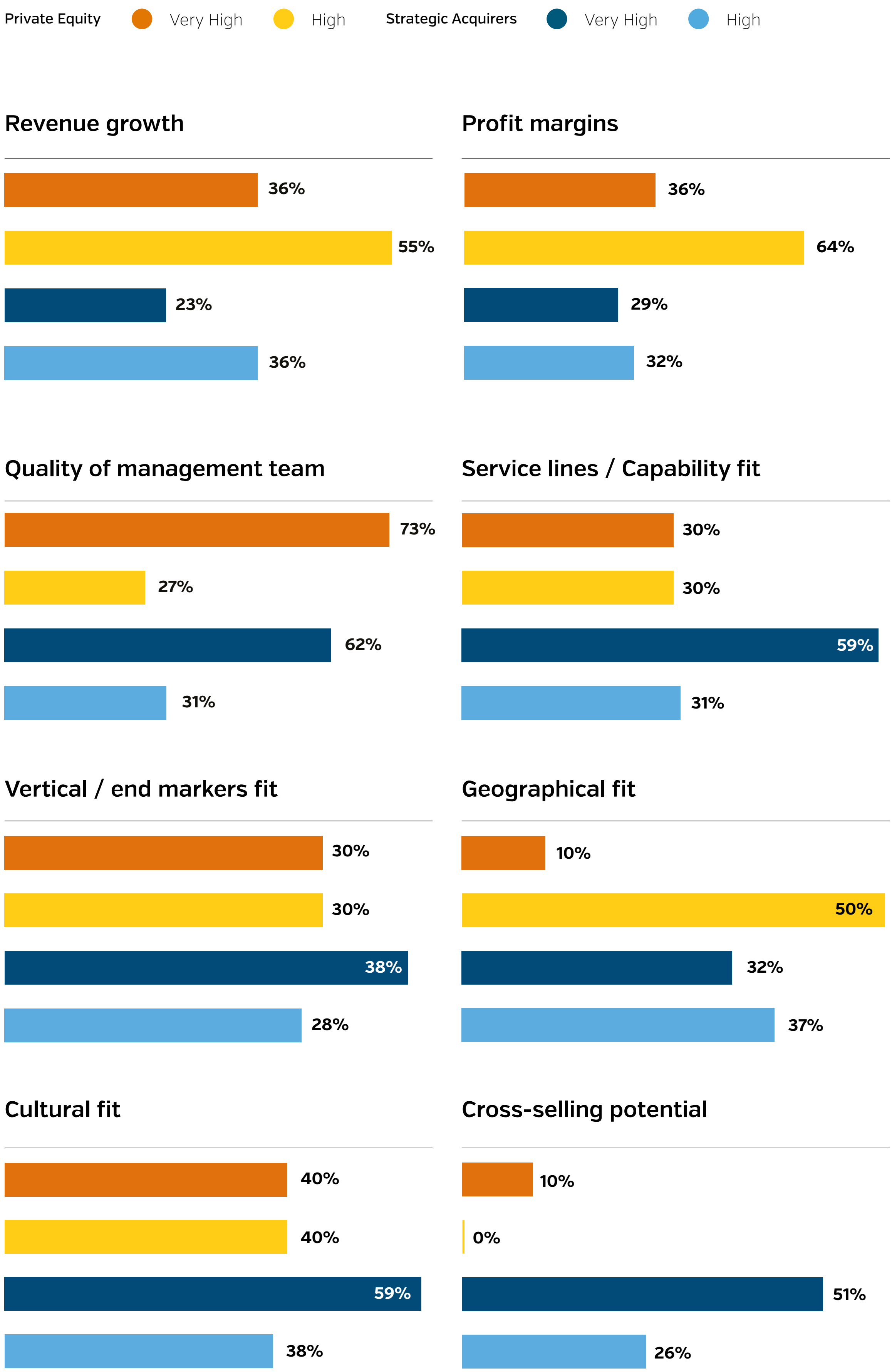
"From a process perspective there is a requirement to spend a lot of time together. The quality of the management team or potential cultural fit are not things that can be figured out over a three week period of due diligence - it takes time," adds Gynn-Smith. "The knock-on effect is that this can also make deal cycles longer and therefore potentially affect deal volumes in the market."

Our findings suggest that few buyers have been in a position over the past 12 months to acquire companies that were losing money or lacking in profitability, unless exceptionally innovative. Sustainable growth remains a key evaluation factor for the vast majority of buyers and, given the dependency on having the right personnel in place to achieve this, we should expect little change in the way buyers assess deals heading into 2024 and beyond.

	Strategics			Private Equity		
	Min	Max	Mean	Min	Max	Mean
Revenue Growth	9%	12%	10%	9%	14%	12%
EBITDA Margin	12%	15%	13%	11%	16%	14%
Gross Margin	26%	33%	30%	36%	38%	37%
Revenue per Employee $k	170	216	191	120	269	204
Retention Rate	80%	84%	82%	36%	84%	80%
%Permanent Staff	78%	82%	79%	79%	82%	79%
%Share Ownership	15%	27%	19%	15%	27%	21%

> "The quality of the management team or potential cultural fit are not things that can be figured out over a three week period of due diligence - it takes time

Importance Of Potential Acquisition Evaluation Factors



Valuing and Structuring Deals

Key Takeaways

1.

The 'average' deal structure remains consistent with prior studies, consisting of ~60% upfront cash, ~30% earn-out, and ~10% equity

2.

Expectations for earn-out periods have increased, reversing a long-term downwards trend

3.

The multiples for very high growth companies have moderated as the market normalizes

While macroeconomic factors may have had an effect on deal volumes and valuations, our findings suggest that the average structure of a deal remains relatively unchanged year-on-year. Buyers continue to expect ~60% of any consideration as upfront cash, with Private Equity using equity much more in lieu of the deferred consideration utilized by Strategics.

Interestingly, our findings show a rather abrupt reversal in the decline of earn-out period expectations, which, having dropped to a low of 1.8 last year, have increased to an average of 2.0 years in this year's survey. While Strategic Acquirers expect longer earnout periods than Private Equity, both sets of buyers have had to find ways to bridge valuation expectations amid economic uncertainty and an unwillingness among sellers to accept potential decreases in valuation.

"I believe it is a question of matching expectations as both Private Equity and Strategic buyers have been more careful with their investments given that debt is expensive," says Masson. "Buyers are looking to structure deals to better share the upsides and the risks, and one of the clearest angles they have to bridge valuation expectations is to use longer earn-outs."

> Buyers are looking to structure deals to better share the upsides and the risks, and one of the clearest angles they have to bridge valuation expectations is to use longer earn-outs

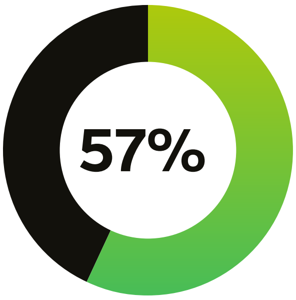
Earn-outs continue to be based on EBITDA and revenue metrics, with the achievement of EBITDA targets featuring in a large majority of all combinations. However, among Private Equity respondents, we are also seeing some interest in gross margin and revenue-based earn-outs following a post-Covid period in which evaluation metrics had 'hardened' and become very EBITDA-oriented.

"Buyers that were at some point focused on really exponential growth are now interested in profitability," says Masson. "Both buyers and targets are looking for sustainable growth but not at all costs - a company that has lower growth but good profitability is something that could also likely prove attractive to buyers."

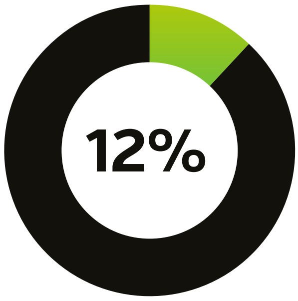
Such traits may be attractive but a degree of caution still exists among buyers and this has impacted expectations of multiples for the fastest growing companies, which appear to have finally moderated following a high watermark for valuations in 2021. However, while our findings show a slight reduction for the first time in a number of years in multiple expectations for targets growing at more than 30%, overall valuations remain high compared to the overall consulting and IT services industry cycle.

"We're seeing more of a revision to norms and a stabilization towards these lower levels of multiples as valuations, which actually are still higher than we were seeing just a few years ago despite now coming down from the COVID peak," says Glynn-Smith. "Not only that but the overall market for consulting and IT services is bigger, more exciting, and faster growing than it was five years ago, we're seeing more stability, more returns for investors, and a more healthy investment environment."

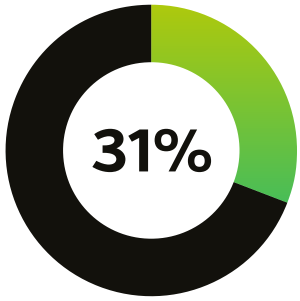
> The overall market for consulting and IT services is bigger, more exciting, and faster growing than it was five years ago



Upfront cash



Upfront shares or equity



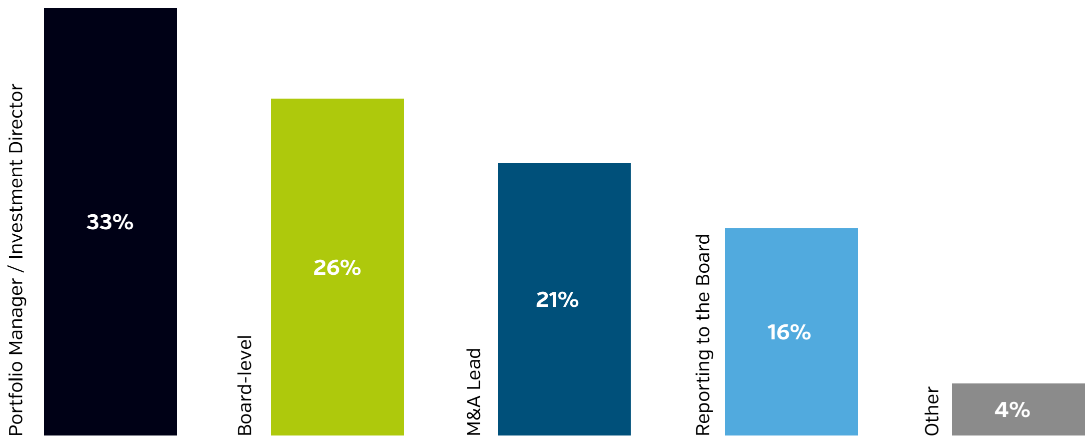
Deferred earnout

The average deal structure in 2024

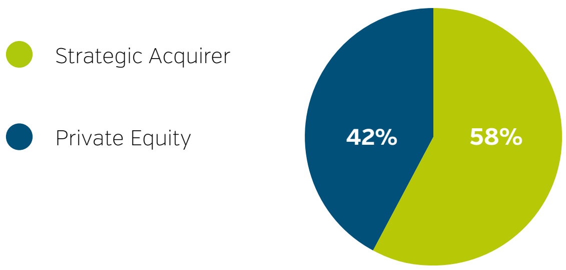
	2024 bottom	2024 top	2023 bottom	2023 top	2022 bottom	2022 top	2021 bottom	2021 top
Not growing	4.8x	5.5x	5.3x	6.1x	5.1x	5.9x	5.1x	5.8x
Growing 0-10%	6.5x	7.4x	7.0x	8.0x	6.6x	7.5x	6.2x	7.1x
Growing 10-20%	8.5x	9.5x	9.0x	10.0x	8.9x	9.9x	7.8x	8.8x
Growing 20-30%	10.4x	11.4x	10.8x	11.9x	10.5x	11.6x	9.7x	10.7x
Growing 30%+	11.4x	12.5x	11.9x	13.0x	11.1x	12.2x	10.8x	11.8x

Demographics

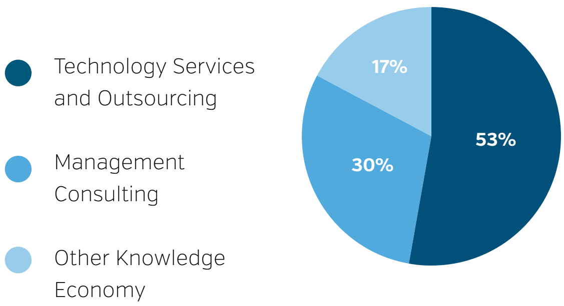
Seniority



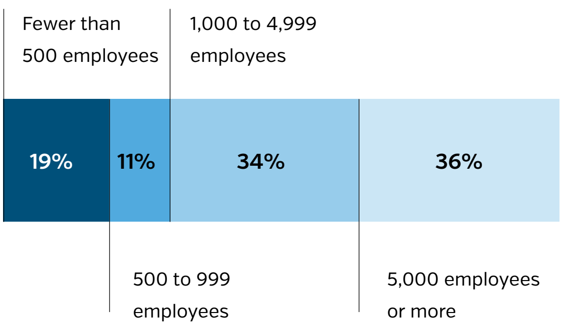
Type of buyer



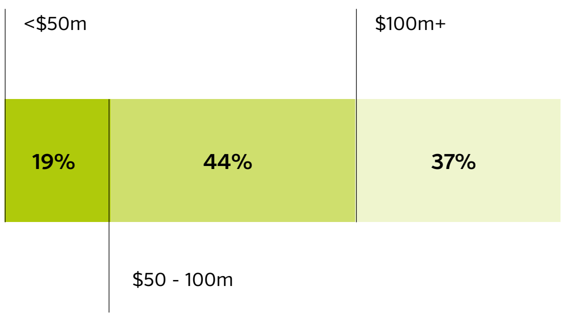
Primary sector of focus



Firm size (Strategics)



Interest across deal sizes (Private Equity)



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Meet Equiteq

We are the leading global investment bank for the Knowledge Economy

Equiteq is the leading specialist in Knowledge Economy investment thanks to our first-hand insight and research, our close relationship with the key acquirers in the sector, and through the deals we complete.

Who are we?

Equiteq is a fast-growing, global M&A specialist. We sell the world's smartest knowledge-based and technology firms. Being close to active buyers and investors helps us to understand their acquisition needs and this informs how we can add value to founders and shareholders who want to sell their businesses.

Why Equiteq?

We are the recognized specialist advisor in the Knowledge Economy where intellectual property has historically been delivered through people in consulting firms, but more and more is delivered in combination with technology.

Our benchmarking studies – produced for the last 15 years – have become the industry standard and are supported with detailed insight reports on a range of disciplines within our sector.

Our aim

It's simple - our goal is to bring you to the smartest deal.

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Equiteq Services

Our clients sit at the heart of every transaction we advise upon, whether helping you to dramatically increase your return on M&A or by helping you to achieve the best possible valuation.

Our services in the Knowledge Economy cover the following key areas:

Sell Advisory

Equiteq supports owners of innovative knowledge-based and technology firms seeking to realize equity value. We advise on all aspects of M&A, from helping ambitious owners find capital to inject into their business to accelerate growth, through to a full company sale. We use our unparalleled understanding, experience, and access to find you the right buyer or investor, at the best price and terms.

Buy Advisory

Equiteq supports Strategic Acquirers and financial sponsors seeking to dramatically increase their returns on M&A in knowledge-based and technology services businesses. After 15 years exclusively advising owners of firms towards exit, we have the assets, systems, and experience to help you enhance and execute your M&A strategy.

Corporate Divestitures

We work with corporations to meet their divestiture objectives, including disposal of non-core or underperforming assets that either have synergistic potential within other businesses or could form part of a private equity portfolio investment. After 15 years exclusively advising owners of firms in the sector towards exit, Equiteq has the people, processes, sector insight and market access to deliver your transaction at the right price and with preferred deal terms.

Strategic deal origination

We work with Strategic Acquirers and financial sponsors to develop detailed, insight-driven plans for investment into new markets. By leveraging our sector insight and purpose-built methodology, we can rapidly convert an attractive investment thesis 'on paper' into an actionable plan to realize the opportunity, helping you to exploit key innovation trends through a less crowded, lower risk route.

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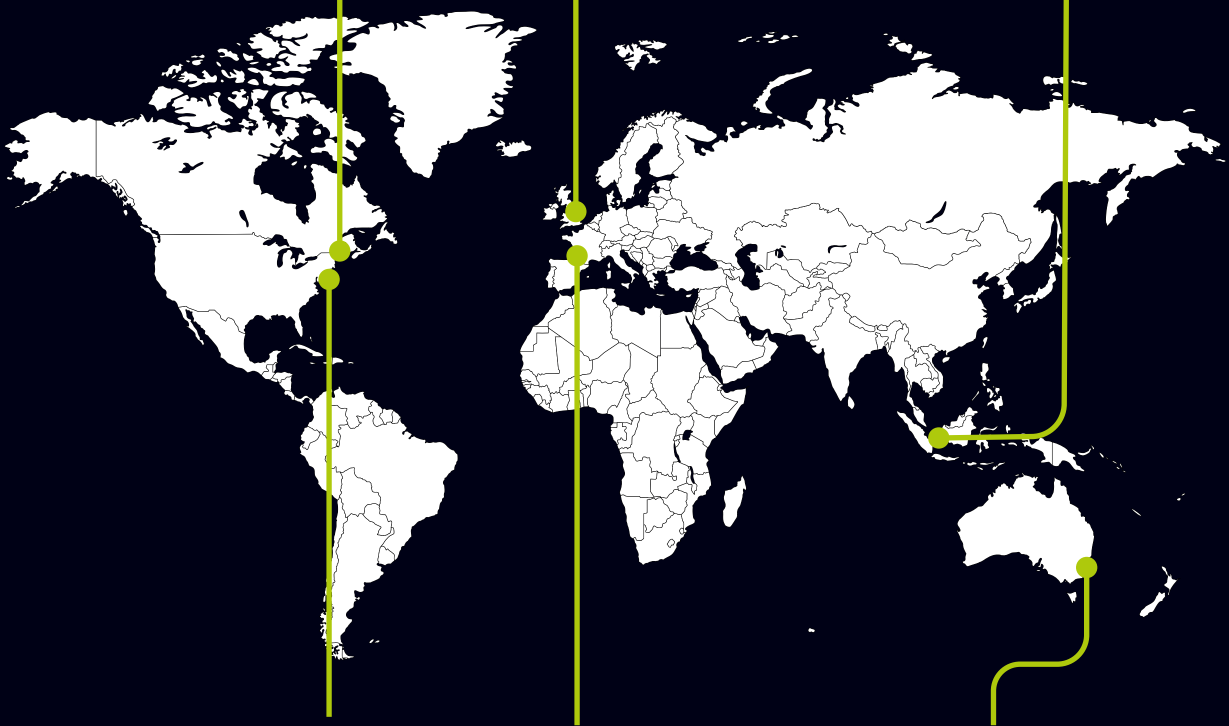

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