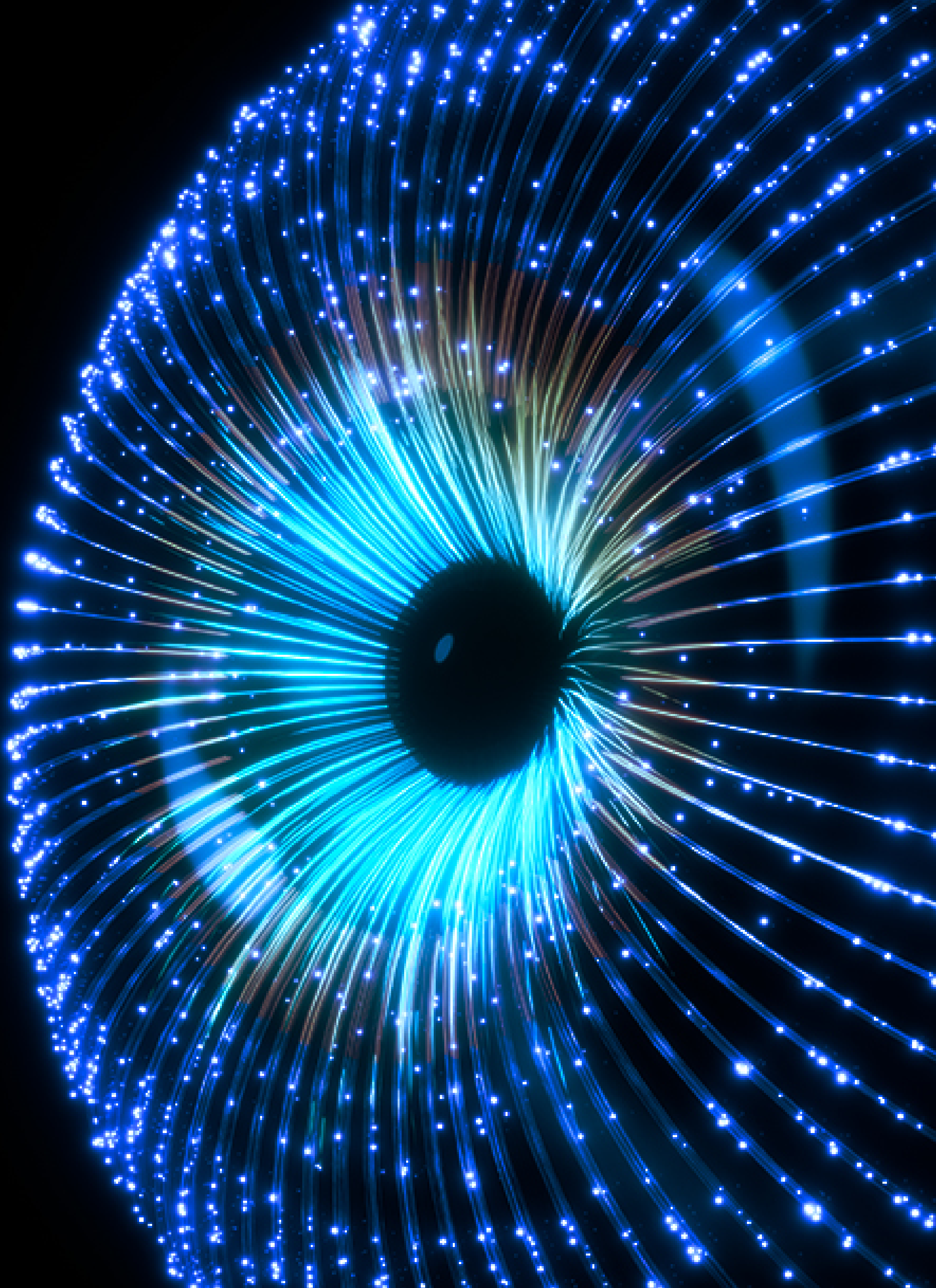
Equiteq

Global Buyers Report 2023



Contents

Executive Summary

It gives me great pleasure to introduce the latest findings from our eighth annual survey of global Strategic buyers and Private Equity investors acquiring businesses across the Knowledge Economy.

84%

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

This 2023 Knowledge Economy Global Buyers Report provides our proprietary insights into the M&A trends that buyers expect to take shape in the next 12 months. Based on quantitative findings and rigorous analysis, and then given context by Equiteq's global team, this report brings together the opinions of buyers across the Knowledge Economy's core sectors of management consulting and technology services, as well as other verticals such as software and tech-enabled services.

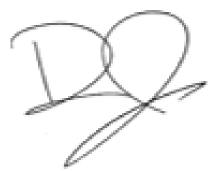
When we conducted similar research a little over 12 months ago, buyers were still riding high on almost 18 months of record-breaking levels of activity and were adamant that an active market would persist for at least another two to three years. In this survey, we still see optimism, but also caution. With the unique combination of record levels of available capital and increasing interest rates, buyers want to be active, but are more wary of starting a process that may prove more expensive and challenging to finance than in recent times.

However, despite the headlines, buyers are optimistic - suggesting that the macro trends in the knowledge economy are winning the argument, after all both the volume and size of deals is comparable to 2021 levels of performance. So, while most are rightly concerned about the economy, there is a consensus that M&A in the consulting & digital services sector is somewhat decoupled and insulated from the economic impacts seen in wider M&A markets. The majority of buyers say the economic outlook has had no impact on their plans for activity, and respondents are bullish in their long-term outlook, suggesting any slight softening in 2023 is likely to be short-lived.

In short, there remains exceptional interest in digital services M&A, with a number of key hotspots including Cloud services, Data Analytics, and Custom App development, all of which are areas of increasing maturity in the wake of rapid digital transformation. This suggests buyers are now starting to look towards the next cycle.

But what exactly are buyers seeking? Given the flight to quality that has pervaded the market this year, key evaluation criteria (and their thresholds) remain consistent with previous surveys. Quality of management and revenue growth remain the most important assessment evaluation criteria as buyers seek the strong leadership and business performance that will help steer them through uncertain times. With firms possessing both in short supply, many of our respondents expect high multiples to be maintained, especially for high growth companies - a positive sign for high-performing companies thinking of starting a process in the coming months.

David Jorgenson
CEO, Equiteq



Market Heat / Economic Backdrop

KEY TAKEAWAYS

1. Most participants are moderately concerned about the economic outlook, with increasing interest rates and accelerating inflation the major worries.

2. Most participants believe Knowledge Economy M&A to be moderately decoupled from the broader economic outlook due to strong tailwinds, including levels of capital, digital transformation, and the war for talent.

3. There has been little net impact on the M&A plans of Strategics, though some Private Equity have reduced participation.

It has been a year in which the resilience of M&A activity in the Knowledge Economy has been reaffirmed once again. Despite broad macroeconomic challenges, the sector has been decoupled from impacts seen in wider markets. While macroeconomic disruption is affecting buyers - with around 80% of respondents expressing concern about the economic outlook - many buyers still have access to plentiful dry powder, and levels of activity and expenditure are only slightly down on the exceptional levels of activity seen in 2021.

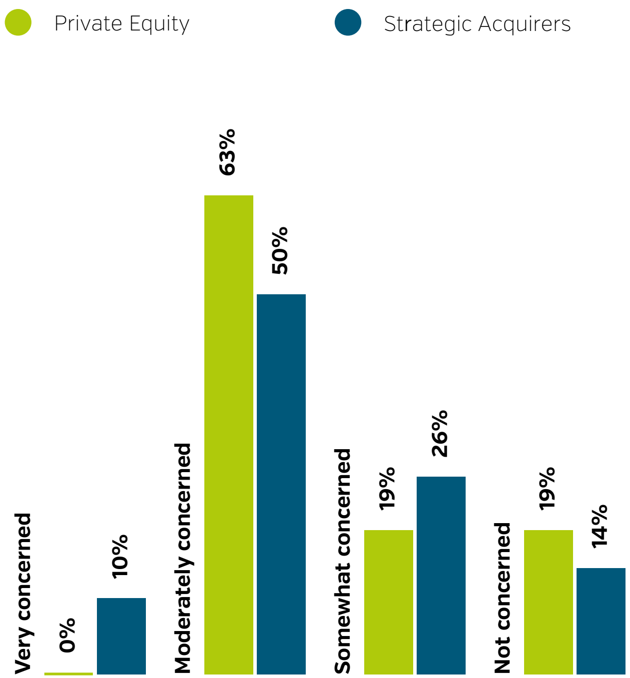
"The economy does look like it's headed toward a downturn in the near-to-medium term, so we're seeing an extra level of diligence because people don't want to be over-spending right now," says Greg Fincke, Managing Director at Equiteq in Boston, USA. "But on the other hand, we're seeing a lot of buyers and sellers continue to perform well despite the headwinds."

> We're seeing a lot of buyers and sellers continue to perform well despite the headwinds

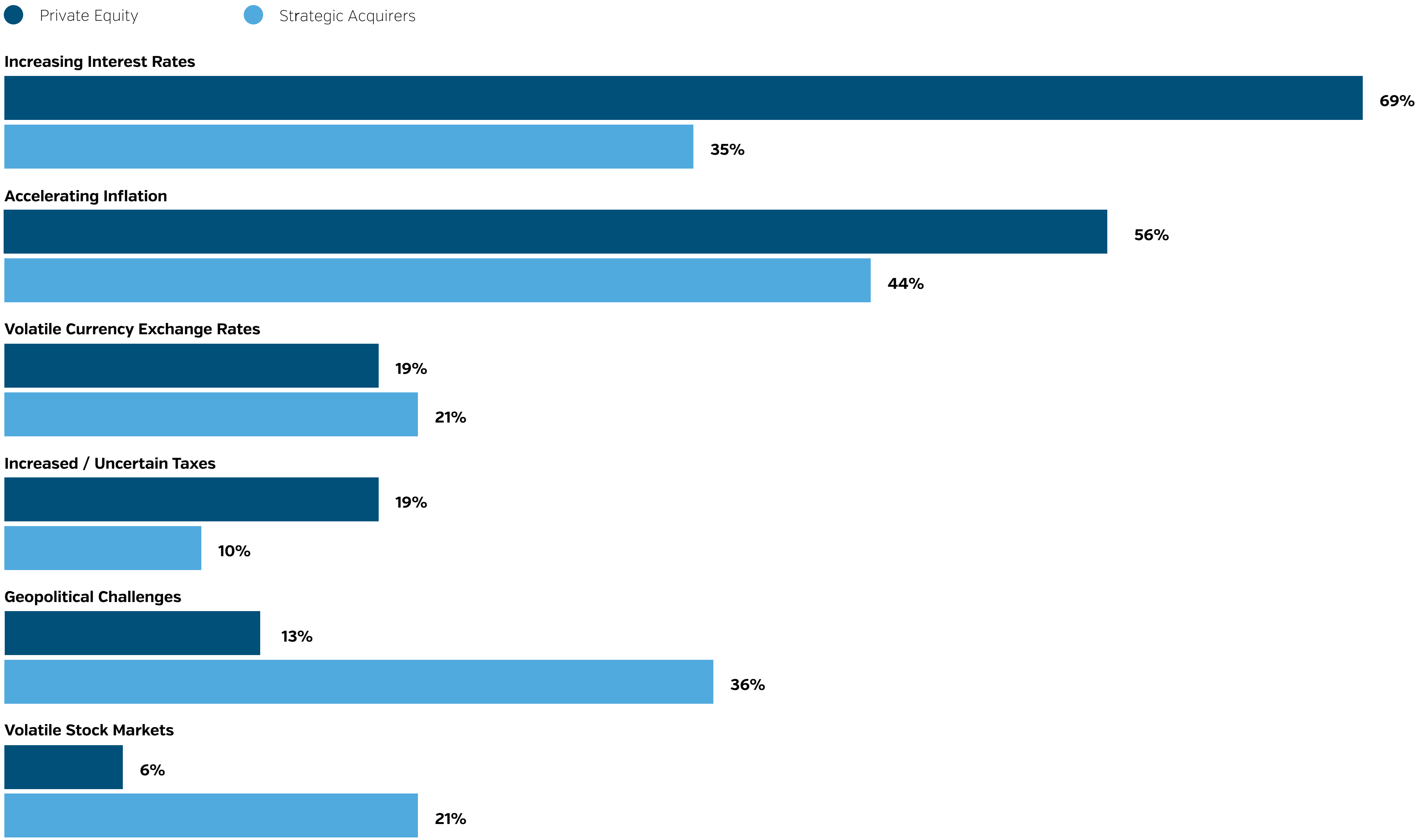
Financial investors seem particularly tuned in to the challenges of increasing interest rates and accelerating inflation. This is not surprising given the impact these factors will have on financing deals. More than 60% of Private Equity respondents expressed such concerns compared to around 40% of strategics; the latter being more concerned than investors with both geopolitical challenges and volatile stock markets.

"We've seen the impact of these factors manifesting in the market," adds Daniel Siller, Managing Director at Equiteq in New York, USA. "In particular, the number of potential buyers showing up to some of the processes has maybe declined somewhat in recent months, especially those companies that are negatively affected by higher interest rates or inflation directly."

How concerned are you about the economic outlook?



Headwinds affecting buyers' strategic objectives for 2023



A sector decoupled

However, while concerns about the economy are rightly present, there is a broad consensus among more than half of respondents that M&A in the consulting and digital services sector is somewhat decoupled from broader impacts seen elsewhere. Such thinking may in part be attributed to the multiple strong tailwinds pushing M&A activity forward in the Knowledge Economy, many of which are long-term trends, and not easily derailed by passing - albeit extended - disruption.

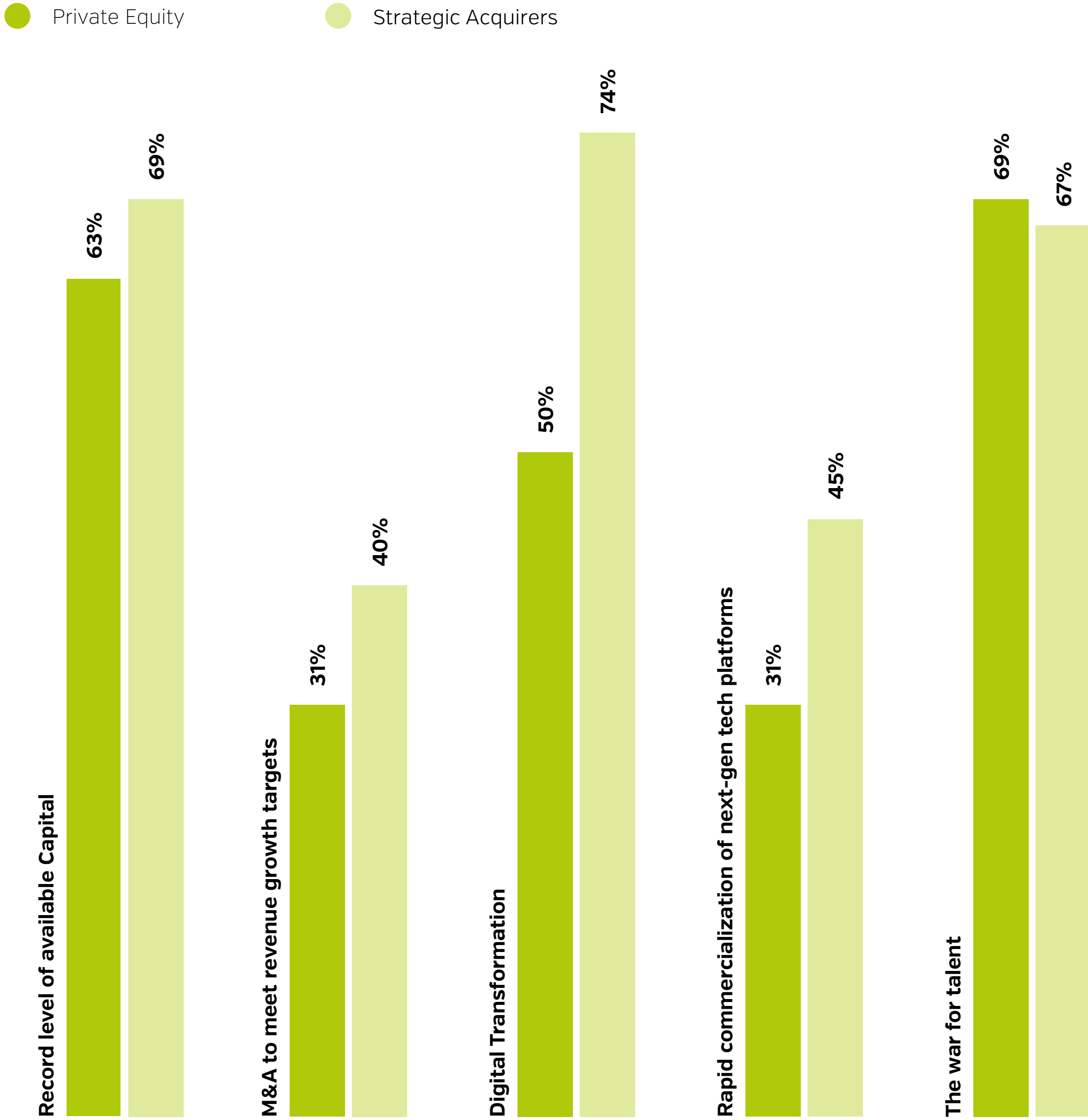
Buyers are unanimous in the tailwinds driving activity, with Private Equity and Strategic acquirers naming levels of capital, digital transformation, and the war for talent as the factors encouraging sector M&A. Almost two-thirds of buyers see record levels of available capital as a key tailwind, and given the caution we're seeing as a result of the economic outlook, it will be interesting to see where buyers deploy the funds they're sitting on.

"There's been a lot of dry powder in the market this year, but with the cost of debt increasing, this may change," says Fincke. "But even with potentially less capital available for M&A, digital transformation initiatives are going to continue and the companies that are cutting edge or possess the capabilities to drive change will continue to trade at high multiples."

With capital available and few in the Knowledge Economy talking about layoffs or trimming their workforce (as seen in other tech sectors), buyers ought to be reassured by the resilience displayed by the sector throughout 2022. The megatrend for digital transformation continues to shape acquisition interests for a large proportion of respondents, with Strategic acquirers also seeing rapid commercialization of new technology (such as AI/ML) as important.

"Digital transformation initiatives in large organizations, especially from a software or platform perspective, have been propelling Knowledge Economy M&A," says Arun Nayak, Director of Technology M&A at Equiteq in APAC. "We've seen Private Equity buyers be very active in these spaces, most prominently in the US and the European markets, and I think that trend will continue as long as firms can show that they can achieve profitable growth or have some kind of differentiation in the current macroeconomic environment."

Tailwinds driving M&A activity



Buyer participation

Overall, while some buyers have obviously had to adjust their plans - with around a quarter saying the economic situation has reduced their activity - the majority (>50%) say the economic situation has had no impact on their M&A plans.

"Because of the strong tailwinds behind them, we haven't seen buyers noticeably change their behavior in the past year," says Fincke. "Looking forward, our view is that buyers need to be prepared should the economy turn and respond to the market as it changes. Buyers want to deploy capital but they won't if the right circumstances aren't in place."

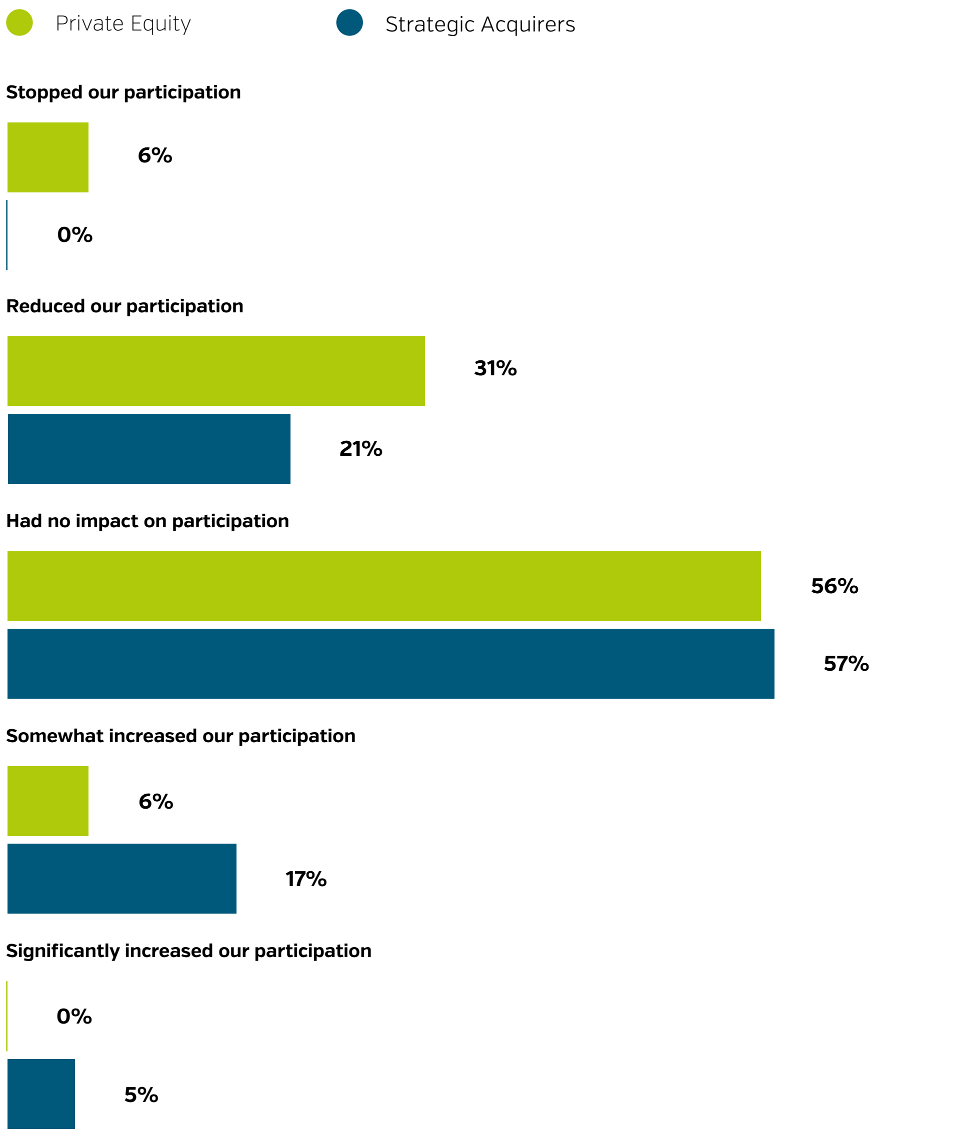
> Because of the strong tailwinds behind them, we haven't seen buyers noticeably change their behavior in the past year

However, while appetites remain intact and attitudes positive, we are seeing some Strategic and Private Equity buyers adjusting their valuation metrics downward to navigate the current economic situation. Our findings suggest that it is predominantly Strategics that are taking corrective action, primarily by adjusting valuation metrics (50%) and deal structures (29%), and refocusing their efforts on the most strategically aligned targets (64%). A sizable minority of Private Equity buyers are adjusting valuation metrics (31%) and deal structures (38%).

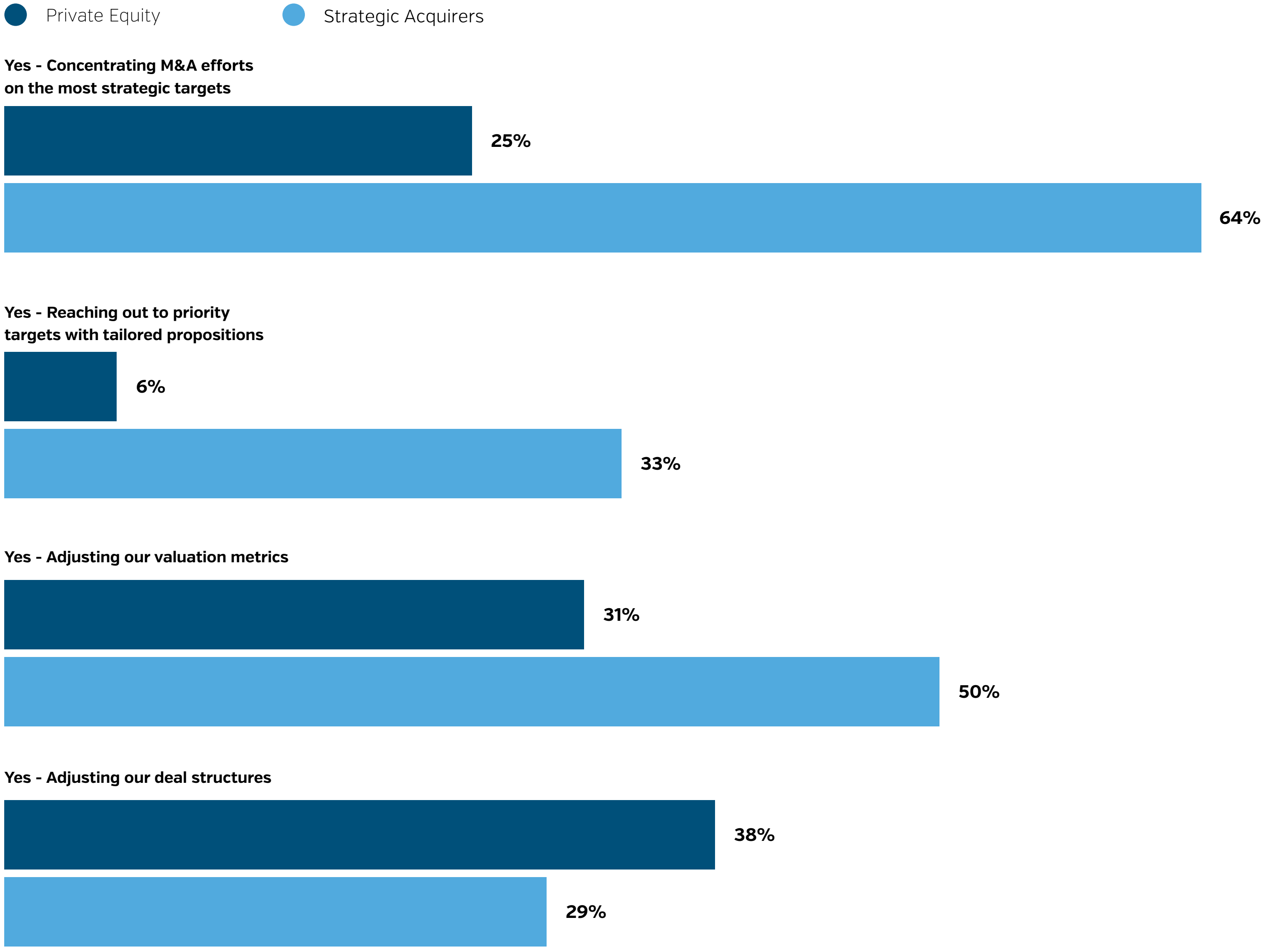
"There's a cautious optimism now in the Private Equity world because they have capital, but they don't want to be reckless in deploying, it", notes Nayak. "Whereas in the Strategic world this is not the case because these buyers don't want to be taking on large amounts of debt or stretch themselves when it comes to cash flows to buy companies at astronomical valuations."

Overall, our findings suggest that for many buyers the outlook for M&A in the Knowledge Economy remains buoyant despite multiple headwinds at play. The long-term trends underpinning market activity are unlikely to be disrupted in the short-term and, in fact, have insulated the market from the negative impacts seen elsewhere. Buyers are optimistic, keen to make deals, and in possession of the resources to make something happen.

Considering the economic situation and the tailwinds for the sector, what do you think the net impact is, if any, on your plans for M&A?



Are you taking particular actions in your M&A strategy to navigate the current economic situation?



Propensity for Acquisitions

KEY TAKEAWAYS

1. The outlook for deal volumes in 2023 remains strong, although off the record highs of last year. Expectations for deal volumes in the longer term are extremely strong, suggesting any slight softening in 2023 is likely to be short-lived.

2. Buyers and investors expect deal sizes to be largely the same next year, and very few parties expect to execute smaller deals.

3. Financial services remains the vertical with the strongest level of overall buyer interest - and by some margin, although healthcare remains very important too.

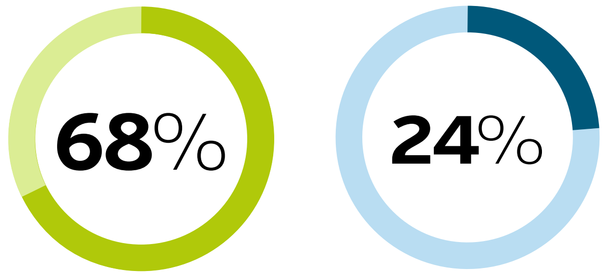
Few could have seen the economic and geopolitical challenges that lay ahead when completing last year's buyers survey. For most, the biggest challenge was how to meet the demands of an overheated marketplace, yet instead we've seen that heat tempered and the excess froth skimmed off. Buyers have remained active because the need, and more importantly the appetite, to acquire remains strong throughout the Knowledge Economy thanks to multiple long-term tailwinds.

With Private Equity still sitting on record levels of dry powder, it should come as no surprise that nearly 70% of financial buyers and investors expect an increase in available capital. Strategic acquirers, meanwhile, are perhaps a little more reserved when it comes to available capital, with almost one-in-five expecting a drop next year, and the proportion expecting an increase falling from 50% in last years' survey to 24% this year.

> **We'll likely see trade and Strategic acquirers think much harder about doing deals that they may have done previously**

"Next year is going to be a macroeconomically challenging time and this is going to put pressure on non-discretionary spend," says Jerome Glynn-Smith, Managing Director at Equiteq in London, UK. "We'll likely see trade and Strategic acquirers think harder about doing deals that they may have done previously - especially as we're no longer seeing the exceptional demands for business and management consulting services that we've perhaps experienced in recent times."

Proportion of buyers that expect capital to increase next year



Private Equity **Strategic Acquirers**

80%

of buyers expressed at least a degree of concern about the economic outlook

Looking to 2023

Despite the caution we're seeing in the market, it is reassuring that the appetite for deals remains strong among respondents, though off the highs of last year. Private Equity expectations have moderated in the last twelve months, with more than half of financial buyers saying they expect to do 'the same amount' of deals in the coming year. This marks a step-change from last year's survey, in which the majority of Private Equity respondents said they expected to do more deals. Strategic Acquirers also remain bullish, with almost one-in-two saying they expect to do more deals in the coming year, with a further third expecting deal volumes to remain the same. By contrast, the proportion of firms expecting to do fewer deals remains very low.

"Many Private Equities are raising new accounts so there's still a lot of cash available to make acquisitions, so I don't necessarily see a big impact on their activity in our space in 2023 - even if there is a limited supply of good assets in the market right now," says Sylvaine Masson, Director, M&A Services for Equiteq in APAC. "But it's a little different for Strategic investors. Those that are cash rich will keep acquiring, but those with less capital may find it harder to access debt financing and so will likely only focus on those acquisitions that will really move the needle for them."

"[Buyers] that are cash rich will keep acquiring, but those with less capital may find it harder to access debt financing and so will likely only focus on those acquisitions that will really move the needle for them

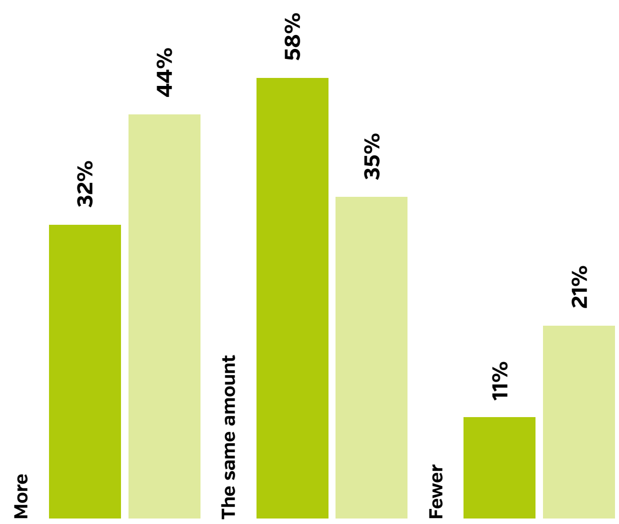
This bullishness - itself a likely result from the Knowledge Economy's decoupling from wider economic impacts - also manifests in buyers' long-term expectations, with more than half of all respondents expecting deal volumes to increase in the next 2-3 years. The inference here being that while short-term challenges may have slowed things temporarily, the strong demand for Knowledge Economy skills, capabilities, and businesses will inevitably ramp back up in the coming years.

With capital to deploy and tailwinds in their sails, many buyers and investors expect deal sizes to remain the same size next year, with two-thirds of Private Equity respondents agreeing that deal sizes are likely to remain unchanged. Few parties expect to execute smaller deals, but around a third of Strategic buyers expect deal size to increase (although this is down from a half in last years' survey).

"There's enough demand out there to continue to create a market where we can place sellers in the right hands at the right valuation," notes Siller. "But it's unlikely that we'll be setting new valuation records in the next 12 months."

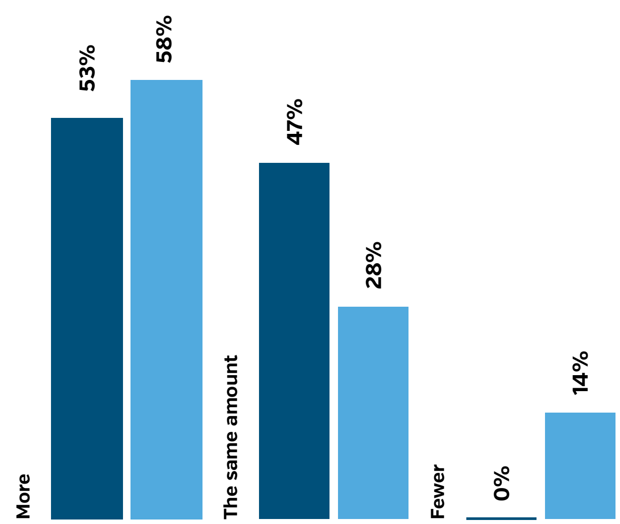
Volume of deals expected to complete in the next 12 months compared to the past 12 months.

Private Equity   Strategic Acquirers



The volume of deals expected to complete in the next 2-3 years than in the next 12 months.

Private Equity   Strategic Acquirers



Verticals of interest

Looking at the sectors that interest buyers, there's no doubt that financial services remains the vertical with the most overall interest by some distance, followed by healthcare which clearly also remains very important.

"These are two of the largest segments of the economy in the US and the S&P 500. They're also two segments that tend to be pretty slow at transforming and that have lagged behind in digitization historically," says Siller. "But then again, digitization makes each sector more efficient - and that is an ideal cure for the impact of inflation and increase in costs that most companies are experiencing. They're linked intricately together."

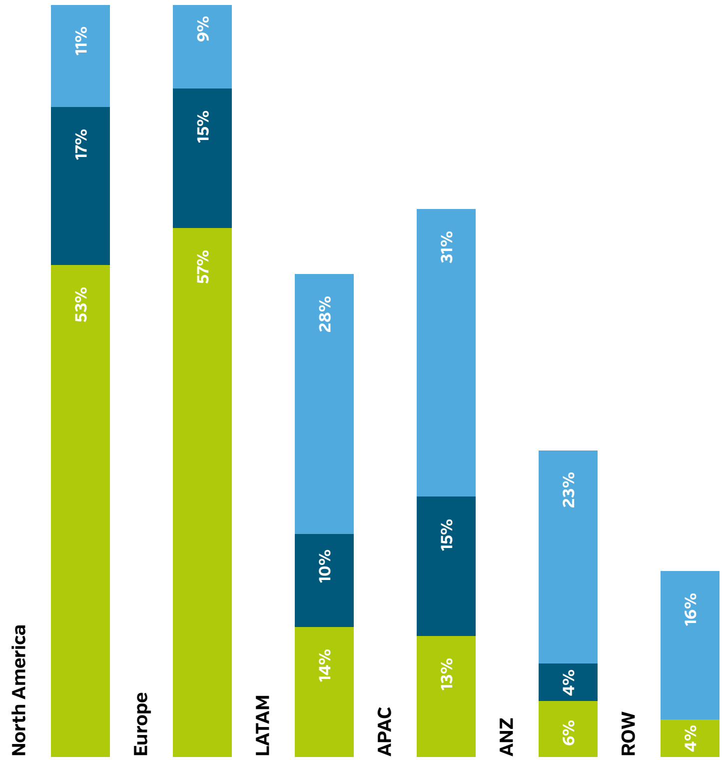
More than half of buyers named financial services as the sector of highest interest and as digital innovation continues to accelerate it is a space in which activity cannot falter if firms are to continue to compete.

"We see a lot of innovation going on in the financial sector, especially with the emergence of FinTech across the world. You have more and more companies focusing on digital payments and authentication," says Masson. "A lot of investments are being made by financial institutions to become more digital, and this is a trend that we can see globally."

While the pursuit of innovation and scale is not an easy one, with capital to deploy and often a regulatory or legislative imperative, we can expect buyers to remain active in not just the financial and healthcare verticals but right across the Knowledge Economy.

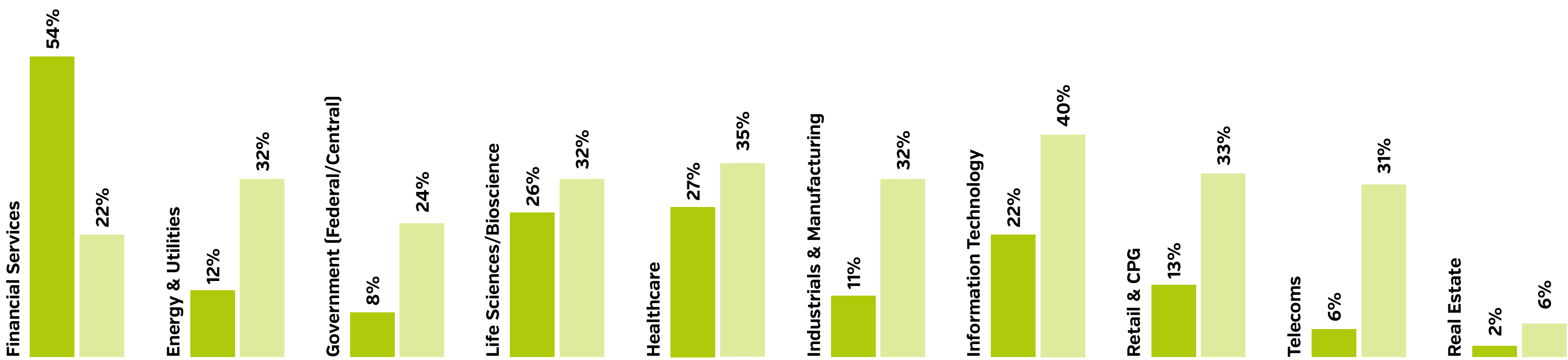
Demand by Geography

Ranked Very High
Ranked High
Ranked Medium



Demand by vertical sector

Very High
High



Digital and Consulting Industry

KEY TAKEAWAYS

1. There remains exceptional interest in digital services M&A, with the key hotspots for buyer interest being public cloud, data & analytics, custom app development, and managed services

2. Around half of respondents are interested in consulting practices, with broad, if moderate, interest across different service lines

If there is one thing we can take confidence in, it is that the need to digitally transform will continue to act as a fundamental driver of buyer activity in the Knowledge Economy for the long-term.

Buyers are hungry for a broad array of digital services, with 94% of respondents stating at least a moderate interest in data & analytics, and over half ranking it as a 'very high' acquisition priority. Interest in public cloud (69%), custom app development (52%), and managed services (55%) is also flagged as 'very high' or 'high' by at least half of all respondents. Automation also features prominently, with interest in RPA / Hyper Automation now a burgeoning - although not as yet fully realized - priority, but still on the radar of more than four-in-five respondents.

"Buyers remain interested in everything around digital transformation," adds Fincke. "But especially so around areas such as data and analytics, custom application development, and cloud consulting. These are all themes that have been developing for the last 18 to 24 months and continue to grow stronger."

The broad digital interests among buyers suggest that we are seeing firms continue to take stock of pandemic-related investments, reviewing how best to integrate and optimize the performance of technology - or divesting if no longer required.

The Public Cloud space in particular shows signs of a shift away from migration and towards optimization, while data analytics interests pervade the end-to-end process suggesting that firms have a foundational handle on data and now need to analyze, visualize, and do more with it. Supply chain challenges in recent quarters have also given a shot in the arm to buyer interests in the Enterprise Performance Management (EPM) space too, as firms look to get a handle on operations and drive more efficiencies in the face of rising costs.

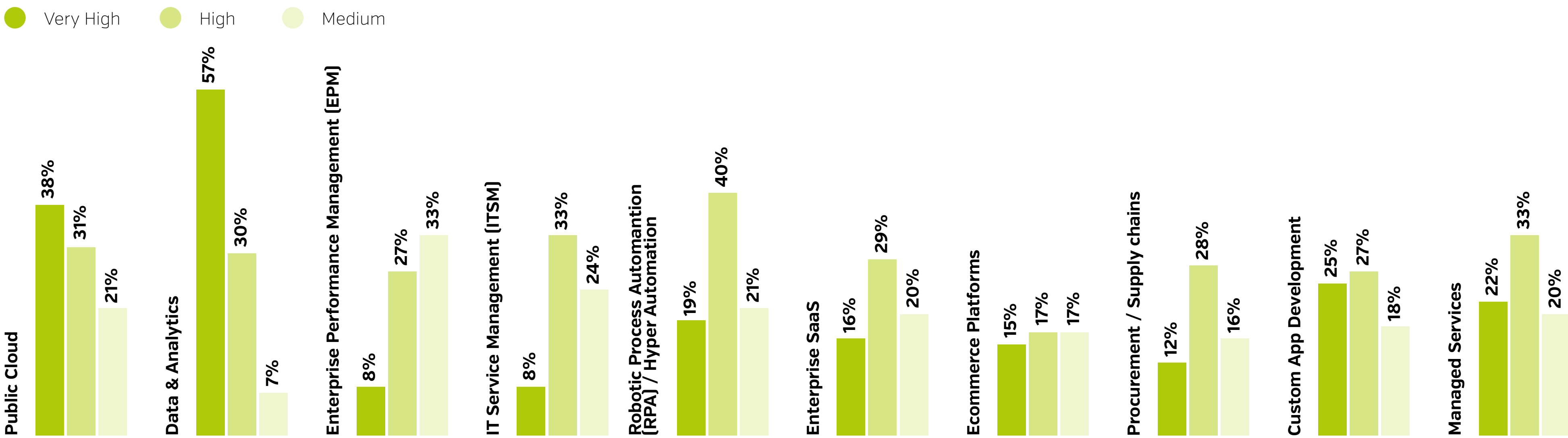
"What these findings show us is that buyer interests are turning to the next phase of maturity for an efficient digital setup," says Glynn-Smith. "Firms are getting the Cloud up and running, and they're installing software like Salesforce, and this creates a lot of data that didn't really exist just a few years ago. Buyers' digital acquisition interests underline the importance of having an effective and modern digital setup in order to harness this data."

> "Buyers' digital acquisition interests underline the importance of having an effective and modern digital setup

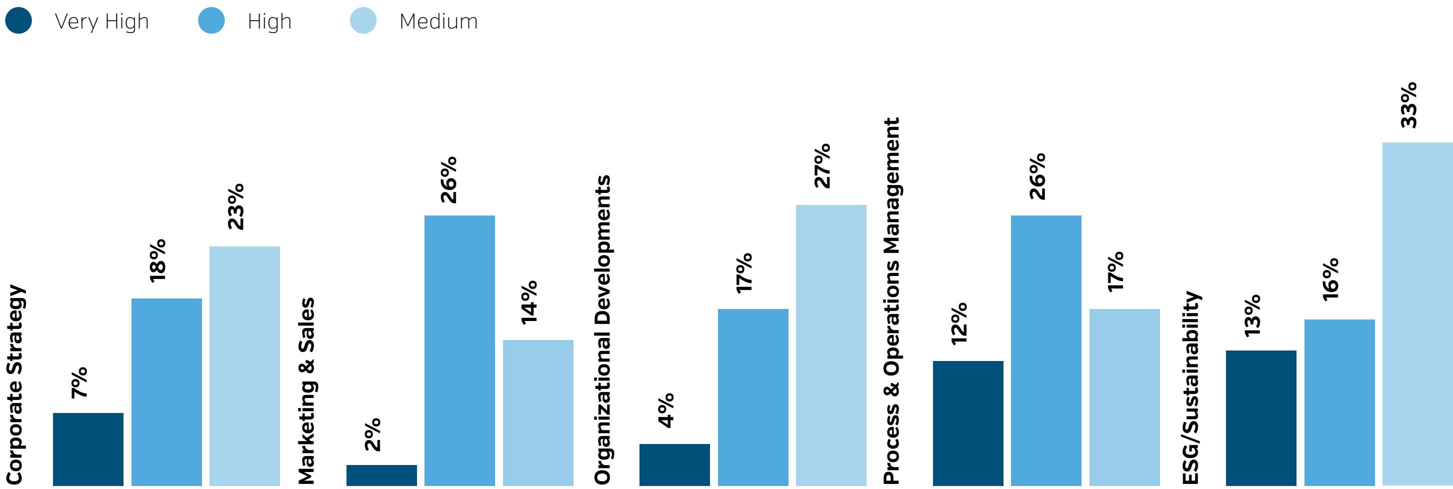
Compared to digital services, buyer interest in 'pure play' consulting practices was much more modest, with areas of 'very high' focus centering on ESG and sustainability consulting (13%), as well as process and operations management consulting (12%). With companies needing to not only comply with sustainability legislation but to report on ESG metrics in a credible and regulated way, we can expect interest in ESG advisory to grow stronger as buyers seek to show investors that their ESG roadmap is progressing.

Although we didn't directly solicit buyer interest in technology advisory, numerous respondents proactively flagged their interest in AI/ML, data, cyber, and software engineering advisory firms. This suggests interest in these areas remains high and that advisory on technology is a growth area, which aligns to findings in previous years' surveys.

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



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



BUYER DEMAND

"We look at technology services as a new core area of investment opportunity which wasn't the case a few years ago"

Partner at UK Private Equity

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

With buyers seeking nearly all things digital, the following overviews aim to shine a spotlight on those digital services of greatest interest:

Public Cloud

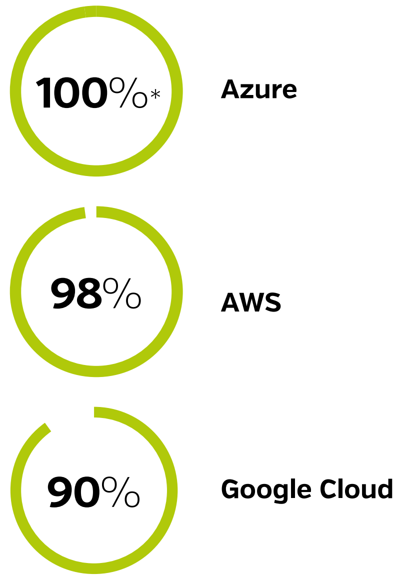
Buyer interest in Public Cloud remains exceptionally high. With adoption proliferating, there is a growing need across ecosystems for services providers that can reduce the complexity of Cloud implementation and integration.

“Public Cloud is an evolving space where there’s a lot of opportunity for service providers to enterprise clients,” says Fincke. “There’s significant growth in the adoption of public cloud but firms are increasingly asking whether they’re realizing its full potential.”

With the rapid adoption of Public Cloud in recent years, we are now seeing firms taking stock of what exactly they have in place. Given that the ecosystem hotspots of interest center on the ‘big three’ of Azure, AWS, and Google Cloud, conversations are moving from how to migrate to these Cloud platforms to how best to optimize them and what the right level of spend should be to achieve this.

“We expect to see buyers to continue showing interest in the infrastructure side of the Cloud than in developing applications to optimize what it can do for their business,” adds Glynn-Smith. “And that’s because this kind of spend isn’t typically discretionary. Interests in service providers that reduce complexity in the Cloud will continue to be sticky going into next year.”

Top three Public Cloud ecosystems of interest



*Shown relative to maximum buyer interest across all ecosystems.

BUYER DEMAND

“We have resigned to the fact that we can no longer rely on organic growth for certain key areas. This has led us to develop a more proactive acquisition strategy across sustainability, advanced analytics, AI/ML, cloud consulting, and product development”

Leading Global Strategy Consulting Firm

NOTABLE PUBLIC CLOUD DEALS

Zain Tech

acquisition of

BIOS

NODE4

acquisition of

risual

Accolite Digital

acquisition of

xerris

66degrees

merger with

Pandera

Deals advised by Equiteq

Data Analytics

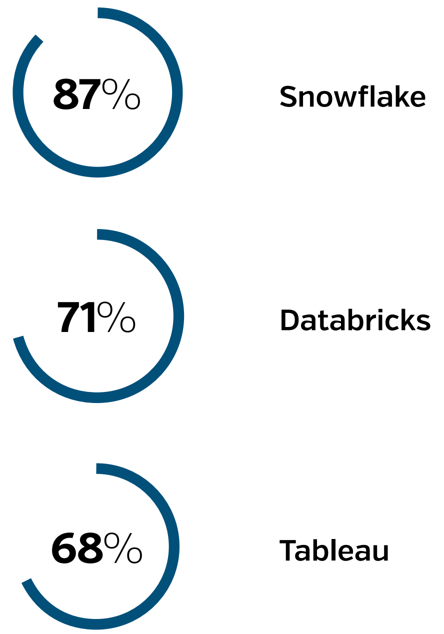
Our findings show a broad appetite for technology consultancies and service providers across multiple data analytics ecosystems, with a particular interest in the Snowflake, Databricks and Tableau ecosystems.

"I think buyers are realizing that Salesforce, SAP, and Oracle haven't yet really won the data race. Right now we've got numerous smaller platforms out in the market, like Databricks, that are providing better products," says Glynn-Smith. "And they will continue to do so until they get bought out, as we saw with Tableau when it was acquired by Salesforce in 2019."

As the number of partners in these spaces continues to grow, we can expect good interest and good valuations for firms with capabilities across the data analytics spectrum, from warehousing through to dashboarding.

"We're seeing a lot of organizations with aspirational ideas and motives for data analytics, but we're still in the very early innings," says Fincke. "There's a long way to go and so this is an area we think will continue to be very active for the foreseeable future."

Top three Data Analytics ecosystems of interest



*Shown relative to maximum buyer interest across all ecosystems.

BUYER DEMAND

"We have a strong focus on Data Analytics, especially consulting firms with Snowflake capabilities"

Partner at US Growth Equity Firm

NOTABLE DATA ANALYTICS DEALS

S4 CAPITAL media.monks

acquisition of

4MILE

Deloitte.

acquisition of

Intellify

Capgemini

acquisition of

Braincourt

Deals advised by Equiteq

Enterprise Performance Management

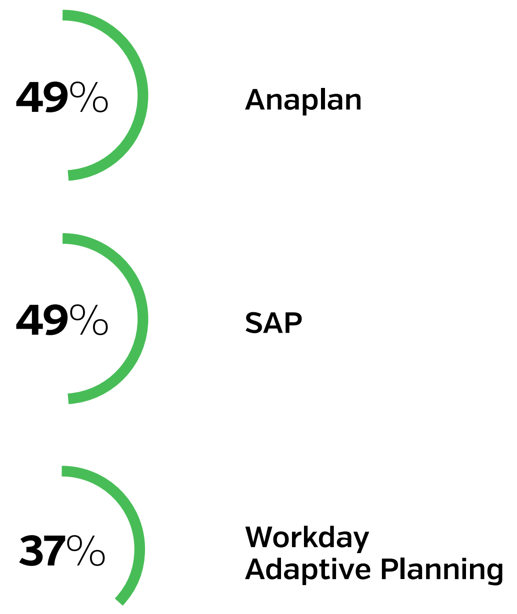
The importance of everything related to supply chain procurement continues to see a reinvigoration in the wake of the pandemic, and one only made more acute following the geopolitical challenges of the past year. However, relative to other ecosystems, interest in acquiring EPM technology service providers is moderate. Still, with procurement increasingly a key strategic cog rather than cost reduction initiative, buyers are actively seeking the capabilities to make their planning more efficient and accurate.

"Firms that can effectively drive value from their FP&A, procurement and supply chain functions will see a real competitive advantage in the market," says Fincke. "We continue to see strong demand for technology partners in ecosystems like Anaplan, OneStream, SAP and Coupa and other technology partners that will have traction going forward."

Our findings suggest that Anaplan and SAP are the stand out ecosystems, though OneStream, a relatively new player, is already gathering some M&A interest in the ecosystem.

"Having been acquired by Thoma Bravo, Anaplan has been legitimized as a global software leader," adds Glynn-Smith. "Most of Anaplan's competitors are either privately owned or listed, but they're not backed by the resources available to a Private Equity like Thoma Bravo, so this really legitimizes Anaplan's offering and ecosystem going forward."

Top three EPM ecosystems of interest



*Shown relative to maximum buyer interest across all ecosystems.

NOTABLE EPM DEALS

KEENSIGHT CAPITAL

acquisition of

BEDFORD Consulting

VISEO | POSITIVE DIGITAL MAKERS

acquisition of

SCANQMI

accenture

acquisition of

SOLVERA

KPMG

acquisition of

DayOne CONSULTING

Deals advised by Equiteq

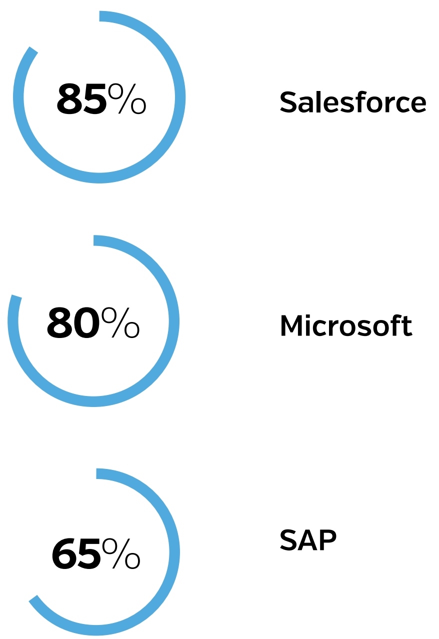
Enterprise SaaS

Technology service providers focused on Enterprise SaaS continue to show M&A interest, but otherwise this is another space in which interests are broad and cross multiple ecosystems. The hotspots commanding the highest interest are those ecosystems that have driven substantial M&A for a number of years: Salesforce, Microsoft, and SAP.

“Salesforce in particular has significantly expanded its product portfolio by way of acquisition, so it’s no longer a traditional CRM company,” notes Nayak. “This means that Salesforce is beginning to sell software like no other software company around the globe. Their partner ecosystem is ballooning and a growing number of companies now see Salesforce as an enabler of software within the enterprise environment rather than just a software company itself.”

With the massive ecosystem around Salesforce home to both implementation / systems integration and technology partners, there looks to be no shortage of opportunities for buyers heading into 2023.

Top three Enterprise SaaS ecosystems of interest



*Shown relative to maximum buyer interest across all ecosystems.

NOTABLE ENTEPRISE SAAS DEALS

dentsu group / MERKLE a dentsu company acquisition of Pexlify

KARTESIA investment in sa.global

wipro acquisition of RIZING

Deals advised by Equiteq

Custom Software Development

With technology proliferating within large enterprises, and increasingly at mid-market firms too, there's a growing need to better connect and leverage it. Bespoke developments often offer an optimal route and enterprises are coming to recognize the value of building custom solutions to help them on their internal digital transformation initiatives.

"Pulling data, insights, and analytics out of all the different technology centers within an organization is really hard to do without custom tools," says Fincke. "So there's a huge opportunity emerging because of the complexity within companies. It's nearly impossible to meet all the business objectives with off the shelf solutions. There's a big market opportunity to resolve these challenges with custom solutions."

As such, all types of Custom App Development are seen as high priorities by buyers and investors, with Cloud dev ops seen as a priority by 99% of respondents.

"Cloud development is an important sub ecosystem in the custom software space," says Glynn-Smith. "There's a growing demand for more specific software engineering capabilities. Firms are looking for those with the skills to develop APIs into AWS for example, and that requires a different kind of training and experience than more common types of coding, such as someone who can code Java."

Top three Custom Software Development of interest

99% Cloud Dev Ops

81% CX Custom Ops

83% Modernization

*Shown relative to maximum buyer interest across all ecosystems.

NOTABLE CUSTOM SOFTWARE DEVELOPMENT DEALS

claranet acquisition of geko cloud

bitrise acquisition of Flare.Build

NTT acquisition of Nexient an NTT DATA Company

Managed Sevices

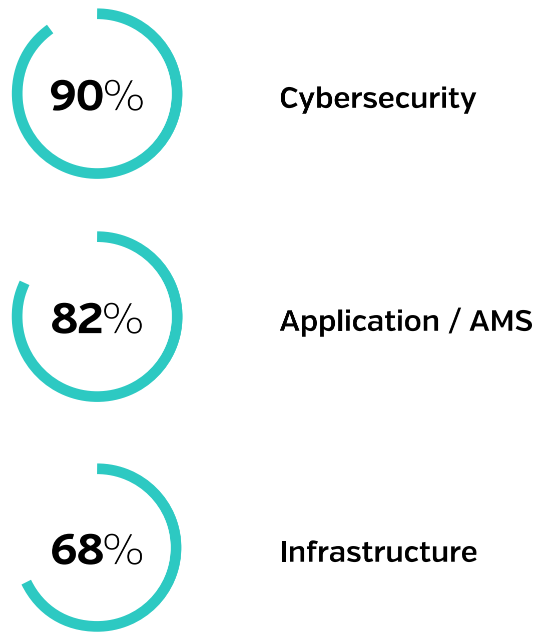
In the Managed Services space, there is broad M&A interest across multiple categories, though a particular focus on both AMS and Cybersecurity Managed Service providers. As part of this, the firms that are proving most attractive are those that are able to both consult on and manage the service.

“In the past, firms like Node4 and Kerv in the UK would be a supplier of IT hardware and maintenance for companies - but that’s not enough anymore,” says Glynn-Smith. “Companies want more professional services and are buying more into consulting, so firms that can offer both are very attractive.”

Equally, firms that can both consult and oversee the integration of cybersecurity solutions also continue to interest buyers. With the scrutiny on privacy ever greater, the regulatory onus on organizations to comply with legislation will only further spur interest in those firms that can protect the vast amounts of data that is being generated and stored in the Cloud.

“With things becoming more digital and the growing presence of the Cloud, security is becoming a critical question because of the huge number of data points being shared globally,” adds Masson. “Companies are collecting more data, which means there is ever more data at risk. So in this respect, cybersecurity is a challenge that is only becoming more and more present in organizational thinking.”

Top three Managed Services areas of interest



*Shown relative to maximum buyer interest across all ecosystems.

NOTABLE MANAGED SERVICES DEALS

softline acquisition of VALUE POINT

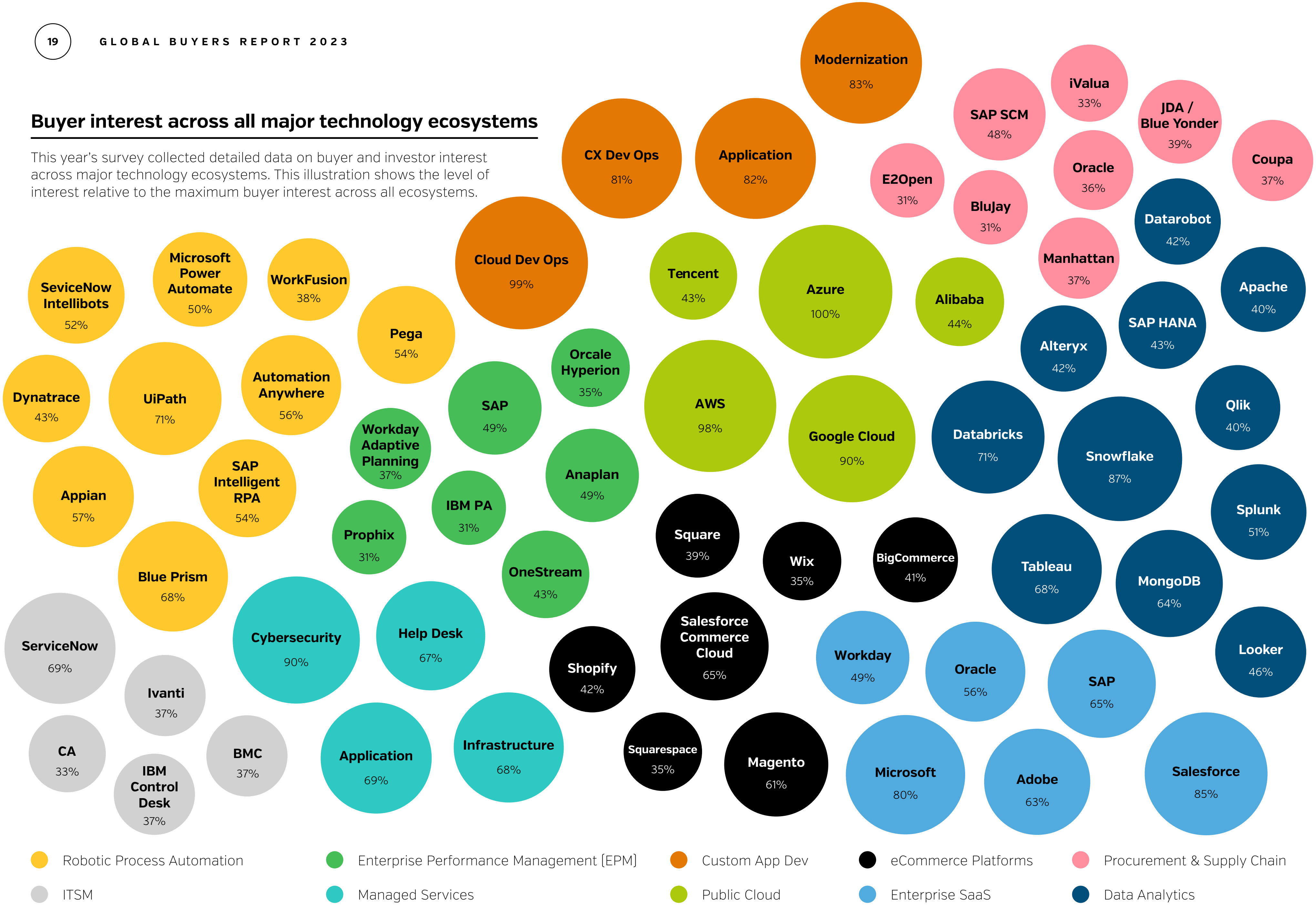
dsp explorer acquisition of CLAREMONT YFM Equity Partners

eci acquisition of BCN Group

Deals advised by Equiteq

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.



Evaluating Deals

KEY TAKEAWAYS

1. Buyer and Investor assessment of potential acquisition targets remains extremely consistent year-on-year.

2. The most important assessment criteria for Private Equity buyers are quality of management, revenue growth, and margins.

3. The most important assessment criteria for Strategic buyers are management quality, services/capability, and cultural fit.

Turning our attention to deal evaluation considerations and we find that assessment criteria for both Strategics and Private Equity remains extremely consistent, with quality of management and revenue growth deemed the most important criteria.

As with previous years, Private Equity buyers named quality of management, revenue growth, and profit margins as their most important deal evaluation considerations, putting particular emphasis on management quality, which 76% of respondents deemed as ‘very high’ in importance.

“Buyers want to see growth and profitability,” says Masson. “And they will continue to look for those factors along with a high-quality team to enable them and provide visibility of what this looks like in the coming years.”

Synergy is key for all buyers, with cultural fit a particularly high priority for Private Equity buyers, reflecting the need for close collaboration between teams to make success of an investment. Likewise, Strategic acquirers also named quality of management as their most important evaluation factor, with 59% deeming its importance as ‘very high’, while emphasizing the need for a good services/capability (63%) and cultural fit (57%) as well.

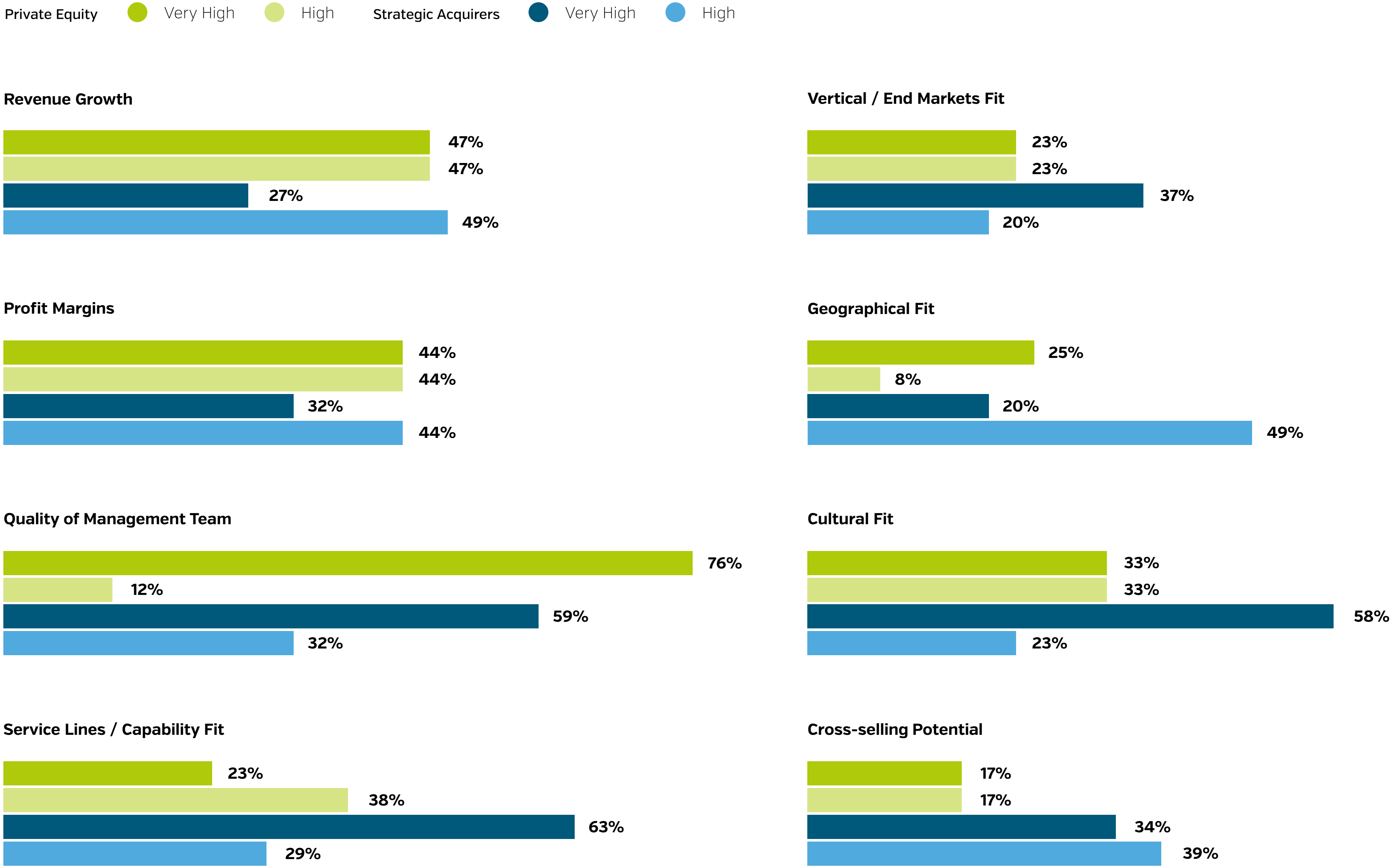
“If firms can excel at the key metrics that will classify them as a top performer in their space, then we’re going to see buyer demand continue to be there,” says Siller. “Lower quality assets need to improve their quality while waiting things out until the next cycle - right now, they’re not as marketable as they could have potentially been a year or two ago.”

From caliber of people to resilience of performance, it’s no surprise that we’ve seen a flight to quality among buyers in 2022 given the macroeconomic challenges. However, despite ongoing disruption, our findings continue to prove themselves evergreen and demonstrate the remarkable resilience of M&A activity in the Knowledge Economy. Evaluation thresholds show impressive consistency year-on-year across our previous four reports, and the table below presents these average thresholds:

Evaluation criteria thresholds (four-year avg.)

	Private Equity			Strategics		
	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	120	269	204	170	216	191
Retention Rate	80%	84%	82%	79%	84%	80%
%Permanent Staff	78%	82%	79%	79%	82%	79%
%Share Ownership	15%	27%	19%	15%	27%	21%

Importance of potential acquisition evaluation factors



Valuing and Structuring Deals

KEY TAKEAWAYS

1. Buyer and Investor assessment of potential acquisition targets remains extremely consistent year-on-year.

2. The most important assessment criteria for Private Equity buyers are quality of management, revenue growth, and margins.

3. The most important assessment criteria for Strategic buyers are management quality, services/capability, and cultural fit.

In a further sign of the decoupling of the Knowledge Economy from wider markets, our findings suggest little impact on the structure of deals, which remain relatively consistent year-on-year. The 'average' deal delivers a 60:40 split between upfront cash and deferred consideration, though Private Equity makes greater use of equity in lieu of deferred consideration or substantial earn-outs.

Earn-outs continue to be based on EBITDA and revenue metrics, with achievement of EBITDA targets featuring in well over 70% of all combinations. Revenue targets are also used in over half of all earn-outs, but less so for Private Equity investors when compared to the previous two years, falling from featuring in 80% of combinations last year to below 40% this year. A corresponding rise in EBITDA earn-outs further aligns with a potential 'post-COVID' return to normal.

"We're less likely to see deals entirely structured around revenues because growth is much less predictable in the current environment," says Glynn-Smith. "So, actually, we've gone full circle since 2020 and 2021, and I think next year we'll probably see a shift back to something more traditional, where profits matter."

> "We've gone full cycle since 2020 and 2021, and I think next year we'll probably see a shift back to something more traditional, where profits matter

As with previous years, our findings also suggest that the 'average' length of earn-out periods continue to shorten, falling from 3.0 years in 2019 to an expectation of 1.8 years in 2023. This downward - albeit slowing - trend is consistent, possibly reflecting the use of shorter earn-outs to make buyers seem more attractive in the competition for assets.

"Smart buyers look to move their integration plans forward reasonably fast after the acquisition," adds Masson. "They know that long earnouts can be counterproductive and a deterrent to integration, which can slow down the implementation of synergies in the group."

Despite the challenges posed by inflation and possible recession, buyers and investors continue to expect to pay high multiples for high growth companies next year, which is good news for those firms that can still show the kind of growth (+20% per annum) that catches the eye.

Our findings suggest that, at the top end of the market, buyers expect to pay a multiple of at least 12-13x EBITDA for firms growing at more than 30% per year, compared to 5-6x EBITDA for those showing no growth at all. But though expectations are high for 2023, valuations may fail to hit the same heights, cautions Jerome Glynn-Smith.

"Valuations are likely to remain high compared to the average of the past 10 years," he concludes. "But they will likely temper down compared to the last two years because there'll be less demand and less growth in 2023; and also because financing will be more difficult to secure."

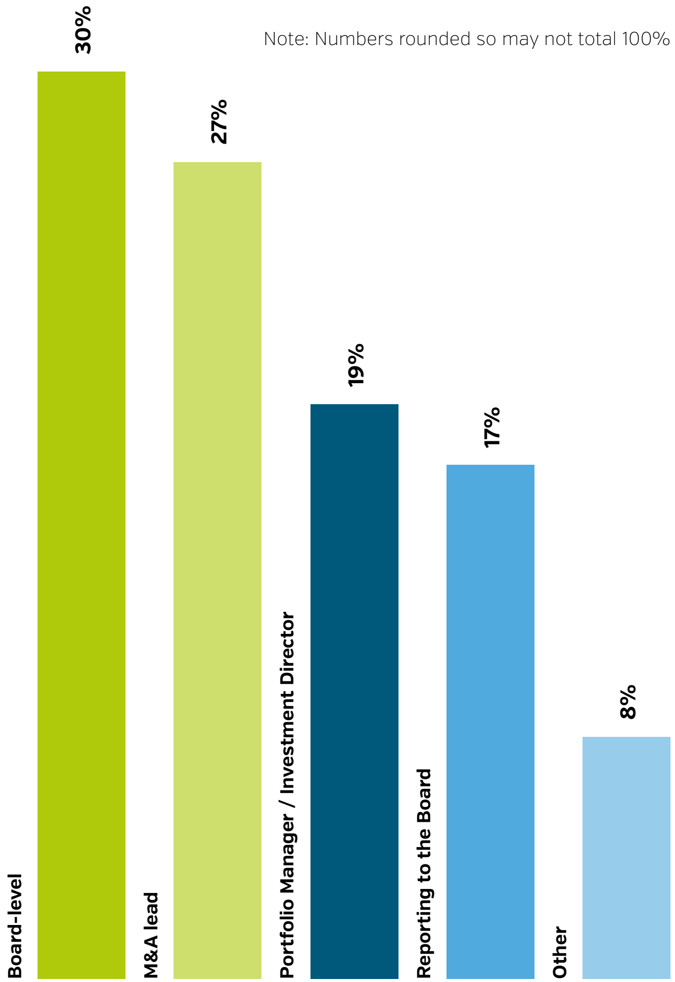
The average deal structure in 2023

Weighted EBITDA multiples (year-on-year)

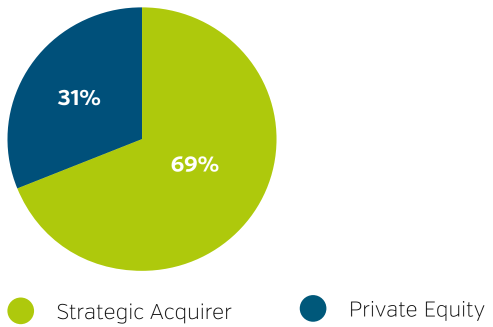
	2023 bottom	2023 top	2022 bottom	2022 top	2021 bottom	2021 top	2020	2019
Not growing	5.3x	6.1x	5.1x	5.9x	5.1x	5.8x	7.0x	6.0x
Growing 0-10%	7.0x	8.0x	6.6x	7.5x	6.2x	7.1x	n/m	n/m
Growing 10-20%	9.0x	10.0x	8.9x	9.9x	7.8x	8.8x	9.0	7.8x
Growing 20-30%	10.8x	11.9x	10.5x	11.6x	9.7x	10.7x	10.8x	8.9x
Growing 30%+	11.9x	13.0x	11.1x	12.2x	10.8x	11.8x	12.7x	9.9x

Demographics

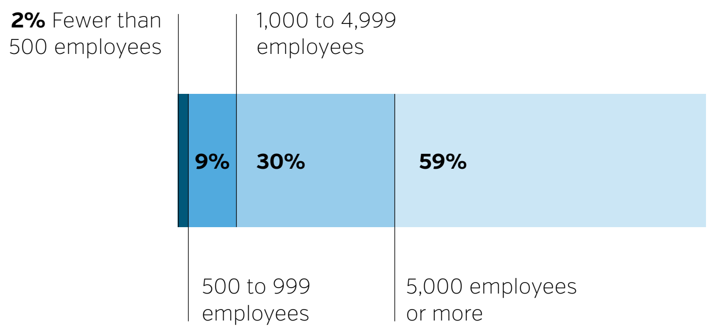
Seniority



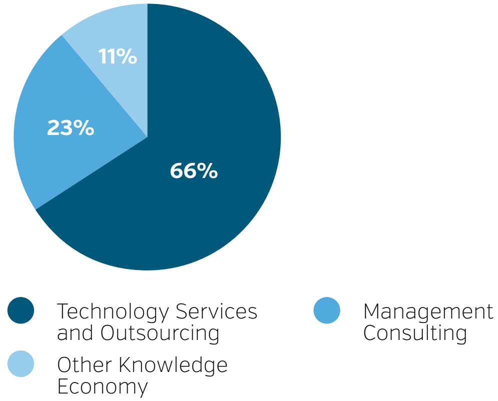
Type of buyer



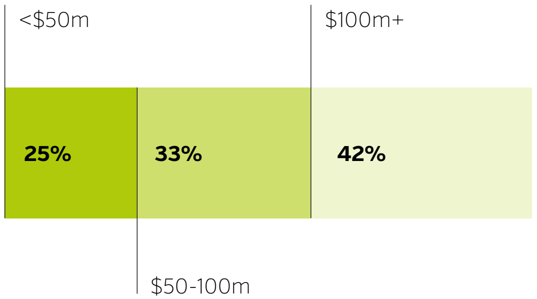
Firm size (Strategics)



Primary sector of focus



Interest across deal sizes (Private Equity)



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Meet the Global M&A Team
equiteq.com/team

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.

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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.

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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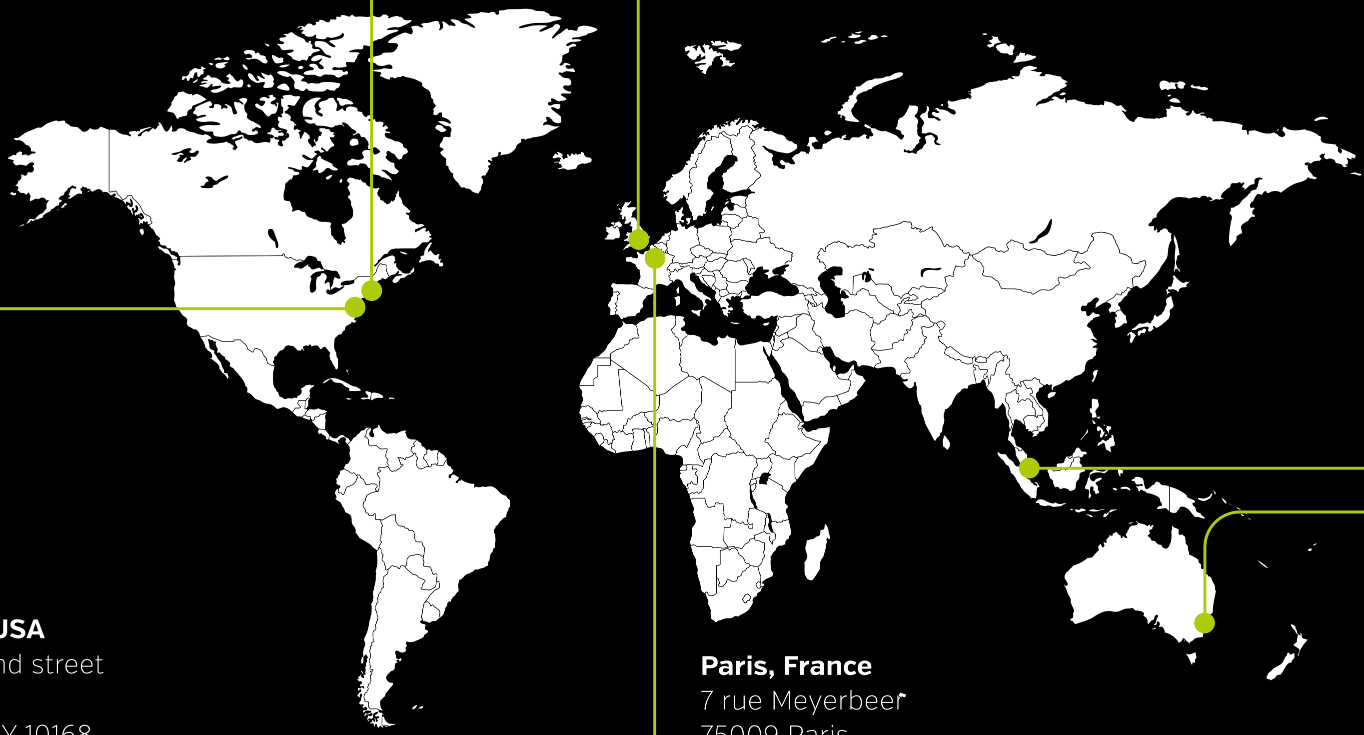

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