Equiteq
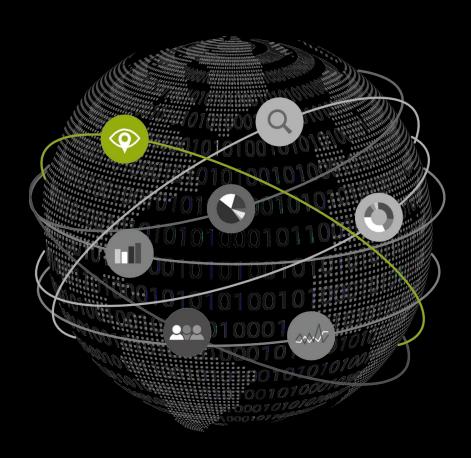
Equiteq Market Intelligence

Data Analytics Consulting Global M&A Report 2019

Crucial insights for owners of businesses across the knowledge economy

Growing equity, realizing value

Contents

Data analytics consulting global M&A

Data analytics is core to Consulting 4.0 and business transformation in the digital age

Consulting companies and the businesses that they advise are facing unprecedented disruption through a variety of digital-led developments collectively termed the Fourth Industrial Revolution. At the core of the revolution is the fusion of big data, advanced analytics and new physical technologies. The key to business success in the new digital age is no longer being able to simply use data to measure current and past performance. It is being able to make predictions about the future and quickly prescribe recommended strategies that can enrich decision making.

The current wave of data analytics M&A is changing the delivery model and offering of strategic buyers. This report considers deal flow from both angles. From a delivery model perspective, there is pressure on knowledge-intensive services firms to enhance their consulting offering with new data analytics solutions. Listed global marketing and advisory buyer Interpublic Group's $2.3bn acquisition of Acxiom Marketing Solutions was the most notable example of such a deal this year.

This same pressure to invest in the latest analytics capabilities is also being felt by consulting firms' clients, that are looking to their advisers for assistance in realizing competitive advantages from new data analytics solutions. Strategy consulting firm A.T. Kearney's acquisition of Equiteq's client Cervello at the beginning of 2019 was a milestone acquisition, which added unique data analytics consulting capabilities to the buyer's offering.

M&A in 2018 at a glance

Number of completed deals	226
Average deal size ($m)	74
Median deal size ($m)	36
Median LFY revenue valuation multiple (x)	1.6
Median LFY EBITDA valuation multiple (x)	9.3

Equiteq Data Analytics Consulting Share Price Index (2018) [1]

▲ 2%

vs. S&P 500: -6.2%
vs. FTSE 100: -12.5%

Regional breakdown of M&A volumes in 2018

143 Deals
North America

65 Deals
Europe

10 Deals
Asia-Pacific (incl. Australia & NZ)

8 Deals
Rest of the World

◄———— **Cross-border M&A accounted for 32% of all deals** ————►

Note 1: On page 13 we discuss the S&P 500 and FTSE 100 indices as benchmarks for comparison to the Equiteq Data Analytics Consulting Share Price Index.
Source: M&A and share price data through this report relies on third party data, see page 12 & 13 for more information.
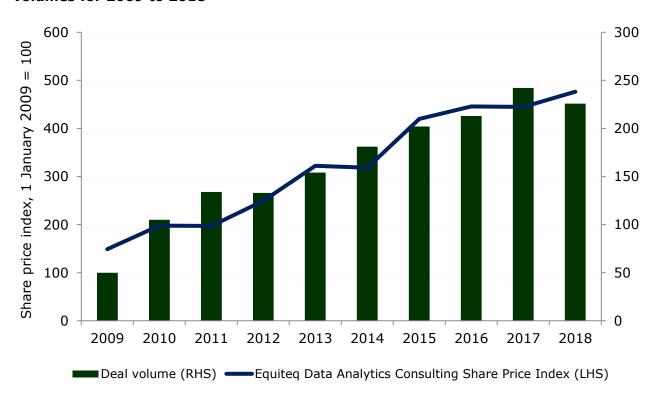

Deal flow was robust through 2018 and the Equiteq Data Analytics Consulting Share Price Index achieved a gain, despite falls across broader indices

In 2018, there were 226 deals completed across the data analytics consulting space globally. These volumes had dipped as compared with 2017, but are well above long-term averages. Most deals occurred in North America and Europe, but a large proportion of M&A is cross-border in nature, much of which involves cash-rich buyers from the Asia-Pacific. Average reported revenue valuation multiples in the space are at a significant premium to those occurring in the broader knowledge economy.

Despite some volatility through the second half of the year, the Equiteq Data Analytics Consulting Share Price Index achieved overall rises. The index was impacted by investor uncertainty that is affecting the broader global equity markets. The Equiteq Data Analytics Consulting Share Price Index ended the year touching new all-time highs and is now at a c.50% premium to its ten-year average.

Equiteq Data Analytics Consulting Share Price Index [2] and annual M&A deal volumes for 2009 to 2018

Deal volume (RHS) ━━━ Equiteq Data Analytics Consulting Share Price Index (LHS)

Note 2: The Equiteq Data Analytics Consulting Share Price Index reviewed on a ten-year basis only includes listed consultants that traded continuously throughout this period. The index is shown at the end of each respective year.

Buyers ascribe value to advanced proprietary platforms and leverageable IP

Across the data analytics consulting space, we found that buyers focused on acquisition targets with proprietary platforms, leverageable intellectual property (IP) and managed services solutions. Buyers have been interested in descriptive and diagnostic analytics capabilities for some time. As buyers build this data analytics foundation, they increasingly look for the latest predictive and prescriptive analytics tools. The latter combines advancements in artificial intelligence (AI) and machine learning (ML) to create a high-growth intersection within the digital space.

Private equity deal flow supported by strong levels of dry powder

There continues to be strong demand for advanced data analytics investments from cash-rich private equity firms that observe the potential for stellar returns in the space. We are observing high levels of dry powder and robust fundraising among private equity investors. Although interest rates are gradually rising, they are still historically low. This is maintaining pressure on both strategic and financial buyers to put their cash to work on new investments including M&A at premium valuations.

Recent private equity participation at strong valuation levels was evidenced by Apax Partners' investment in Fractal Analytics at the beginning of 2019. The $200m investment was for a 40% stake in the company and valued the business at an estimated five times revenue multiple.

Strong consulting M&A is also matched by recent major software acquisitions

There were a variety of landmark deals in the data analytics software space, as serial strategic acquirers looked to add breadth and depth to their solution offerings for clients' data-led digital transformation initiatives. Notable deals announced in 2018 included:

- SAP's c.$8bn acquisition of Qualtrics, a software provider that blends experience data and operational data to drive experience management.

- Salesforce's c.$6.5bn acquisition of MuleSoft, a platform for connecting SaaS and enterprise applications in the cloud.

- Salesforce's c.$800m acquisition of Datorama, a cloud-based AI platform that collects and connects marketing data.

- Cloudera's c.$5.2bn merger with Hortonworks, which aims to develop a next generation data platform provider.

Positive outlook for M&A and industry growth in 2019

The market outlook remains robust as buyers continue to demonstrate strong interest in new acquisition opportunities. In 2019 we will monitor the impact of accelerating AI and ML developments on the industry. Furthermore, we are interested to see how analytics solutions evolve with the increasing adoption of immersive and blockchain technologies.

If you would like to discuss your current strategic objectives as a business owner or acquisition strategy as an acquirer, please get in touch.

Selected transactions announced in 2018

Announced date	Target		Target's service focus	Buyer	
Jan-18	Atticus Associates (data warehousing division)	🇬🇧	Data warehousing for insurance sector	Moore Stephens Consulting	🇬🇧
Jan-18	Geoscape	🇺🇸	Customer analytics	Claritas	🇺🇸
Jan-18	Mackevision	🇩🇪	Immersive content & data engineering	Accenture	🇮🇪
Jan-18	Skipworth Engelhardt Asset Management Strategists	🇬🇧	Infrastructure software & analytics	Arcadis	🇳🇱
Feb-18	BaseCase Management	🇩🇪	Data-visualization for life sciences	Certara	🇺🇸
Feb-18	The Survey Group	🇺🇸	Compensation survey data and consulting	Insight Performance	🇺🇸
Mar-18	Meredith Xcelerated Marketing (MXM)	🇺🇸	Data analytics led digital marketing	Accenture	🇮🇪
Apr-18	Southport Services Group	🇺🇸	Analytics, business intelligence and data warehousing	Perficient	🇺🇸
Apr-18	Media 8	🇺🇸	Digital advertising and data management	Dentsu	🇯🇵
Apr-18	Valorem	🇺🇸	Digital strategy, cloud and analytics	Reply	🇮🇹
May-18	SCIO Health Analytics	🇺🇸	Healthcare predictive analytics solutions	EXLService	🇺🇸
May-18	MaassMedia	🇺🇸	E-marketing, web and digital analytics consulting	Hero Digital	🇺🇸
May-18	Business & Decision	🇫🇷	Consulting, systems integration and data analytics	Orange	🇫🇷
Jun-18	SHYFT Analytics	🇺🇸	Life sciences data management and mobile analytics	Medidata Solutions	🇺🇸

Selected transactions announced in 2018 (Cont'd)

Announced date	Target		Target's service focus	Buyer	
Jun-18	Landsberry & James	🇦🇺	Media analysis and software	Nielsen	🇺🇸
Jun-18	Connected Analytics	🇦🇺	Data analytics and business intelligence	Deloitte	🇦🇺
Jul-18	SmartAnalyst	🇺🇸	Lifesciences analytics, consulting and strategic decision support	UDG Healthcare	🇮🇪
Jul-18	Acxiom Marketing Solutions	🇺🇸	Data management	Interpublic Group	🇺🇸
Jul-18	Kogentix	🇺🇸	Artificial intelligence and big data solutions	Accenture	🇮🇪
Jul-18	LeapThree	🇬🇧	Data analytics & conversion rate optimization	Ayima	🇬🇧
Sep-18	SuperData Research	🇺🇸	Market intelligence & data solutions	Nielsen	🇺🇸
Sep-18	Dicitas Consulting	🇳🇱	Research, analytics and consulting	Sia Partners	🇫🇷
Sep-18	Magnetic Media (AI platform)	🇺🇸	AI platform with advanced data analytics capabilities	Deloitte	🇺🇸
Oct-18	Marketing & Research Resources	🇺🇸	Research, consulting & data analytics	Fox Three Partners	🇺🇸
Oct-18	Xebia France	🇫🇷	Data, web, cloud and software services	Publicis Groupe	🇫🇷
Nov-18	Kaplan	🇸🇪	Data-driven consumer relationship management	Accenture	🇮🇪
Dec-18	LightStream Analytics	🇸🇬	Data analytics consulting	ABeam Consulting	🇯🇵
Dec-18	Knowledgent	🇺🇸	Data intelligence	Accenture	🇮🇪

Considerations for business owners preparing for sale

The following are some considerations for business owners that are preparing for a sale

1. The relationship between business size and acquisition appetite

Although landmark deals grab headlines, there is notable deal flow at smaller transaction sizes. This is highlighted by the large difference between reported mean and median deal values each year.

Nevertheless, we typically find that serial buyers do not focus on smaller deals below certain revenue thresholds, unless they offer exceptional synergy or intellectual property or are part of a team hire with limited cash consideration being paid. Buyers may also pay a premium for larger businesses with an established brand, attractive client relationships, embedded intellectual property and the investment in infrastructure that will enable future growth. The importance of revenue size to many buyers highlights the benefits of setting a clear growth plan and a target scale at exit.

2. The factors that can influence a deal structure

A buyer's valuation of your business should be considered in combination with their proposed deal structure. A consulting acquisition can be structured in a variety of ways, but typically involves some mixture of an upfront cash element, fixed deferred cash and an earn-out lasting 2 to 4 years offering additional compensation in the future if the business achieves certain financial goals.

There are many factors which influence deal structure, however those features which tend to drive more significant earn-out elements include:

✓ Buyer's perceived risk of acquisition, including dependency on the owner and key members of staff, as well as the ability to retain talent;

✓ Owners desire to share in synergy benefit;

✓ Buyer's approach to integration;

✓ Nature of the buyer;

✓ Nature of the sale process; and

✓ Owners ability to negotiate on deal structuring options.

There are a variety of steps that owners can take to reduce transaction risk for a buyer, which can improve target deal structures. Furthermore, we find that deal structures can be improved upon in well-managed competitive negotiations.

Data Analytics Consulting Global M&A Report 2019

3. The impact of rising share prices on listed buyers

As the publicly quoted valuation multiples and cash balances of listed buyers rise, so does competition for assets from this buyer group. Listed companies that are growing will be looking for new avenues of growth to meet shareholder expectations and acquisitions quickly enable them to achieve this.

Earnings per share is a key metric that is tracked by public company shareholders to consider the dividend potential of the business. Earnings accretive acquisitions are often a key target of listed businesses. An accretive acquisition will increase a listed buyer's earnings per share and can be expected to quickly be achieved by paying a projected forward EBITDA multiple that is at a discount to the buyer's quoted EBITDA ratio. Therefore, rising publicly quoted earnings ratios offer a buyer more scope to make earnings accretive acquisitions at higher prices. With respect to deal structuring, these buyers will also be able to offer equity components that can boost the attractiveness of the deal consideration with some targets.

4. Incorporating international buyers into your sale process

A substantial proportion of deal flow is cross-border in nature. Acquiring in desirable regions enables strategic buyers to gain quick access to lucrative markets, brands, local market knowledge, new clients and specific local expertise. As a result of this, overseas buyers may pay a premium to gain a market foothold. It is therefore important to consider a range of appropriate international buyers in a broad sale process. To attract these buyers to the local market, it is important to demonstrate the attractiveness of the market and its position. It is also key to articulate why the acquisition will be less risky and deliver a faster return than opening an office and recruiting local talent.

5. Private equity investors as buyers of consulting firms

Private equity (PE) buyers will look for specific traits in a target and selling to a PE buyer will have different implications for you than selling to a trade buyer. To make a return on their invested equity, PE buyers look for a company that has value enhancement potential and typically acquire it with financing. With knowledge-intensive services businesses, they are attracted by the relatively high profit margins compared to other services industries, high levels of profit to cash conversion, the potential for high growth if a business is in a hot sector and the barriers to entry that can be maintained if proprietary expertise is retained and leveraged through intellectual property.

6. Including buyers across adjacent industries on your buyer list

Convergence is a continuing trend in both operational and M&A growth for large players across the knowledge economy. Buyers in adjacent segments are often willing to pay premium prices that reflect the considerable synergy opportunity of cross-selling a broader set of complementary services among existing and new clients. Sellers should be aware that the highest price could therefore come from a strategic buyer outside of your core industry. Considering appropriate buyers across adjacent segments and appropriately positioning the synergy opportunity with these businesses is crucial for effectively managing a broad sale process.

7. Accounting firms approach to acquiring consulting firms

Professional services buyers are looking to further expand their "Channel 2" (non-assurance) advisory services, which are considered a high growth segment for this buyer group. These services offer significant cross-selling opportunities with the buyer's core assurance client base.

This buyer group is highly acquisitive and activity has increasingly moved into new digital consulting spaces in recent years. Transaction structures typically involve non-cash components such as partnership in the accounting network, which can be an appealing aspect of the transaction for many owners. Buyers tend to operate on a territory model so have an aversion to acquiring diversely spread multi-territory businesses.

8. Interpreting reported valuation metrics

To value your business, a buyer will typically consider reported valuation multiples on comparable M&A transactions, although only a small proportion of deals in the knowledge economy report revenue valuation multiples and an even lower proportion report EBITDA valuation multiples.

On larger transactions, buyers may also consider the valuation multiples of large global listed consulting companies that are tracked within the Equiteq Data Analytics Consulting Share Price Index and adjacent knowledge economy indices. Their valuation multiples are quoted publicly on a stock exchange at a given point in time and are therefore useful benchmarks of valuation based on current market sentiment.

Reported valuation multiples for both transactions and listed companies typically relate to historic and unadjusted financials. Reported EBITDA valuation metrics are unlikely to account for adjustments with respect to one-off cost items and equity components within salary expenses. This can contrive to increase a reported unadjusted EBITDA valuation multiple figure as compared with the adjusted multiple that forms the basis of the deal negotiation.

Given these issues of interpretation, along with the wide range of company and deal specific factors that influence the valuation of a knowledge-intensive services business, valuation multiples will vary widely. The figures in this report are therefore primarily a comparative guide and to show trends year on year. They should not be used by sellers or buyers to value a business, for which we recommend you obtain independent financial advice.

About Equiteq

Equiteq is a global leader in providing strategic advisory and merger & acquisition services to owners of IP-rich technology and services businesses

There are unique challenges to value growth and equity realization for shareholders and investors in the knowledge economy. Equiteq helps owners transform equity value and then realize maximum value through global sale processes.

Selected recent Equiteq transactions:

Cervello	**orbium**	**LightStream**	**OEE**
Data Analytics Consulting Sold to	Business & Technology Consulting Sold to	Data Analytics Consulting Sold to	Operations Transformation Consulting Merged with
ATKearney	**accenture**	**ABeam Consulting**	**gobeyond**
Advised on the sale	Advised on the sale	Advised on the sale	Advised on the merger
Essential	**COPPERMAN**	**solidiance**	**System Partners**
Innovation & Product Design Consulting Sold to	SAP BPC Specialist Sold a majority stake to	Corporate Strategy Consulting Merged with	Salesforce Consulting Sold to
PA	**DECISION INC.**	**YCP Holdings**	**DXC.technology**
Advised on the sale	Advised on the transaction	Advised on the merger	Advised on the sale
mexia	**DBM CONSULTANTS** EXCELLENCE·INNOVATION·INSIGHTS	**The NAV People**	**DARTMOUTH**
Microsoft Integration Consulting Joined	Market Research Consulting Merged with	Microsoft Dynamics NAV Partner MBO backed by FPE Capital	Recruitment Consulting Received investment from
Deloitte.	**THE ILLUMINERA GROUP**	**FPE** CAPITAL	**Literacy Capital plc**
Advised on the joining	Advised on the merger	Advised on the MBO	Advised on the investment

Further resources

Join Equiteq Edge, a source of information, advice, and insight to help you prepare for sale and sell your business. Equiteq Edge gives you access to the findings of research conducted among buyers of knowledge-intensive firms from around the world, insight from those who have sold their businesses and other expert M&A advice.

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Data Analytics Consulting Global M&A Report 2019

Key definitions

For the purposes of this report **data analytics consulting M&A** refers to deals involving consulting firms or other knowledge-intensive services firms acquiring data analytics capabilities that enhance their own services. It also includes strategic buyers acquiring capabilities related to advising other businesses on evaluating, implementing and integrating data analytics solutions within their organization. The report also considers private equity acquisitions of such businesses.

In our thought leadership, we break down buyers into four groups, defined further below:

Private equity or financial buyers are investment firms investing private capital into businesses, which are typically held and exited after a hold-period.

Strategic or trade or corporate buyers are non-private equity investors that have existing businesses, which will typically make acquisitions that form part of their existing operations.

Serial or prolific buyers are those buyers that have made multiple acquisitions over the last three years.

Listed buyers are those buyers whose equity is publicly traded on a stock exchange.

We refer in our reports to **valuation multiples or valuation metrics -** Enterprise Value (EV) as a multiple of a seller's last full year (LFY) of revenue ("revenue valuation multiple" or "revenue valuation metric") and EV as a multiple of a seller's LFY of EBITDA ("EBITDA valuation multiple" or "EBITDA valuation metric").

Equiteq market intelligence & data sources

This report has been compiled by Equiteq's dedicated market intelligence team with unique insights from Ramone Param, the firm's thought leadership director. The report utilizes multiple data sources including proprietary newsfeeds, press releases, various third-party information sources and data services. Additionally, our daily activities in the M&A marketplace with buyers and sellers provide insights into emerging trends and informs our research report's point of view.

It is important to note that financial data, including valuation multiples, are derived from various sources including S&P Capital IQ and PitchBook information databases, combined with findings from our daily activities in the market with buyers and sellers that we utilize on an anonymized basis. M&A volumes (the number of transactions completed) for the latest period being analyzed are estimated based on reported deal volumes and the application of an adjustment factor to account for transactions completed, but not immediately captured in our subscription databases. Due to refinements in data and market definitions, historic figures may vary between our reports.

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No assurance can be given that investment objectives will be achieved. Certain strategies employed by Equiteq may involve speculative investment practices that involve a substantial degree of risk.

Note 1: The returns of the S&P 500 and FTSE 100 indices have been provided in this presentation as appropriate benchmarks for comparison to the Equiteq Data Analytics Consulting Share Price Index. The S&P 500 represents the Standard & Poor's 500 Index; The FTSE 100 represents the Financial Times Stock Exchange 100 Index. The FTSE 100 represents the 100 largest companies listed on the London Stock Exchange, by market capitalization. We believe it is relevant to compare the Equiteq Data Analytics Consulting Share Price Index with broad U.S. and international public equities. These indices each focus on large capitalization public equities and can be viewed as proxies for the market overall. Notwithstanding the foregoing, there will not necessarily be a correlation between the performance of the Equiteq Data Analytics Consulting Share Price Index, on the one hand, and either of these indices, on the other hand. Investments cannot be made directly in indices and such indices may re-invest dividends and income.
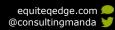
Equiteq

Contact your regional office

New York: +1 212 256 1120
London: +44 (0) 203 651 0600
Paris: +33 (0) 173 053 941
Singapore: +65 3109 1955
Sydney: +61 2 9051 9007

If you would like more information on our company or the various services we offer please do not hesitate to get in touch.

Email: info@equiteq.com
Website: equiteq.com

Equiteq has global reach through its offices in New York, London, Paris, Singapore and Sydney.

equiteqedge.com
@consultingmanda