

Industry Consolidation and Access to Capital Supports Strong M&A Activity and Valuations

Q2 & Q3 Overview:

M&A activity for the broad business services industry remained generally strong through the third quarter of 2018. The marketplace continues to experience strategic industry consolidation that has marked the majority of transaction volume during recent years. Private equity owned companies are increasingly acquisitive in their own effort to further consolidate fragmented markets within the Business Services Industries. The strong demand for well-run service companies and very favorable financing markets are keeping both private equity firms and strategic acquirers active and are driving higher valuations.

Financial buyers (e.g., private equity funds, private family offices, etc.) generally increase their interest and activity in the business services sector as companies further outsource functions that have historically been performed internally. Financial buyers acquired 222 business service companies over the last 12 months, matching a previous 10-year high in 2016.

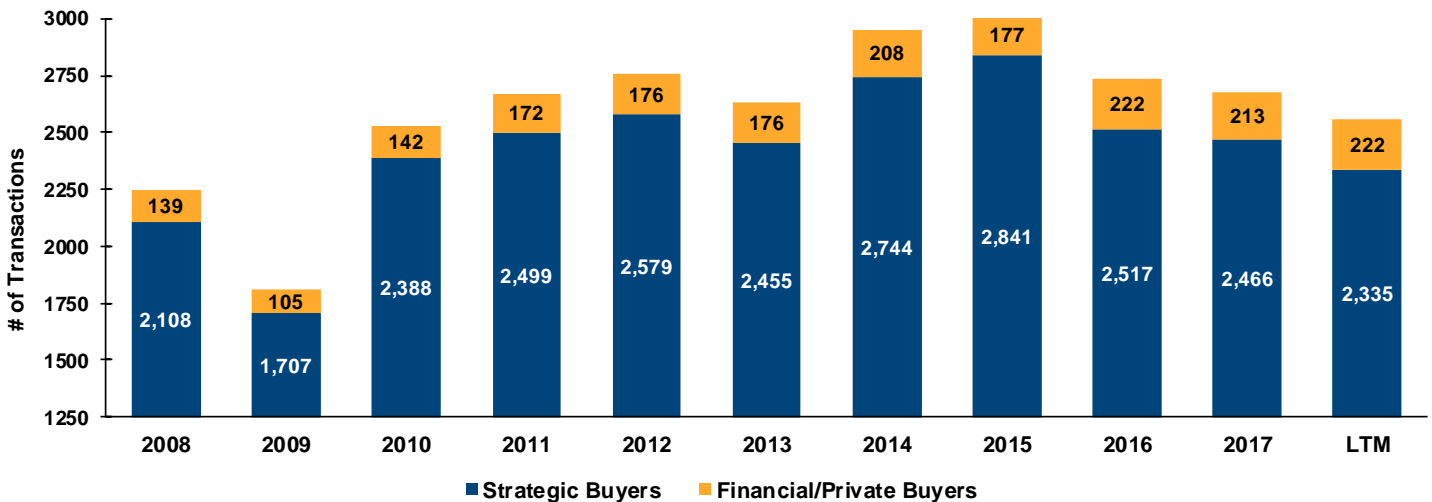
Business Process Outsourcing (BPO), Laboratory Testing Services, IT Software & Consulting, and Facility Maintenance sub-sectors have been notably strong in terms of M&A activity in 2018. Each of these niche service segments have seen acquisition activity by both large, publicly-traded national providers and regional and private-equity-backed companies.

As businesses continue to outsource services to mitigate not only the cost of building out and maintaining their own services (e.g., laboratory testing, IT services, etc.) but also risk, there is an increasing demand for service providers that offer a broad range of services, or act as a “one-stop-shop.” This demand has been fueling acquisitions by both strategic and financial buyers seeking to buy “bolt on” new services vs. building out the capabilities on their own.

Looking forward, 2019 should offer owners yet another opportunity to achieve liquidity events at favorable valuations.

Business Services M&A Transactions by Year

(Financial/Private Buyers represent platform investments)



Source: EdgePoint Proprietary Database, Company Filings, CapIQ, News Releases. LTM as of October 31, 2018

Key Metrics

Most of the transaction activity in the business services industry over the last twelve months has occurred in three primary sub-sectors: IT services & software (55.5%), commercial & industrial services (22.3%), and business process outsourcing (18.2%). IT services & software and commercial & industrial services have experienced the most notable increases in transactions during recent years.

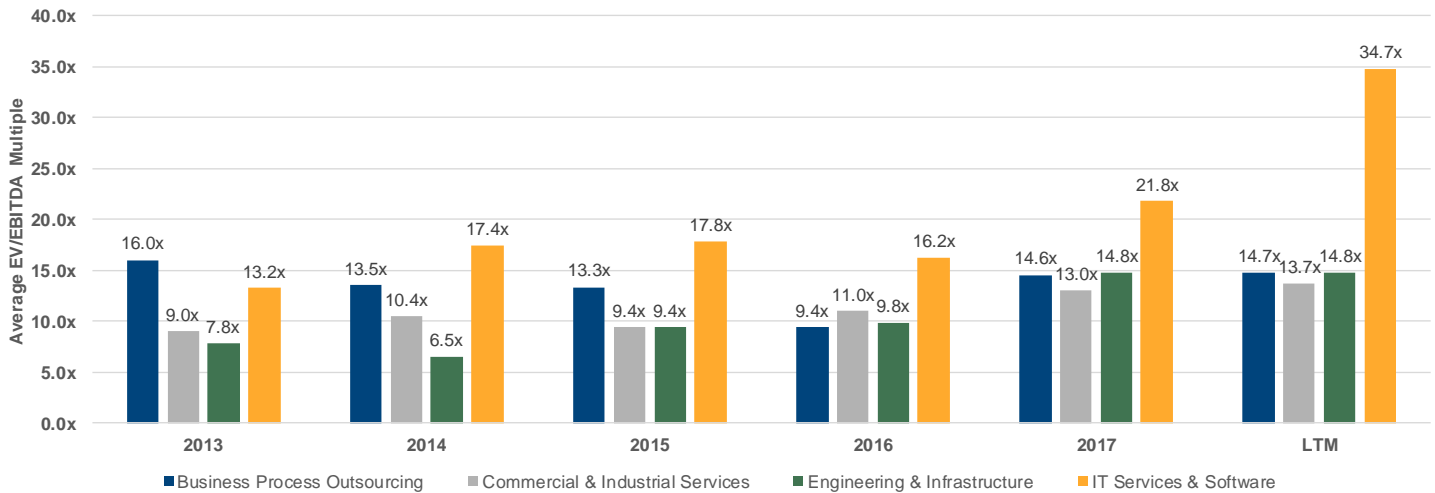
Valuations remain high, especially in the IT services & software industry and in the business process outsourcing subsector. Higher transaction multiples (such as IBM paying 56.4x EBITDA for Red Hat) in these markets are increasingly associated with targets whose proprietary software or unique systems represent key opportunities for strategic acquirers. Given the synergy values strategic buyers are able to realize and price-in to an acquisition, they often are able to out-bid private equity buyers.

As a result, financial buyers accounted for only 8.6% of business processing outsourcing transactions and 7.7% of IT services & software.

Many players within the BPO space are investing heavily in tech-enabled applications and process enhancement technologies aimed at streamlining workflows and increasing efficiencies. The result has been a very active M&A environment for BPO providers.

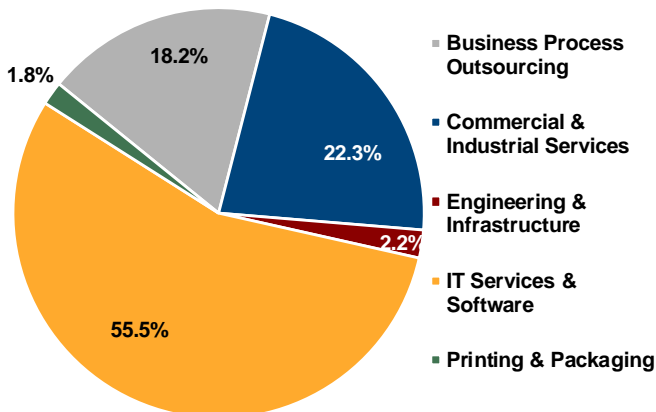
Engineering and Infrastructure multiple growth appears to have slowed as a result of fading hopes for an infrastructure overhaul bill, which had been driving multiples higher over the past two years.

Historical Average Transaction Multiples



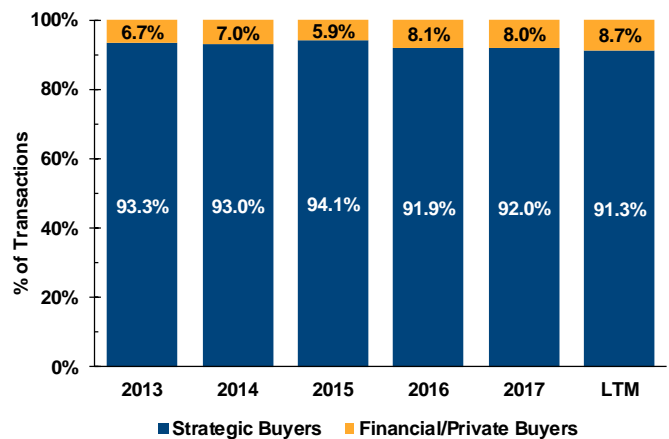
Source: EdgePoint Proprietary Database, Company Filings, CapIQ, News Releases

Transactions by Sub-Sector (LTM)



Source: EdgePoint Proprietary Database, Company Filings, CapIQ, News Releases

Share of Transactions by Buyer Type



Notable Recently Announced and Closed Business Services Transactions

Date: 6/28/2018 **Overview / Strategic Rationale:** **Business Process Outsourcing**

Target:  **CONCENTRIX**
A Business Services Company

Acquirer:  **SYNNEX**
CORPORATION

Key Metrics:
Enterprise Value (\$M) \$2,545
EV/LTM EBITDA 7.4x
EV/LTM Revenue 0.9x

Concentrix Corporation provides customer lifecycle management, marketing solutions, automation and process optimization, analytics and insights, information technology services, and several other services both domestically and internationally.

- *The acquisition significantly expands SYNNEX’s strategic client base and geographical footprint and enhances key strategic industry verticals, diversifies revenue base and increases scale, as well as adding a high-margin business.*
- *SYNNEX has historically focused its business on the distribution of technology solutions and products to large corporations in the United States and abroad.*

Date: 7/30/2018 (Announced) **Overview / Strategic Rationale:** **Engineering & Infrastructure**

Target:  **Louis Berger**

Acquirer: 

Key Metrics:
Enterprise Value (\$M) \$400
EV/LTM EBITDA 8.9x
EV/LTM Revenue 1.0x

Louis Berger is a top-20 ranked, global engineering firm that helps federal/national, state, local, and private clients across various market sectors solve their most complex infrastructure and development challenges.

- *The acquisition significantly adds to WSP’s US Transportation & Infrastructure (including ports and marine) and Environment & Water sectors (including emergency management), while reinforcing its presence in the Federal US market. The acquisition also complements WSP’s design and project management practices with extensive expertise in Master Planning.*
- *The acquisition also broadens WSP’s presence in Continental Europe (mainly Spain and France), Middle East and Latin America. The transaction is expected to close in the fourth quarter of 2018.*

Date: 9/23/2018 **Overview / Strategic Rationale:** **Printing & Packaging**

Target: 

Acquirer: 

Key Metrics:
Enterprise Value (\$M) \$277
EV/LTM EBITDA NA
EV/LTM Revenue 2.1x

BuildASign provides and sells online custom printing services including signs, vinyl banners, business cards, and several other printed marketing products. In addition, the company also provides website design services and canvas prints to consumers.

- *Cimpress is a Netherlands based company focused on investing in and building customer-focused, entrepreneurial, mass-customization businesses. Cimpress also owns Vistaprint, which has a similar product offering to BuildASign.*
- *Cimpress said BuildASign will continue to operate autonomously while leveraging Cimpress’ operational and strategic strengths when doing so makes sense for shared customers.*

Date: 5/31/2018 **Overview / Strategic Rationale:** **Commercial and Industrial Services**

Target: 

Acquirer: 

Key Metrics:
Enterprise Value (\$M) \$520
EV/LTM EBITDA 12.1x
EV/LTM Revenue 1.3x

Dunbar Armored provides cash management and secure logistics in the U.S.

- *Brink’s expects the combined entity to achieve substantial cost and operational synergies driven by improved route density, branch optimization and administrative efficiencies. Brink’s is also acquiring a strong management team and increased presence in existing geographic markets in the United States.*
- *Dunbar’s customer base complements Brink’s and will also increase market penetration into new small to medium sized customers. Brink’s plans to invest significantly in its fleet to integrate Dunbar’s, as well as facilitate a move into lower cost vehicles.*

Recent Announced & Closed Transactions *(select transactions, not intended to be all-inclusive)*

Date	Acquirer	Target	Target Description	Price (\$MM)	Revenue Multiple	EBITDA Multiple
BUSINESS PROCESS OUTSOURCING						
11/6/2018	CVC Capital Partners	ConvergeOne Holdings, Inc.	Provides collaboration and technology solutions for large and medium enterprises in the United States	\$ 1,643	1.2x	14.7x
9/12/2018	CSG Systems, Inc.	Forte Payment Systems, Inc.	Provides payment solutions for developers and merchants	85	-	-
6/28/2018	Concentrix Corporation	Convergys Corporation	Provides customer management services to several industry verticals worldwide	2,312	0.9x	7.0x
5/9/2018	Deluxe Corporation	LogoMix Inc.	Operates a self-service marketing and branding platform that helps to create and purchase custom marketing products for businesses worldwide	43	-	-
4/30/2018	Tyler Technologies, Inc.	Sage Data Security, LLC	Provides advisory, assessment, and incident response information security services to protect information assets and ensure regulatory compliance	12	-	-
PRINTING & PACKAGING						
11/1/2018	Resource Label Group, LLC	Spectrum Label Corporation	Provides flexographic printing services.	\$ -	-	-
10/30/2018	Quad/Graphics, Inc.	LSC Communications, Inc.	Provides various traditional and digital print services, print-related services, and office products	1,358	0.3x	4.7x
9/23/2018	Cimpres USA Incorporated	Build A Sign LLC	Provides online custom printing services	277	2.1x	-
9/17/2018	Duggal Visual Solutions, Inc.	NCG Visuals LLC	Provides graphic design and production services	-	-	-
7/16/2018	Ennis, Inc.	Wright Business Graphics LLC	Provides printing services and distributes printed products	37	0.6x	-
COMMERCIAL & INDUSTRIAL SERVICES						
9/17/2018	Copeley Capital	OnSight Industries, LLC	Provider of signage, hardscapes, and marketing services to residential homebuilders	\$ -	-	-
7/28/2018	K-Bro Linen Inc.	Linitek Inc.	Provides laundry outsourcing services to the hospitality industry	5	1.3x	7.8x
7/16/2018	Allied Universal	U.S. Security Associates, Inc.	Provides uniformed security services, consulting and investigations, and specialized security solutions in the United States and internationally	1,000	-	10.5x
5/30/2018	The Brink's Company	Dunbar Armored, Inc.	Provides cash management, logistics, and loss prevention solutions worldwide	520	1.3x	12.1x
5/21/2018	BrightView Landscapes, LLC	Environmental Earthscapes Inc	Operates as a commercial landscape management company	-	-	-
IT SERVICES & SOFTWARE						
10/28/2018	IBM	Red Hat, Inc.	Provides open source software solutions	\$ 33,943	10.8x	56.4x
8/2/2018	Nutanix, Inc.	FRAME, Inc.	Provides software as a service services to individuals, education institutions, businesses, and software	116	-	-
4/24/2018	Learning Technologies Group plc	PeopleFluent, Inc.	PeopleFluent, Inc. provides Software-as-a-Service talent management solutions	150	1.4x	11.2x
ENGINEERING & INFRASTRUCTURE						
10/18/2018	Oaktree Capital Management, L.P.	MWH Global, Inc.	Engineering, construction, and management of water, mining, and transportation projects	\$ 103	-	-
9/6/2018	Ameresco, Inc.	Chelsea Group Limited	Operates as a building science and design engineering consulting company	-	-	-
7/28/2018	WSP Global Inc.	Berger Group Holdings, Inc.	Provides infrastructure engineering, environmental science, economic development consultancy services worldwide	400	1.0x	8.9x

Sources: EdgePoint Proprietary Database, Company Filings, CapIQ, News Releases

Sub-Sector Profile: Facility Services

The Facility Services industry is continuing to benefit from positive secular trends including the continued need for facilities owners to focus on their core businesses and control fixed costs through outsourcing, an increasing focus on worker safety within facilities as critical components of productivity, and the ever-growing focus on facility security. As companies outsource to full-service vendors with greater frequency, building managers have become more sophisticated and are increasingly looking for vendors that offer several different services to consolidate the number of providers utilized. The result has been deployment of active M&A strategies by large strategic acquirers interested in adding services to their broadening portfolio of offerings. The industry is characterized by long-term contractual relationships, strong cash flow, high recurring revenue, and services that are often mission critical, which is an appealing fact pattern for private equity investors.

Additionally, vendor management platforms (online and cloud-based), especially with respect to facility services, are highly desirable as demonstrated by CBRE’s acquisition of FacilitySource. Labor related service providers such as commercial landscaping have benefited significantly from continued economic strength and high demand for commercial real estate.

Property managers are continually improving property landscaping and are seeking one-stop providers who provide ongoing maintenance services such as mowing and snow removal.



In addition to maintenance services, security services continue to see significant M&A activity and command strong valuations, as demonstrated by Allied Universal’s acquisition of U.S. Security Associates, an on-site security officer service, for 10.5x EBITDA, and Dunbar’s acquisition of Brinks security for 12.1x EBITDA.

Environmental consulting continues to be an attractive area of investment for both private equity and strategic buyers as a result of a constantly shifting regulatory environment and steep penalties for violations, as well as pressures on companies to be sustainable and environmentally friendly.

Recent Transactions in the Facility Services Industry



Acquired



- CBRE acquired FacilitySource from Warburg Pincus in June 2018 for \$290 million.
- FacilitySource’s services are grounded in advanced analytics capabilities that tap into unique performance data gathered over a dozen years across \$3 billion of annualized spending.
- “FacilitySource materially advances our strategy of creating superior client outcomes through the delivery of integrated solutions – from facilities management to project management to transactions – for leading occupiers” - *Bill Concannon, CBRE’s Global Group President and CEO, Global Workplace Solutions.*



Acquired



- Allied Universal, a portfolio company of Warburg Pincus (acquired in 2016) acquired U.S. Security Associates in July 2018 for \$1 billion (**10.5x EBITDA**).
- “This transaction further bolsters Allied Universal’s position as a leading provider of security officer services. We have been proud to support the Allied Universal team as they have grown the business organically and through acquisitions.” said Chandler Joel Reedy, Managing Director of Warburg Pincus.



Recent IPO and Several Acquisitions

- In July 2018, BrightView Industries, a KKR portfolio company, conducted an initial public offering for approximately \$468 million at a **13.0x EBITDA** valuation.
- Since January 1, 2017, Brightview has completed eight acquisitions adding more than \$188.2 million of aggregate annualized revenue.
- Brightview maintains a dedicated M&A team and has a stringent framework yielding a strong acquisition pipeline with the typical target opportunity being an established landscape maintenance business with a strong commercial customer base.



Acquired



- In March 2018, SilverLake and Battery Ventures acquired Environmental Data Resources, Inc. (“EDR”), a provider of environmental risk information services and solutions for \$205 million.
- EDR is the leader in property due-diligence and risk management technology and information. Its Collateral360 platform is an enterprise SaaS platform that ensures compliance with risk policies by consolidating disparate processes and constituencies into one collaborative workspace.

What we're hearing...

Business Services firms remain committed to acquisitions as a core growth avenue to bolster current markets, to serve as a launch point into new end markets, and to provide additional services as customers continue to seek a one-stop shop platform. Additionally, firms are viewing acquisitions as a way to acquire talent, build for the future, and invest in processes to complete successful integrations.

Question: "You guys recently completed The Groundskeeper acquisition, I guess, maybe that was in May. How long does it take for you guys to integrate an acquisition of this size? I'm just trying to give a sense for are you still integrating that? Will that keep you on the sidelines for a few months? Are you still actively working on more deals this year? Any color around that?"

Answer: "...because whenever you make an acquisition, look, we're buying customer relationships, we're buying crews, and we walk very carefully to make sure that those relationships are preserved as we integrate them within the BrightView family. We do have several dedicated integration teams now. They're focusing on these acquisitions. One team might be working, let's say, in Connecticut, another team would be working on Groundskeeper. So we have the ability to do multiple regions of acquisitions. And that being said, we are actively looking at several opportunities, which we would expect another deal to come around sometime in the next 3- to 6-month period, absolutely."

FY 2018-Q3 Earnings Call

BrightView 



Andrew Masterman
CEO and Director

Question: "...it seems you seem more encouraged about the outlook for both public and private sector in the U.S., so, a lot more opportunities in front of you. How do you feel about the talent side, so your talent pool and the available talent in the marketplace today?"

Answer: "We need to cultivate the talent internally, bring people up where they have opportunities to move forward in their carriers, their carrier goals, but also super-important for us is to attract talent in from the outside as far as creating additional prospects for creating that next generation of leadership in the company, really interested in people who come in from other organizations, **where they have been involved in, where they have been down the path that we want to go in terms of growth in mergers and acquisitions** and so forth, bringing in folks that have been successful, done things maybe differently, different methods, different kinds of ideas, different approaches to solving problems or developing new offerings in the market."

FY 2018-Q3 Earnings Call

 **ecology and environment, inc.**
Global Environmental Specialists



Gerard Gallagher
President and CEO

Question: "...big picture; as you think about this integration process, you look back to Worldcolor [January 2010], you look back to Virtus, you look back to Brown [April 2014], all the other ones -- what were some of the lessons learned back then that give you confidence this one is going to be even more smoother sailing from an integration perspective? "

Answer: "You go through a massive integration like Worldcolor which was really a new twist for us in terms of switching gears and being an industry consolidator. There were -- there is a whole book of lessons that you learn through this, and each time that we've done another project we've applied those lessons to the next one. And I'll say that we feel really good about the process and the people that we have involved in this because as we've done these integrations you have to remember that were -- it's not just a couple of people doing it, we continue to build a whole team that's very deep, that knows how to deal with the process of integration."

FY 2018-Q3 Earnings Call

Quad 
Graphics



Joel Quadracci
Chairman, President & CEO

Business Services Growth Drivers

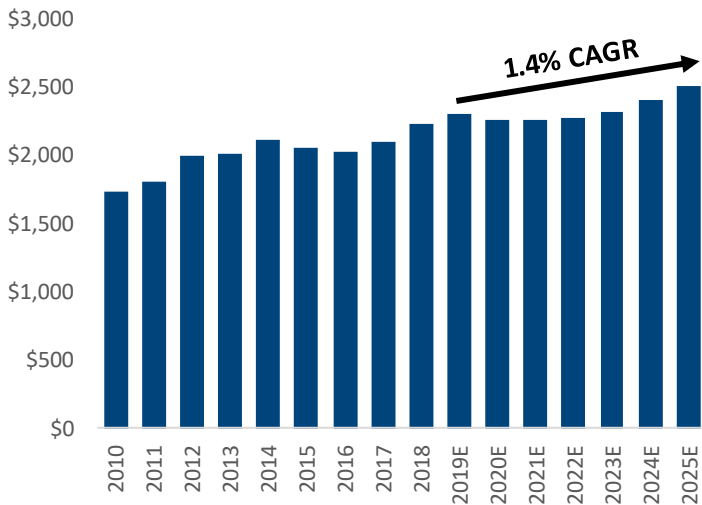
The business services industry is experiencing significant tailwinds that are expected to continue to fuel industry growth well into the future. As corporate profits and the number of businesses continue to expand, alongside the value of private non-residential construction, businesses are likely to continue outsourcing processes, spending on maintenance and renovations, and making investments in their technology infrastructure as well as other business improvements.

Perhaps the most optimistic industry tailwind is the forecasted growth of private investment in computers and software, which is expected to grow at 3.7% annually from 2019 to 2025. With the availability of computing technology continuing to

increase rapidly, companies are likely to see productivity increases and capitalize on the decreasing price of computing power. Growth of private investment in computers and software is expected to be driven by firms realizing the cost-saving potential of investing in software. Further, companies are quickly realizing the risks of using outdated systems and are making significant investments in their technology infrastructure and software to match the infrastructure.

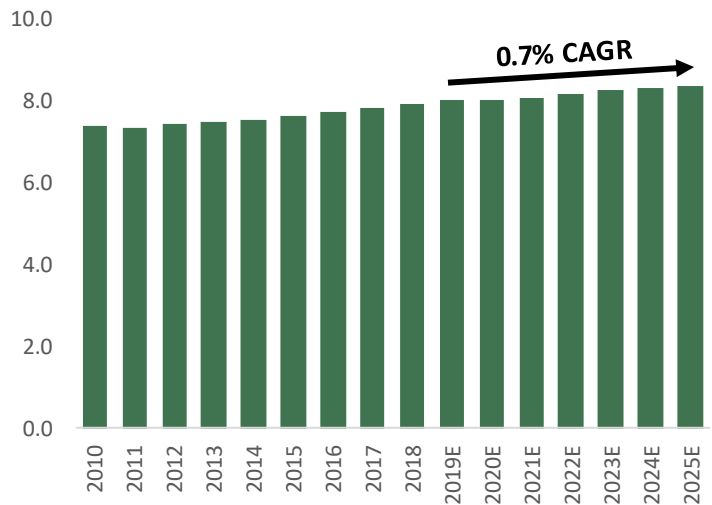
Additionally, business services firms without significant overseas exposure will continue to be attractive acquisition targets, particularly for private equity firms that could be hesitant to invest in manufacturing or other asset-heavy businesses.

Corporate Profit (\$B)



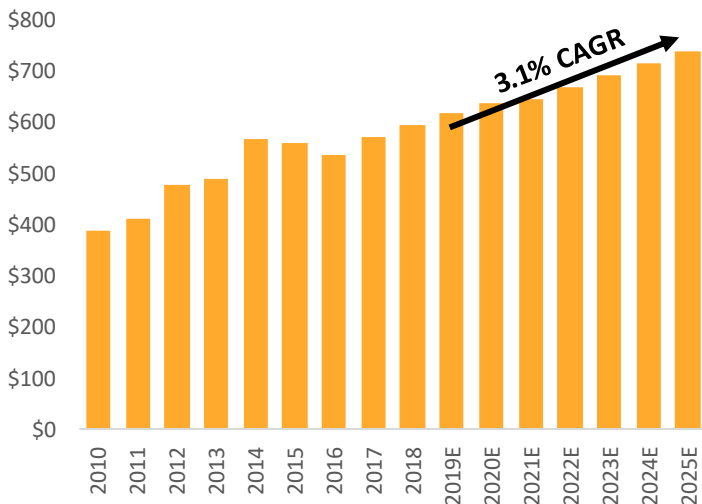
Source: Bureau of Economic Analysis, Wells Fargo, Congressional Budget Office

Number of Businesses (MM)



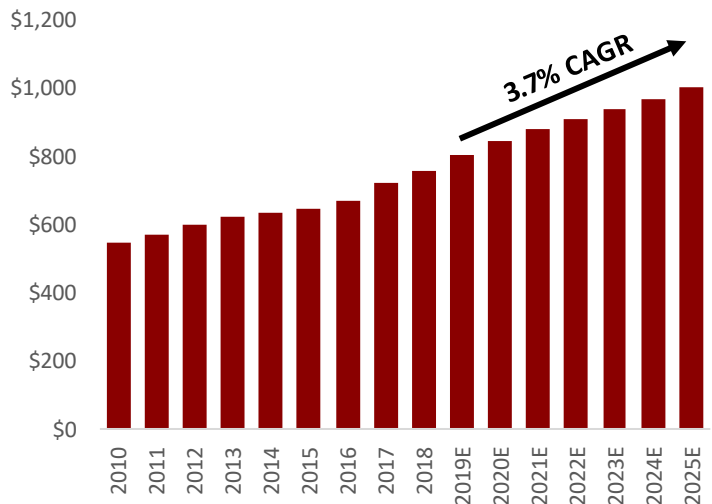
Source: US Census Bureau and County Business Patterns

Private Non-Residential Construction (\$B)



Source: US Bureau of Economic Analysis

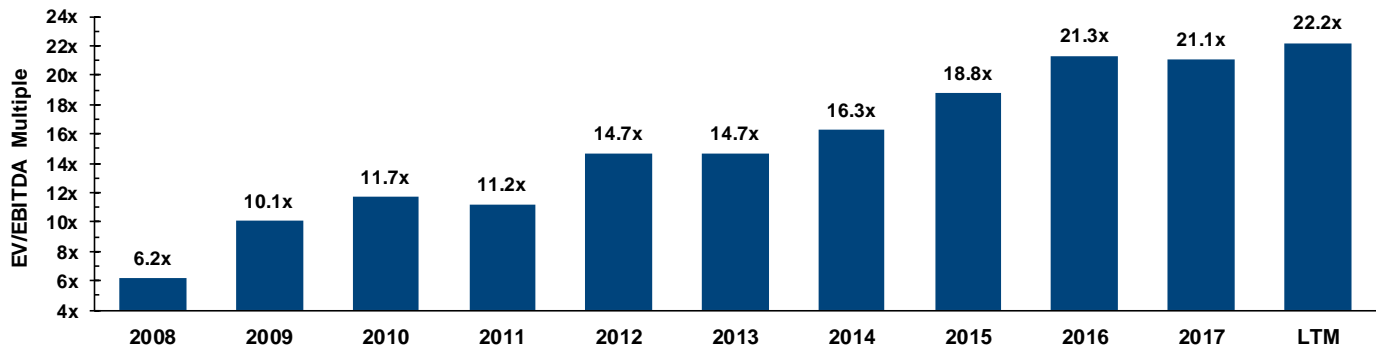
Private Investment in Computer and Software (\$B)



Source: US Bureau of Economic Analysis

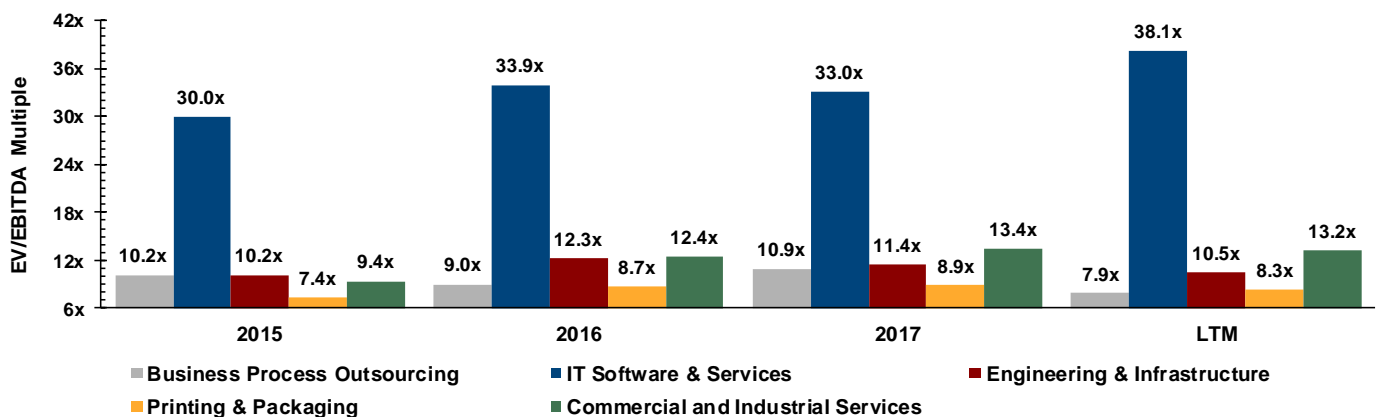
Public Company Comparisons Trading Multiples

Business Services: Annual EV/EBITDA Multiples



Source: CapIQ, public trading data as of November 23, 2018

Business Services Sub-Sector Public EV/EBITDA Multiples



Source: CapIQ, public trading data as of November 23, 2018

Representative EdgePoint Business Services Transactions

<p>Sell-Side Advisory</p> <p>OnSight Industries, LLC has sold to Copeley Capital</p>	<p>Sell-Side Advisory</p> <p>Barrow-Agee Laboratories, LLC has sold to Align Capital Partners</p>	<p>Sell-Side Advisory</p> <p>InfoAccess.net LLC has sold to Corcentric</p>	<p>Sell-Side Advisory</p> <p>DocuSphere has sold to Tungsten Corporation</p>	<p>Sell-Side Advisory</p> <p>Smart Solutions has sold to Blue Technologies, Inc.</p>
<p>Sell-Side Advisory</p> <p>Vacuum Systems International has sold to Lakewood Capital</p>	<p>Sell-Side Advisory</p> <p>Doodad has sold to Waveland Investments, LLC</p>	<p>Sell-Side Advisory</p> <p>Nationwide Property & Appraisal Services, LLC has been recapitalized by Corridor Capital, LLC</p>	<p>Sell-Side Advisory</p> <p>Live Technologies, LLC has been recapitalized by Capital Alignment Partners</p>	<p>Sell-Side Advisory</p> <p>MC Sign Company has sold to Sverica International</p>



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