

Lexington

CORPORATE FINANCE



Business Services M&A Report Q1 2024

Business Services overview



Business Services subsectors

An overview of the subsectors within the Lexington Business Services report

Consulting services

Consulting services consists of five segments; IT consulting, management consulting, surveying services, environmental consulting and other consulting services. In Q1 2024, consulting made up 36% of total deal volume in the Business Services sector and remains an attractive subsector to both trade and private equity with its high revenue visibility and service quality underpinning repeat work.



Facilities management and maintenance services

Facilities management and maintenance services consists of three segments; facilities management, maintenance services and fire and security services. There continues to be demand for these services and we often see large consolidators with ambitious growth journeys adopt strategic buy and build strategies in this subsector.



Built environment

Built environment consists of engineering and construction services, other built environment services and architecture services. The industry faces long-term challenges in attracting talent and reducing its carbon footprint so the need for skilled workers and a sustainable economy is a key driver of deal volumes in the subsector as ESG becomes a focus for trade acquirers and private equity alike.



Advertising, media and marketing

This category consists of advertising, media and marketing companies. This subsector made up 17% of total deal volumes in the Business Services sector. Key market players continue to consolidate to strengthen their market presence and harness the latest technology to stay ahead of competitors.



Professional services

The professional services subsector consists of financial services, legal services, design services and other professional services. This subsector was the second largest in Q1 2024 with 28 deals announced in the quarter. Deal activity in the subsector has increased in recent periods as companies in the subsector are seen as low-risk, high-growth investments, with the ability to consolidate as part of larger buy and build strategies.



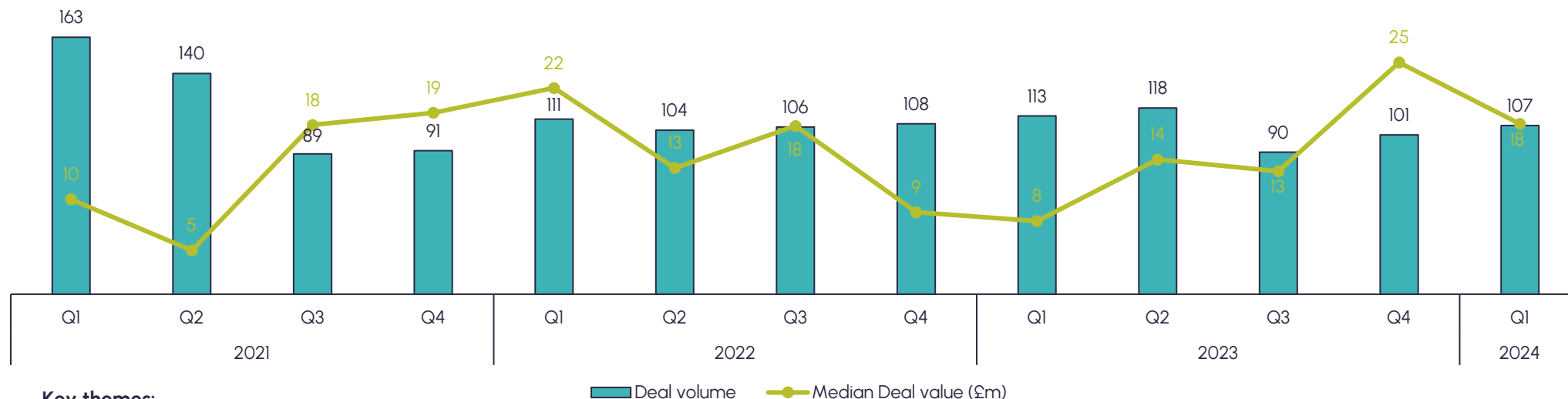
Testing, inspection, certification and compliance

This category consists of companies providing testing, inspection, certification and compliance (TICC) services. There has been increased activity in the TICC subsector in recent periods with larger TICC players like Phenna and Celnor using M&A to achieve service, geographic and end market expansion.



Business Services quarterly deal activity

M&A deal volumes remain consistent as the median deal value increases

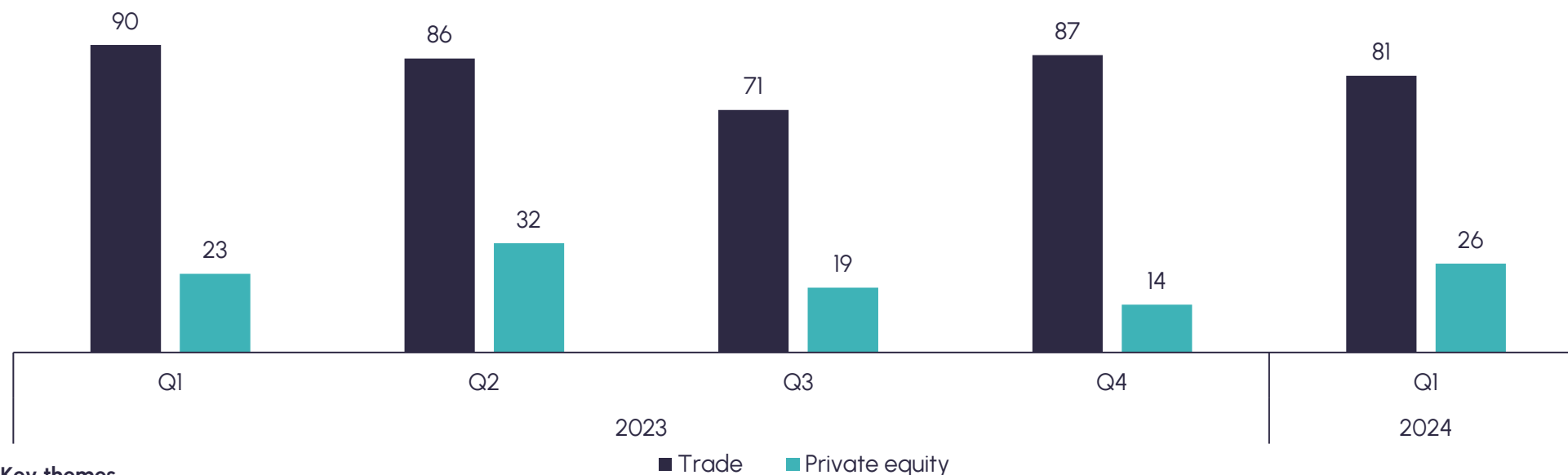


Key themes:

- Deal volumes have remained relatively steady since Q3 2021, illustrating that the **Business Services sector remains attractive to both trade and private equity buyers**, despite some of the macroeconomic effects in the UK. In the more recent periods, there has been an incremental increase in M&A activity, with total deal volumes increasing by 5.9% between Q3 2023 and Q1 2024. Currently, the market is experiencing a **skill shortage in its resources, with firms targeting highly skilled companies and segments** in order to improve their services which is driving this increase. Deal volumes remain lower than at the peak in Q1 and Q2 2021, however this period was exceptionally active and the current deal volumes represent a more normal level of activity.
- The median average of the publicly disclosed deal values in Q1 2024 equated to £18m, marking a £7m decrease from the high median seen in Q4 2023. These **medians are still the highest per quarter since Q3 2022**, implying that valuations are increasing in this sector. EBITDA multiples for the relevant listed companies also increased from Q4 2023 to Q1 2024, with further detail on page 15.
- Consulting and professional services were the most active subsectors** in Q1 2024, making up a combined 63% of total deals in the Business Services sector. In the professional services subsector, consolidation of the fragmented market continues, with Azets and Xeinadin leading the way with numerous acquisitions.
- Business Services still represents an attractive sector for private equity, with 26 investments across Q1 2024 (see next page). The costs associated with debt fundraising and servicing are expected to fall in 2024, allowing **greater scope for management buy outs and leveraged buy outs to take place in the market**.

Significant trade and private equity appetite

Private equity activity in the sector significantly increased in Q1 2024



Key themes

- In Q1 2024, the UK Business Services sector announced 107 deals: 81 strategic trade deals and 26 private equity transactions. Overall deal volumes have increased by 5.9% from the previous quarter. Along with the increase in deal volumes, median deal values remain higher than average in 2023 and 2022. This increase is due to the excess capital that investors have available from reduced levels of activity in 2023 and a **more competitive landscape for higher quality assets in the market**.
- Private equity transactions announced this quarter have increased by 12 from the previous quarter, highlighting that **private equity sentiment is that the sector has a strong outlook for 2024 and beyond**. Trade deals within the quarter were steady, decreasing by 6% but in line with the average levels seen in 2023. This suggests that **trade sale volumes remain resilient** despite the unfavourable macroeconomic environment which has continued to disrupt UK deal activity in other sectors.
- During the quarter, private equity funds have continued to deploy funds in high quality assets across the Business Services sector. We have seen numerous private equity funds make platform investments including IK Partners acquisition of Checkmate Fire, NorthEdge's investment in Contollo and Vespa Capital's backing of Right Legal Group (see more commentary on page 13).
- Despite the rise in private equity activity, **trade deals are still the dominant transaction route** in the sector as **consolidators look to bolster their offering and benefit from synergistic opportunities** in the market. We anticipate that private equity activity will continue to increase in 2024 as inflation lowers, giving greater confidence to capital to be invested and further consolidation of key markets.

Year in review – 2023



2023 – A year in review

Sector resilience throughout a challenging economic environment

- In 2023, there were 422 deals disclosed in the Business Services sector, a slight decrease from 429 in 2022 and remains lower than the elevated levels of 483 seen in 2021. This decrease was expected as the Bank of England continued to increase the base rate until Q3 2023 and **inflationary pressures adversely affected the market**. As the **base rate continues to stabilise in 2024**, and likely fall, we **expect general deal volumes to increase** in the sector.
- Trade deals made up 334 of the 422 deals in the Business Services sector. There is an increasing amount of **overseas trade buyers focusing on the UK market**, benefitting from better value acquisitions as a result of the recovering UK economy in 2023. Trade buyers are applying increased focus on current trading performances and data backed forecasts, naturally this is pushing value in the market to companies with higher visibility of future revenues e.g. long-term service contracts. Lexington continues to see trade interest from international buyers, with large overseas corporates participating in processes in the Business Services sector in 2023.
- There were 88 private equity transactions in 2023, representing 26% of the total deals in 2023. A notable private equity deal during 2023 was Inflexion's investment in TICC specialist Celnor Group. This highlights that although the macroeconomic environment was challenging, **private equity still see value in platform investments, funding consolidation in fragmented markets**. This remained the case with a number of live processes at the end of 2023 in the sector attracting significant interest from private equity.
- Deals in the advertising, media and marketing subsector decreased in 2023 in comparison to 2022, reducing 27.8% from 72 in 2022 to 52 across 2023. **Investors are increasingly looking to deploy capital** in sectors that are more resilient to macroeconomic factors, which is why we have seen a shift from high levels of investment in advertising and marketing towards professional services and testing, inspection, certification and compliance.
- The testing, inspection, certification and compliance subsector saw increased activity across 2023. Deal volumes increased from 21 in 2022 to 34 in 2023. The market saw large consolidators such as Phenna and Celnor use their backing from private equity investors to capitalise on key acquisitions in the sector. Please see more detail on page 18.

Deal volumes have remained steady over the past two years with growth expected in the coming year

Median deal value recovers in 2023, with Q4 being the highest recorded since 2021

Consulting and professional services were the most active subsectors in 2023

Testing, inspection, certification and compliance deal volumes increased in 2023

Lexington's Business Services M&A team



Tom Coombes
Director



Thomas Edwards
Director



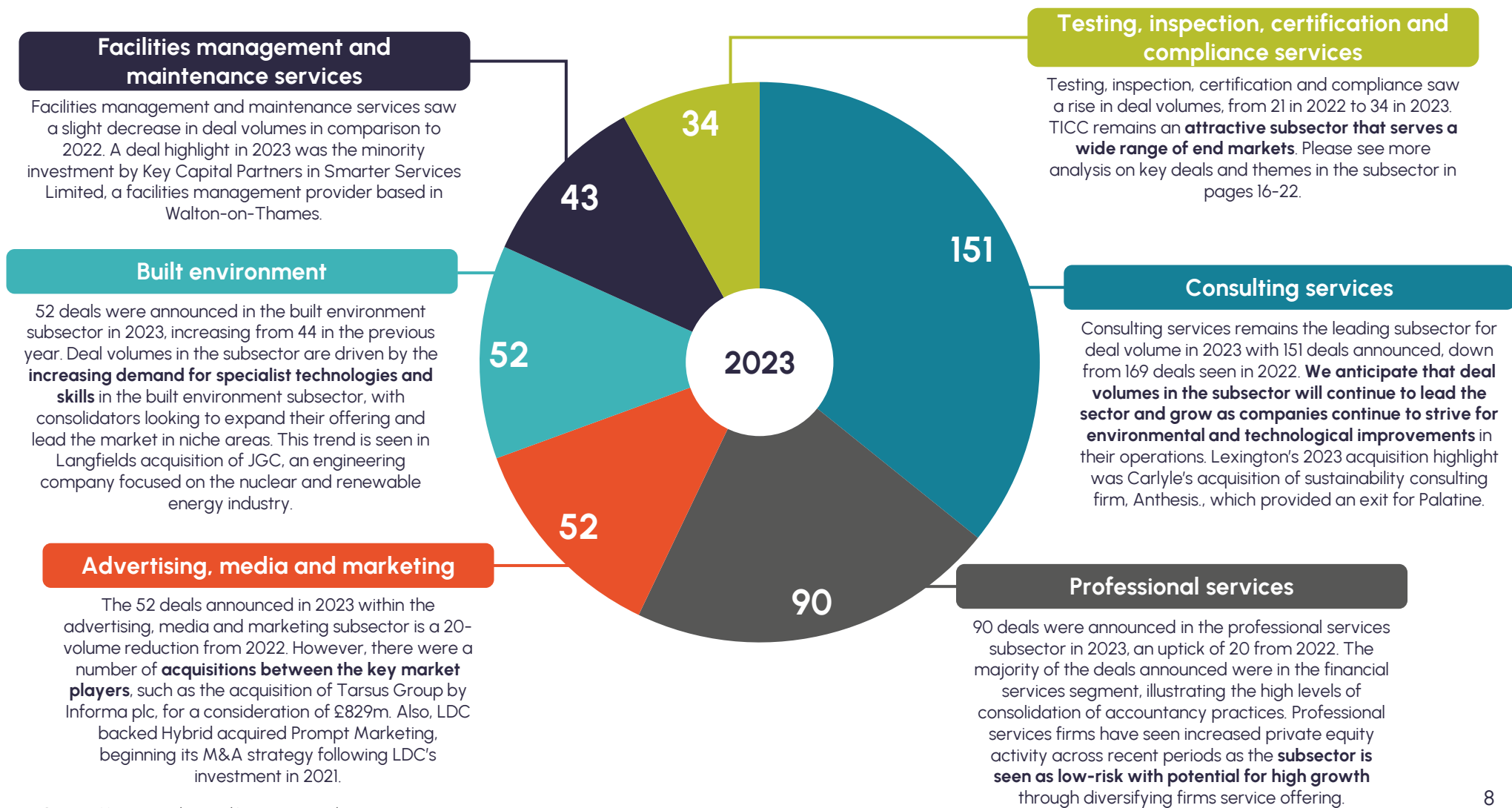
Jade Burgess
Executive



Twm Westcott
Associate

Subsector deal volumes 2023

Consulting services remains in high demand among the subsectors



Key Lexington deal in 2023

Our recent dealcraft experience within the Business Services sector

Date: Nov-23

Subsector: Built environment

Segment: Engineering and construction services

Our role: Corporate finance advisors to the shareholders

Overview

Target

CROUCH
WATERFALL



VULCAIN
ENGINEERING

Backed by:

EQUISTONE

Acquirer

We acted as the sole corporate finance advisor to the shareholders of Crouch Waterfall on its strategic partnership with Vulcain Ingénierie. Below are some of the key aspects of the transaction

Vulcain approached Crouch Waterfall off-market and we negotiated an increased valuation and more favourable commercial terms for the shareholders

Engaged in extensive financial preparatory work before the process to support an increased valuation and ensure a streamlined process in due diligence

Acted as the project manager for the shareholders during the deal, liaising with international parties (both CF and legal) to drive the deal to completion

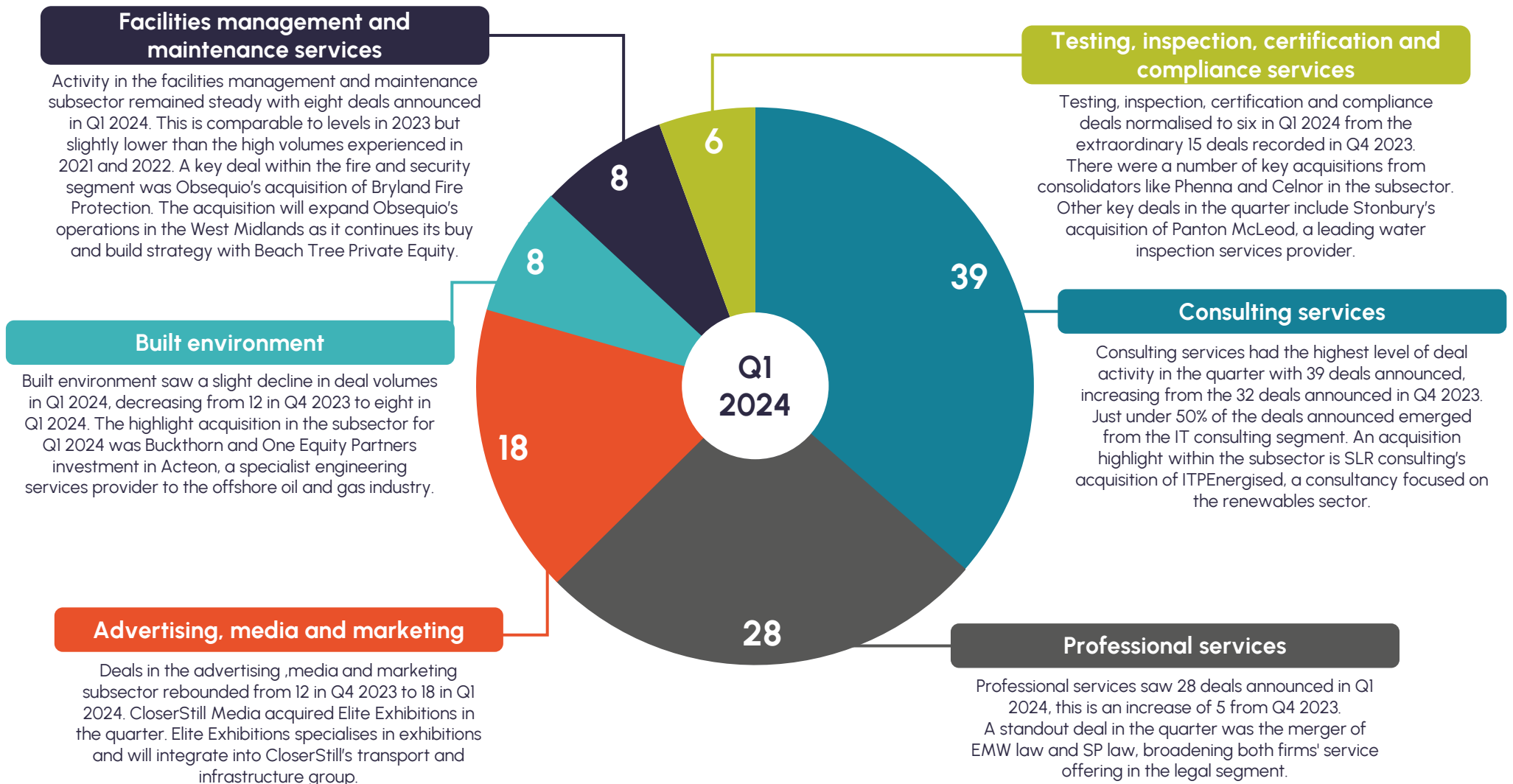
Successfully negotiated an uplift during the deal process and ensured favourable terms were obtained for equity price adjustments to increase equity value

Quarter 1 - 2024



Subsector Q1 2024

Consulting and professional services continue to lead the sector in deal volumes



Notable transactions – Trade

A selection of the recent standout trade transactions in the Business Services sector for Q1 2024

Consulting services



MGroupServices *Jan-24* → **AgilityEco**
Deal Value: Undisclosed

M Group Services acquired Agility Eco Services, a building services consultant that specialises in energy efficiency advice.

Advertising, media and marketing



Acumen International Media *Jan-24* → **TBD MEDIA**
Deal Value: Undisclosed

Acumen International Media, acquired TBD Media Group, one of the world's biggest video documentary producers focused on B2B storytelling.


Facilities management & maintenance services



spotless commercial cleaning *Jan-24* → **ASHDOWN CLEANING**
Deal Value: Undisclosed

Spotless Commercial Cleaning acquired Ashdown Cleaning, the local contract cleaning services company.


Professional services



BK PLUS *Mar-24* → **afwm**
Deal Value: Undisclosed

BK Plus, the UK based accountancy firm, has acquired Atkins Ferrie, a chartered accounting and auditing firm.


Built environment



Celnor *Feb-24* → **AITKEN**
Deal Value: Undisclosed

In Feb-24, Aitken Laboratories joined Celnor's built environment division, Aitken provides independent site investigation services and geotechnical testing.

Testing, inspection, certification & compliance



Celnor *Jan-24* → **APEC ENVIRONMENTAL**
Deal Value: Undisclosed

Celnor Group acquired APEC Environmental; a UK based environmental consultant that provides surveying, inspection, and testing services.

New private equity platform investments

Appetite for platform investments is high across various segments

Fire and security services



IK Partners



**CHECKMATE
FIRE**

IK Partners have agreed to acquire Checkmate Fire, a **passive fire protection specialist**, from YFM Equity Partners. The investment is the first UK investment from its Development Capital pool.

Checkmate has seen **significant growth in recent years**, becoming the **UK's largest** operator in the space. IK Partners are anticipating to further this growth through **investments in its technology, human capital and a targeted M&A strategy**.

Environmental consulting



North
Edge.



 **Contollo**

NorthEdge acquired a minority stake in Contollo Group in Feb-24. Contollo is a **built environment consultancy group**, focused on improving sustainability and regulatory requirements.

Contollo will utilise the investment to undertake a **UK based buy and build strategy**. Upon receiving investment, Contollo completed its first acquisition by acquiring Abacus, a cost consultancy based in Manchester.

Legal services




Vespa
Capital



 **rightlegal**
group

Vespa Capital invested in Right Legal Group, a **leading provider of Wills and Probate Services**, in Jan-24.

Vespa's investment will help Right Legal continue its disruption to the traditional legal services industry. The Group is aiming to **acquire at least "a dozen law firms a year"** with its new funding from Vepsa Capital.

Most active acquirers in the quarter

BK Plus, Gallagher and MHA demonstrated the strongest acquisition appetite in the Business Services sector in Q1 2024



palatine
Acquired a minority stake in Sep-23



January 2024
Deal type: Acquisition
Deal size: Undisclosed
Subsector: Financial services





March 2024
Deal type: Acquisition
Deal size: Undisclosed
Subsector: Financial services




March 2024
Deal type: Acquisition
Deal size: Undisclosed
Subsector: Financial services

Since receiving investment from Palatine Private Equity in Sep-23, BK Plus has demonstrated an ambitious buy and build strategy by acquiring regional accounting practices across the UK. Palatine's investment allows the Group to scale and expand the Group's geographic coverage and current services offering through the acquisition of businesses in complimentary service lines.







January 2024
Deal type: Acquisition
Deal size: Undisclosed
Subsector: Financial services




February 2024
Deal type: Acquisition
Deal size: Undisclosed
Subsector: Consulting




Other non-UK acquisitions completed during the quarter




Arthur J Gallagher, the publicly listed insurance brokerage, has continued to diversify its UK portfolio with the acquisition of MCM Services and Simply-Communicate in Q1 2024. Gallagher has a proven track record of successful acquisitions across the spectrum of professional services, demonstrating its strategy to move away from its historical insurance focus.





January 2024
(completed April 2024)
Deal type: Merger
Deal size: Undisclosed
Subsector: Financial services



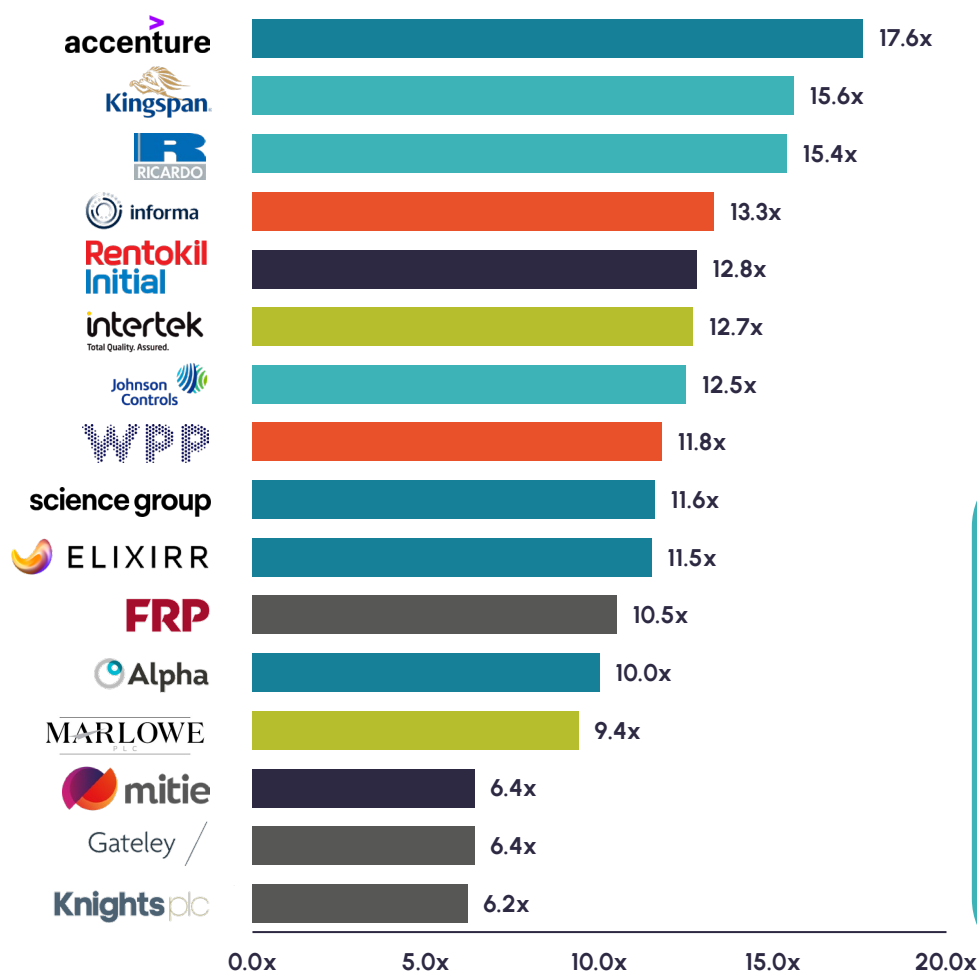
February 2024
Deal type: Acquisition
Deal size: Undisclosed
Subsector: Financial services

MHA, the UK independent member firm of Baker Tilly International, announced the acquisition of two regional accounting firms; Moore & Smalley and Geoghegans Accountancy in Q1 2024. The mergers will strengthen MHA's UK market position and Geoghegans marks the fourth deal MHA has completed in the last twelve months, following two previous mergers with Welsh and Scottish businesses.

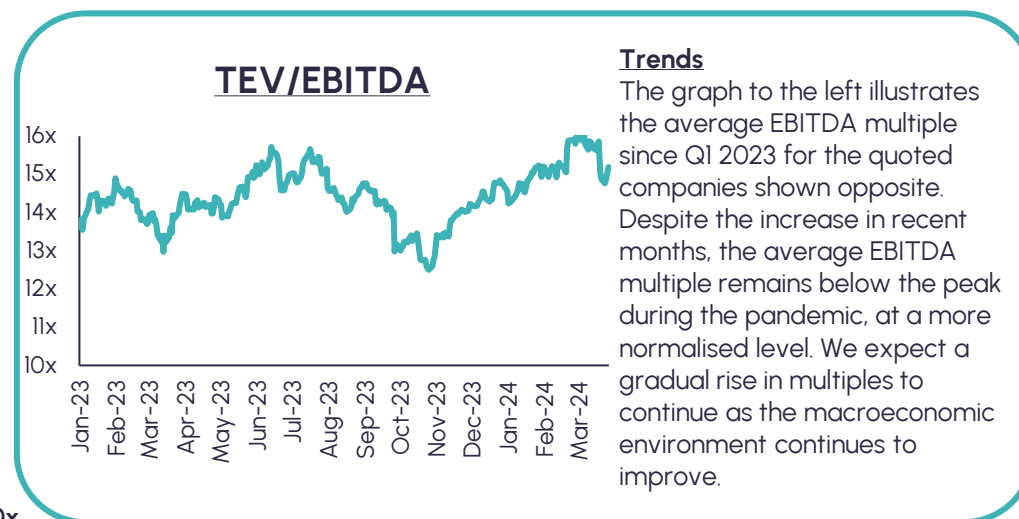
Quoted company benchmark multiples

The listed companies that are active in the Business Services sector

TEV/EBITDA LTM - Latest



- Lexington's own research has identified 16 quoted companies to represent the market multiples across the entire Business Services sector.
- The subsector with the strongest EBITDA multiple in the quarter is built environment, with an average multiple of 14.5x. Listed consulting services, TICC and advertising, media and marketing companies also show strong trading multiples.
- Accenture was among the highest growing listed entity across 2023 and Q1 2024, rising from 14.4x in Jan-23 to a peak of 19.3x across the period. This is attributed to the growth achieved through acquisitions made throughout 2023 and anticipated future growth of the group as it continues deliver on its growth strategy.



● Consulting ● Built environment ● TICC ● Advertising, media and marketing ● Professional services ● Facilities management and maintenance services

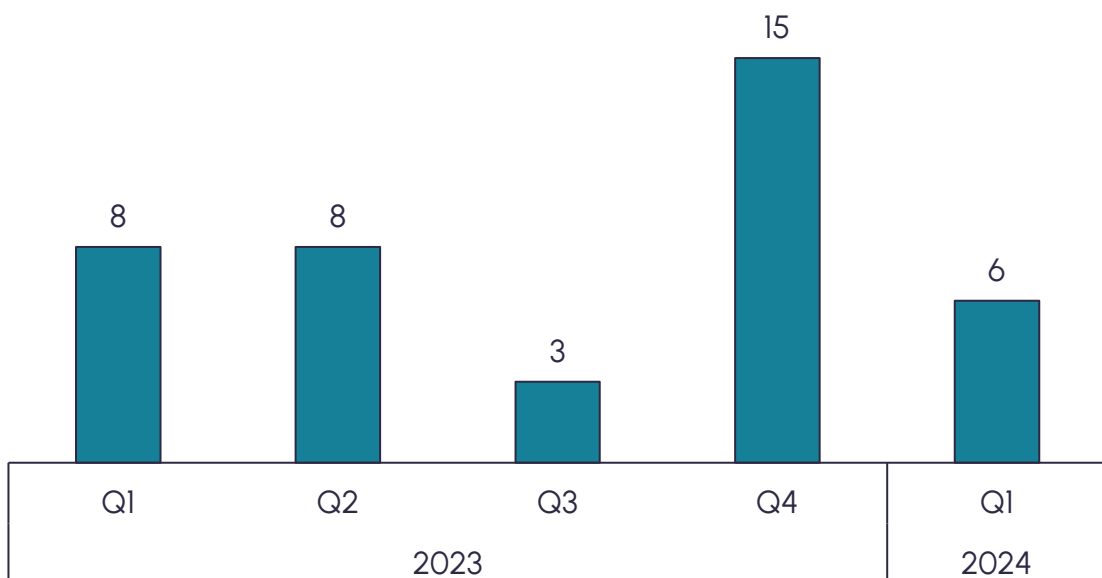
Subsector spotlight – Testing, Inspection, Certification and Compliance



UK Deal volumes – 2023 and Q1 2024

Consolidation to diversify service offering was a key theme in 2023

Deal volumes



- Companies in the TICC subsector provide a wide range of essential services, including; inspection, auditing, testing, verification, quality assurance, and certification. In 2023, the UK TICC subsector announced 34 deals: 31 strategic trade deals and three platform private equity investments deals. This is an **increase on deal volume of 62% from 2022**.
- TICC is a fragmented subsector, with the majority of deals in 2023 being acquisitions by large consolidators in the market. **We expect this trend to continue in future periods as large private equity backed consolidators continue their buy and build strategies.**
- The subsector is **supported by strong tailwinds that will enable long-term growth**. Higher regulation and mandated testing in complex industries has led to significant growth in the sector as large corporates look to outsource these regulated services. Other key growth drivers include increased user demand, a shift to larger service providers and high market fragmentation.

Median deal value

£13.5m

Standout deals



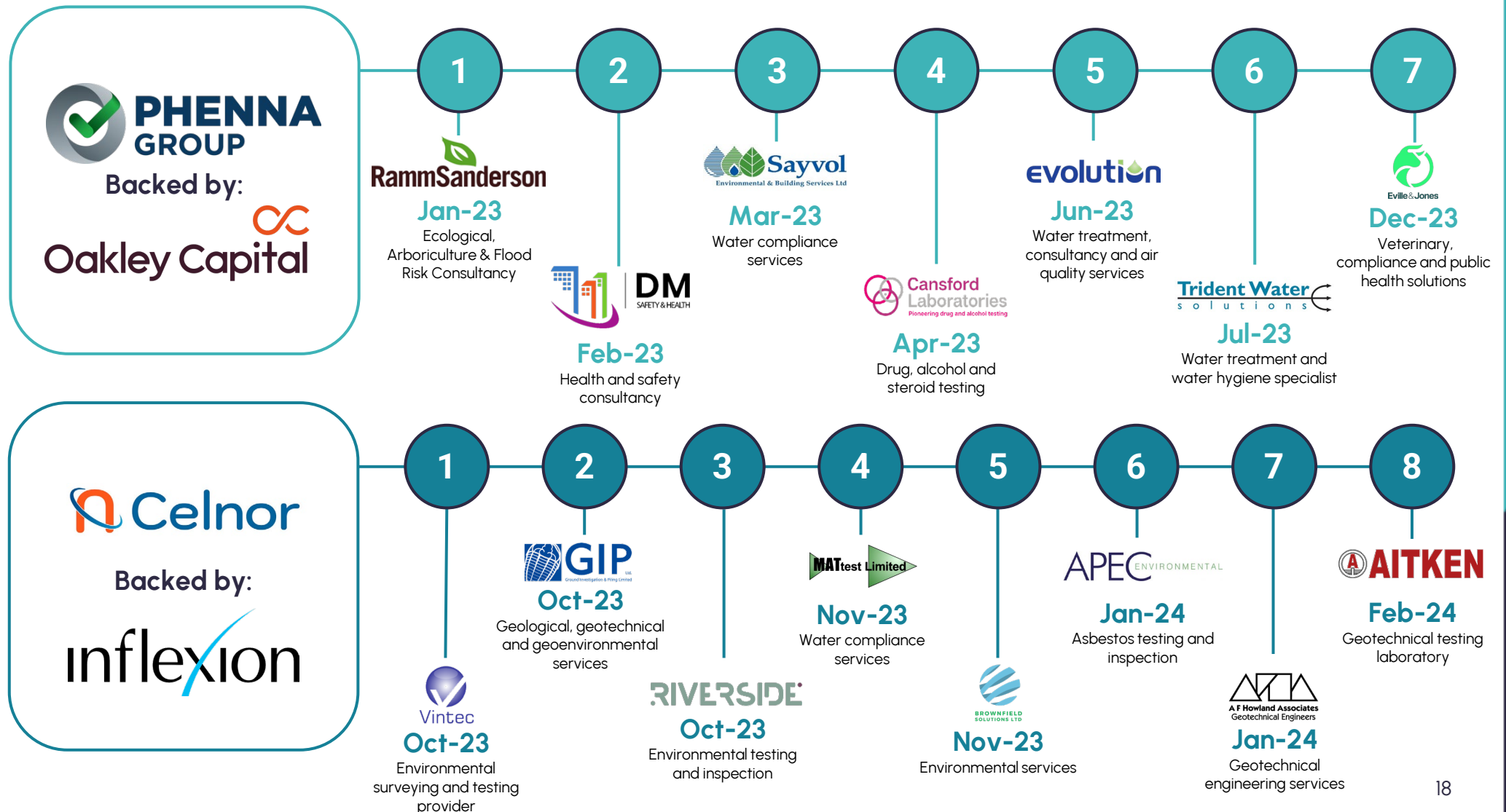
British Engineering Services acquired ESIS, an inspection specialist in the engineering sector. BES utilised this acquisition by integrating ESIS into its UK Inspection division to enhance its offering.



Marlowe plc acquired IMSM, a certification and quality management provider, for a consideration of £17.4m. Marlowe stated that the acquisition expands its capabilities, and the ISO auditing and certification segment was highly attractive.

Most active acquirers

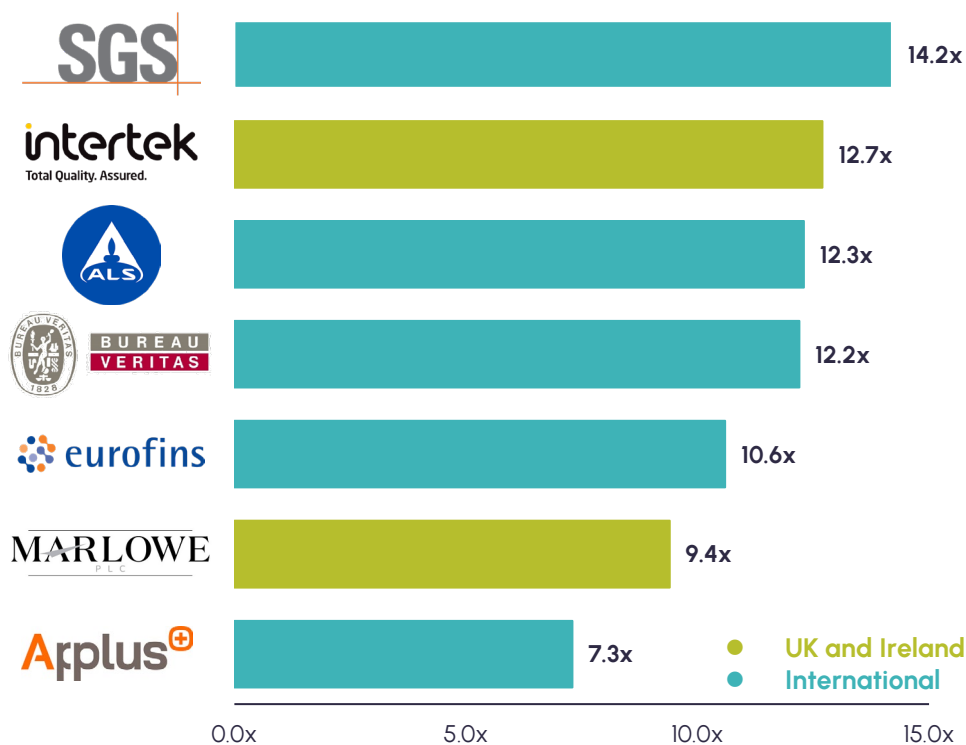
The two most active acquirers in the UK TICC subsector



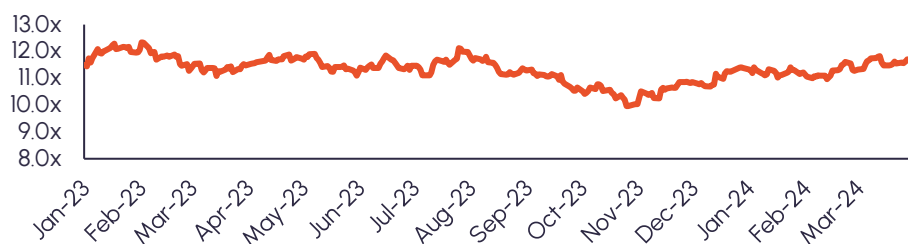
Listed global TICC companies

The large global players within the TICC space

TEV/EBITDA LTM



TICC - TEV/EBITDA



- Lexington's own research has identified seven key global companies within the TICC subsector. The multiples opposite show the closing EBITDA multiple as of 31st March 2024.
- The average EBITDA multiple in Q1 2024 for the companies identified was 11.2x. SGS represents the higher end of our multiple analysis and has the largest market capital. Whereas, Arplus has a lower multiple as it reported a lower gross margin and EBITDA margin compared to the other listed companies.
- **Multiples within the subsector have been resilient** throughout 2023 and Q1 2024 as illustrated on the graph below. This demonstrates that macroeconomic pressures have begun to decrease which is having a positive impact on trading performance in the subsector.
- Eurofins have shown a clear strategy of consolidation within the TICC subsector, having completed **40 acquisitions in 2023**. This was reflected in its EBITDA multiple as at Jan-23 Eurofins was trading at 9.1x and reached a peak of 11.3x during 2023.

40
acquisitions
in 2023



Private equity insights – deal in the spotlight

Toby Hurdle provides his thoughts on the recent investment by Rockpool Investments in Realise

R

Rockpool Investments

Rockpool is a lower mid-market private equity firm investing into businesses making £1m to £4m of EBITDA with the opportunity to look out of this range for bolt-on acquisitions which are complementary to its portfolio. It provides capital for management buyouts, M&A, growth capital and equity release. Since 2012, Rockpool have invested over £680m.



Insights from Rockpool provided by: Toby Hurdle – Investment Manager

Toby has seven years of experience in private equity. He joined Rockpool in January 2020 and focuses on Business Services and Technology investments.



The technical engineering and TICC subsector

Prior to our investment into Realise Energy Services (“Realise”), the technical engineering services and TICC sector is something that we at Rockpool have been passionate about, as shown by our investments into EA-RS and Mecsia. Both of these businesses have successfully undergone buy-and-build journeys. We recently exited Mecsia to Synova Capital, generating a blended 7x equity return and 120% IRR for our Investors across four rounds of investment. We will be continuing by co-investing with Synova in the next step of the journey.

The key dynamics Rockpool like in the technical engineering and TICC market:

1. **Service quality rather than price** is a key buying decision for most customers, often larger corporates in these markets fail to deliver on service quality, thus creating opportunities for smaller incumbents who are more service focused;
2. **Critical services** which cannot be switched off – often these are non-discretionary services required for insurance or compliance-led reasons, leading to good visibility of earnings; and
3. **Fragmented markets** – abundant pool of engineering-led businesses with strong technical expertise and customer relationships but lacks the resources to scale beyond its core region.

R



About Realise

Realise provides technical engineering services to the onshore wind market, including inspection, operation and maintenance. Realise partnered with Rockpool to accelerate growth following its MBO through M&A and organic growth initiatives. The key attractions to Realise:

- **High revenue visibility** – 87% of revenue on long-term maintenance contracts;
- **23% organic growth** over previous three years, increasing demand in the sector as a higher base of wind turbines out of warranty period; and
- **Historical ability to acquire and integrate** – Realise has made two acquisitions prior to the Rockpool investment.

The future focus

- **Become the UK’s leading specialist technical services provider in onshore wind**, through joining with likeminded businesses which will benefit from the structure of the private equity backed group; and
- **Improved engineering resources** – The sector faces difficulty attracting people from adjacent sectors and providing training to upskill. Realise will target this through increased training and resources within the group.

Key Lexington TICC deals in 2023 – 1

Our recent dealcraft experience within the TICC subsector

Date: Apr-23

Subsector: Testing, inspection, certification and compliance

Segment: Testing services

Our role: Corporate finance advisors to the shareholders

Overview

Target



Backed by:

Oakley Capital

Acquirer

We acted as the sole corporate finance advisor to the shareholders of Cansford Laboratories on its sale to Phenna Group. Below are some of the key aspects of the transaction

Phenna approached Cansford with a pre-emptive offer. We managed all communications with Phenna, negotiated all key aspects of the deal and guided the shareholders to a successful completion

We had discussions with other key market players to ensure that the offer was optimal and explored alternative deal types to ensure the shareholders made the most informed decision

We successfully negotiated on our client's behalf to deliver a premium EBITDA multiple of 9x that exceeded client expectations.

Added complexity to the deal surrounding the EMI scheme that had been put in place for the senior management team

Key Lexington TICC deals in 2023 – 2

Our recent dealcraft experience within the TICC subsector

Date: Mar-23

Subsector: Testing, inspection, certification and compliance

Segment: Inspection services

Our role: Corporate finance advisors to the management team

Overview

Target

IDWAL



Acquirer

We advised the management team of Idwal Marine Services on the structure and commercial terms of the significant investment made by LDC in Idwal. Below are some of the key aspects of the transaction

We issued and discussed draft management terms with private equity parties and negotiated with LDC following exclusivity on behalf of the management team

Significant economic headwinds had material effects on the terms of the deal, and we helped to articulate a strong management case study to support investment

We effectively liaised with all parties, ensuring that management's position was considered throughout the sale process, ensuring an optimum result for the shareholders

We discussed chair candidates proposed, and helped to articulate the investment plan to new members of the team, as well as ensuring that any problems arising were promptly addressed

Who we are

Corporate Finance advisory boutique with focus on the mid-market



An entrepreneurial, corporate finance advisory boutique, providing hands-on, trusted advice to businesses, owners and investors with growth, succession and buyout ambitions.

www.lexingtoncf.co.uk



Feedback from the clients we work with

We are really proud of the testimonials we receive from all our clients



Completed November 2023

"Tom and Jade worked tirelessly to make sure all parties were pulling together to get the deal done. They were invaluable in due diligence, making sure that all responses were provided ensuring momentum was maintained through due diligence. They highlighted key risks early and as a result of their proactivity were able to navigate these at the earliest point of the deal."

Julian Howe,
Director



Completed April 2023

"It was apparent from our first meeting that Lexington understood what we care about. Thomas and the team were an excellent partner for Cansford. They helped make the whole process as straight forward as possible, guiding us through all stages and always on hand, providing expert advice and support throughout. I can't rate them highly enough."

John Wicks,
Chief Executive



Completed March 2023

"We cannot speak highly enough of the professionalism, knowledge and support offered by the Lexington Corporate Finance team. The advice, patience and counsel throughout this important milestone for the Idwal management team, has been invaluable."

Nick Owens,
Chief Executive



Completed December 2021

"Lexington were an excellent corporate finance partner. They took time to understand what support and guidance we needed, and provided invaluable advice throughout the process. The team were professional and easy to work with, always available when needed and the clear and frequent communication throughout, delivered an extremely successful outcome for DevOpsGroup."

James Smith,
Chief Executive

lexington



Tom Coombes – Director
tcoombes@lexingtoncf.co.uk
07468 366 082



Thomas Edwards – Director
tdmedwards@lexingtoncf.co.uk
07432 053 868



Jade Burgess – Executive
jburgess@lexingtoncf.co.uk
07377 500 976



Twm Westcott – Associate
twestcott@lexingtoncf.co.uk
07496 239 955

If you would like to learn more about our services and how we can assist you in your growth journey or exit, please don't hesitate to get in touch with any member of our Business Services team