Strategic and Financials Buyers Remain Active

Clearsight sees a unique opportunity for buyers in the COVID M&A environment

The world continues to reel from the impacts of COVID-19, with professional services firms and investors adjusting their M&A strategy in real time. Even in this uncertain environment, we continue to see M&A activity by both strategic and private equity buyers. In this past quarter, we were able to help a number of clients realize great outcomes in both a strategic and financial sponsor deals, with two great examples below:

- **M&A by PE-backed strategic buyer:**
  Cumberland’s Life Sciences Division was acquired by IntegriChain

- **M&A by financial sponsor:**
  RSI was recapitalized by DC Capital Partners

While we notice both strategic and financial buyers are active, not all buyers are equal. In our sector spotlight, we highlight 8 specific attributes that have been critical to differentiate successful strategic and financial buyers in this market – take a look on page 2.

Outside of the deals we have been bringing to market, we also recently surveyed strategic and PE M&A executive leaders around the world operating in the professional services space to gain valuable insight about how COVID-19 and the subsequent economic impact is affecting their M&A outlook. Some quick highlights from both sets of buyers included:

**Strategic Acquirers:**

- 92% of strategic acquirers are active in the current M&A market, with 24% more active than previously
- 55% expect valuation multiples to remain steady or decline no more than 20%

**Private Equity Investors:**

- 64% are active or are more active than they were pre-COVID-19
- 79% expect value to decline 0-20%, largely impacted by lower leverage

You can see the above summary in greater detail, along with data specific to strategic and private equity investors, via infographics here:

Professional Services M&A Market Impact Infographic: Gauging the Effects of COVID-19

We are in a truly unique economic environment with equally unique opportunities for those who can navigate this landscape. If you’re thinking through strategic M&A options, business decisions, or just want to talk about the market, please feel free to reach out to us. We’re one email or call away.
In Q2 of 2020, the uncertainty caused by COVID continued to have effects on M&A activity. Lenders have shifted gears towards granting SBA loans offered under the stimulus programs, thus causing a near-freeze on M&A financing – adversely affecting financial sponsors more so than strategic buyers.

Although global deal value and deal volume dropped nearly 50% quarter-by-quarter, deals are still getting done. Sellers that maintained growth throughout COVID garnered serious interest from financial sponsors and strategic firms alike, whereas sellers who have struggled to recover are experiencing diminished interest from buyers. Financial sponsors accumulated nearly 20% of the 1H20 Global M&A market, its highest half-year since 2005. A good portion of that growth can be attributed to the relative decline in strategic acquisitions.

Despite the current economic conditions, target firms are attracting serious interest from strategic and financial buyers. We examine how these buyers will differentiate themselves in this market, as we expect targets will need to be prepared for a busy 2H 2020.

### Strategic Buyers

- **Brand Name & Credibility** – Strategic firms with notable brand identity and credibility can leverage these attributes to court great targets looking for post-acquisition certainty in a new partner.
- **Longer Investment Horizon** – Strategic buyers are not constrained to relatively short growth targets; value can come in the form of added capabilities realized over longer horizons.
- **Rising Stocks** – Publicly traded strategics with a booming stock price can use their valuable equity in the current market conditions to finance deals with premium bids.
- **Creative Structuring** – Strategic firms can leverage earn-outs to fill the gap by incentivizing acquired companies to obtain targets through realized, beneficial synergies in later years.

### Financial Buyers

- **Dry Powder** – There is no shortage of capital in the private equity industry; financial sponsors have built up dry powder exceeding $1 trillion.
- **“Time to Close”** – PE firms can leverage their core competencies to close deals quicker, acting as white knights to collapsing companies to actualize high returns.
- **Sector Expertise** – Firms with expertise in a given sector will have an advantage; the financial services industry, for example, showed minimal change in deal value from 1H2019.
- **Talent** – In a difficult job market, PE firms can poach scarce talent to manage several portfolio companies and realize growth in the COVID environment.
Revenue and EBITDA multiples grew in tandem across Q2 2020

Clearsight’s Business Consulting Index has outperformed the S&P on an LTM basis

Source: Public market data as of 30-Jun-2020, Capital IQ
Accenture, Capgemini, and FranklinCovey saw the most significant Q2 2020 share price increases.

A recovering stock market is driving up multiples across the Business Consulting industry.

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<tbody>
<tr>
<td>Accenture</td>
<td>$ 214.72</td>
<td>98.5 %</td>
<td>$ 146,680</td>
<td>$ 144,215</td>
<td>3.2 x 3.2 x 3.0 x</td>
<td>20.0 x</td>
<td>17.8 x</td>
<td>17.1 x</td>
<td>16.2 %</td>
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<td>Capgemini</td>
<td>114.73</td>
<td>84.3</td>
<td>20,031</td>
<td>24,325</td>
<td>1.5 1.4 1.3</td>
<td>12.0</td>
<td>9.5</td>
<td>8.5</td>
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<td>CBIZ</td>
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<td>63.4</td>
<td>1,353</td>
<td>1,676</td>
<td>1.8 1.6 1.7</td>
<td>13.2</td>
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<td>CRA International</td>
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<td>67.9</td>
<td>322</td>
<td>533</td>
<td>1.1 1.1 1.1</td>
<td>11.9</td>
<td>12.6</td>
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<td>FranklinCovey</td>
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<td>315</td>
<td>1.3 1.4 1.3</td>
<td>16.4</td>
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<td>Heidrick &amp; Struggles</td>
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<td>ICF International</td>
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<td>Korn Ferry</td>
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<td>Resources Connection</td>
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High: 98.5 % $ 146,680 $ 144,215 3.2 x 3.2 x 3.0 x 20.0 x 22.6 x 17.1 x 16.2 %
Median: 68.1 1,272 1,590 1.3 1.4 1.3 13.2 14.4 11.9 11.8
Mean: 72.5 16,185 16,509 1.4 1.5 1.4 12.3 13.2 10.8 11.6
Low: 51.1 299 315 0.6 0.7 0.6 4.9 6.8 5.8 7.6

Source: Public market data as of 30-Jun-2020, Capital IQ
Note: Multiples charts may differ from Comparable Company Analysis figures due to detailed adjustments made to the Comparable Company Analysis.
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| 3/30/2020 | DOBERMAN®               | EY                         | • Doberman is a leading design and innovation firm  
• The acquisition will strengthen EY’s capabilities within transformation and innovation in the Nordics |
| 4/7/2020  | MINTZ GROUP             | ICV Partners               | • Mintz Group provides investigative fact gathering services ranging from enhanced background checks to due diligence  
• Mintz Group will broaden ICV’s reach and existing capabilities |
| 4/13/2020 | Cumberland® (Life Science Division) | IntegriChain®             | • Cumberland’s Life Science Division is a leading provider of managed and advisory services & systems integration  
• IntegriChain now delivers the Life Science industry’s most comprehensive and scalable data and business process platform |
| 4/28/2020 | Pearl Meyer             | MAINST CAPITAL CORPORATION | • Pearl Meyer is a leading advisor to board and senior management on business and leadership strategy  
• Main Street is using this acquisition to further their portfolio of investments in the professional services space |
| 5/6/2020  | Kates Kesler Organization Consulting | accenture               | • Kates Kesler is a management consulting leader in the field of organizational design  
• Kates Kesler is joining Accenture’s Talent & Organization / Human Potential practice to continue its high-engagement approach and activate new organization models |
| 5/7/2020  | PORT JACKSON PARTNERS   | EY PARThENON               | • Port Jackson Partners is a boutique management consulting firm located in Australia  
• EY Parthenon plans to leverage Port Jackson’s outstanding reputation in the Australian market to develop its world class reputation as a global strategy consulting firm |
| 5/18/2020 | DELTA PARTNERS          | FT I Consulting            | • Delta Partners is a leading telecom, media, and communications (“TMT”) focused strategy consulting and investment banking firm  
• The acquisition expands FTI’s transaction capabilities with the goal of becoming a global TMT advisory firm |
| 5/18/2020 | MorganFranklin Consulting (Public Sector Practice) | BDO                      | • MorganFranklin Consulting’s Public Sector Practice solves challenges for clients including the U.S. DoD and the U.S. Army  
• The Public Sector divestiture allows MorganFranklin to focus on expanding its core consulting business, while BDO gains public sector expertise and a vast client base |
| 6/1/2020  | Matrix Economics        | Alix Partners              | • Matrix Economics is an independent economics consulting boutique with expertise in antitrust litigation, and M&A  
• AlixPartners’ acquisition of Matrix will significantly increase the firm’s capabilities in competition economics, litigation and M&A |
About ClearSight

ClearSight Advisors is an independent merchant banking firm dedicated to driving the Knowledge Economy by providing world-class M&A and capital raising solutions exclusively to growth-oriented Business Services and Technology companies. ClearSight combines deep market insights across software, services and data. ClearSight Capital Advisors, Inc., a wholly owned subsidiary, is a registered member of FINRA & SIPC. For more information about ClearSight, visit www.clearsightadvisors.com

Select Transactions

1. RSI has been recapitalized by DC Capital Partners
2. psl has been acquired by PERFICIENT
3. The Life Sciences Division of Cumberland has been acquired by IntegriChain, a portfolio company of AKKR
4. TeleWorld Solutions has been acquired by SAMSUNG
5. The Managed Services Division of westMONROE has been acquired by M&C Partners
6. INTERSYS has been acquired by ASGN Incorporated
7. Knowledgent has been acquired by Accenture
8. bulldog has been acquired by HERO_digital, a portfolio company of Capitol Partners
9. Navigator Management Partners has been acquired by avaap, a portfolio company of Capital Partners