

Investec insight

Consulting sector review



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“We continue to see growing demand for assets across the consulting sector, with the impact of COVID-19 expediting the move to hybrid, tech-enabled delivery models and the demand for transformational change across global organisations”

Jonathan Arrowsmith
Head of Advisory



Despite COVID-19, growth has been stable across the consulting sector with M&A activity continuing at pace globally

- The UK consulting sector grew 4.5% in 2020 despite COVID-19 and the fallout from Brexit. Small and medium sized firms experienced growth rates of over 30%, as they quickly pivoted services to leverage market opportunity
- We have seen a high volume of M&A activity as consultancies adapt to the impact of the pandemic and enhance their service offering to support clients in digitisation, cost management and transformation efforts
- The market has also seen major investment in areas such as engineering, environmental and sustainability as consultancies develop capability

A continued focus on digitisation, talent development and the need for global capability will drive further growth in the consulting sector

- The focus on developing digital capability is just one part of the enhanced service offering that clients increasingly expect consulting organisations to have. Adoption of a multi-sourced approach to provide specialist capability illustrates where organisations have gaps against client demand, a potential future driver for M&A
- More than ever, consultancies also recognise the need to recruit, retain and develop a diverse talent pool with the right skill sets to deliver on client needs. As a result we expect to see a continued convergence between training, talent development and consulting across the market

Source: Management Consultancies Association, Investec analysis

Investec insight (cont.)

About us





In last 2 years, we have closed 22 M&A transactions with an aggregate value of £4.8bn



Advise on all deal types, supporting founder-owned businesses and private equity institutions in the mid-market



Highly regarded by clients with a clear track record of successful delivery

We are a leading mid-market investment bank, offering a full suite of ancillary services to support businesses and owners.

Our dedicated Investment Banking team has a deep understanding of the support services market, with extensive experience of working in the rapidly growing consulting sector.

We have an award-winning reputation in the Private Equity community...



Bank of the Year winner, Real Deals Private Equity Awards 2020

























Bank of the Year winner, Real Deals Private Equity Awards 2019



Bank Lender of the Year winner, Unquote Private Equity Awards 2018

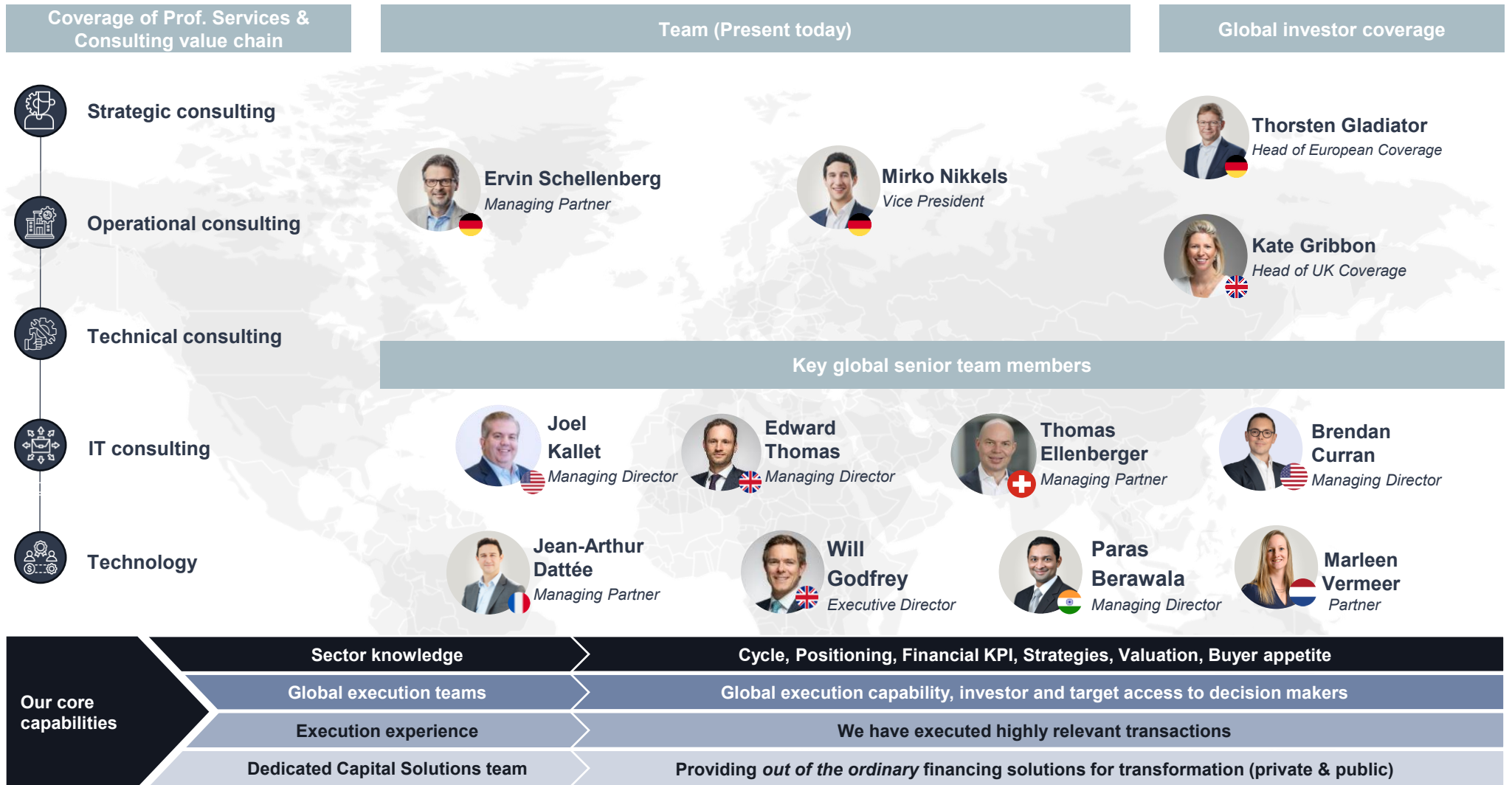
... and international coverage through our partner banks in the US and Europe

A selection of our most relevant current clients and recent credentials in the consulting sector

 Financial Adviser Buy-side	 Financial Adviser Sell-side 	 Financial Adviser Sell-side 	 Corporate Lending 	 Sponsor, Sole Broker & Bookrunner 	 Sponsor, Sole Broker & Bookrunner 
	 Financial Adviser Buy-side 	 Financial Adviser Sell-side 	 Corporate Lending 	 Joint Broker 	 Joint Broker 

Highly verticalized: Prof. Services & Consulting team

We constantly lead a dialogue with relevant players in the sector



Market analysis

Insight and recent activity in M&A

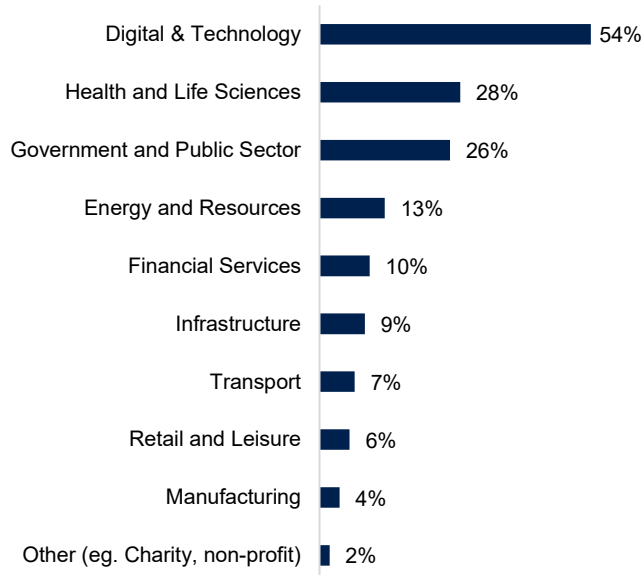


Insights and trends

Key market drivers and M&A activity across the consulting sector



Consulting activity growth in the next 12-24 months



Continued digitisation and digital integration

We expect to see continued digitisation and a digital response to the growing need to more quickly adapt to client needs. Coping with new business and hybrid delivery models developed at pace as a result of the COVID-19 pandemic, consulting organisations increasingly need to develop or enhance their digital strategy capability to support clients. Equally, there is an increased focus on the ability to deliver global projects virtually and more efficiently



Global delivery capability and enhanced service offering

Whilst the COVID-19 pandemic demonstrated the ability of consulting firms to adapt and deliver complex projects remotely, we expect organisations to continue investing in new geographies, extending capability, acquiring new regional clients and increasing diversity within their global businesses. The trend towards digitisation and the need for specialist skills relating to engineering, environmental and sustainability will also M&A activity as businesses seek to scale and enhance service offerings



Recruiting, retaining and developing talent

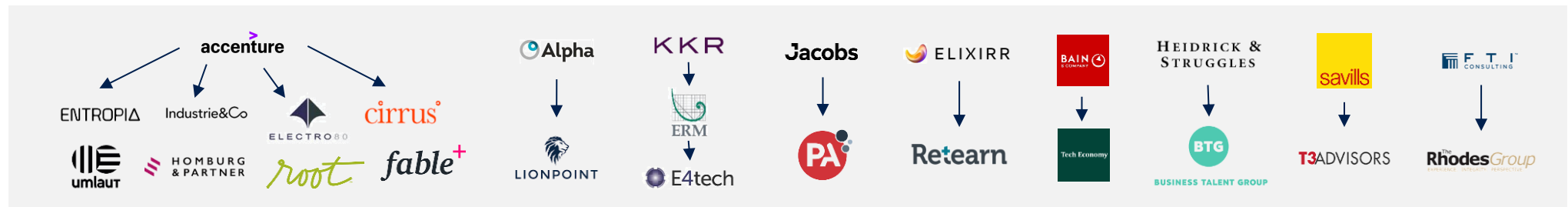
Consultancies and their clients continue the move from focussing on traditional top-tier universities to attract talent, instead recognising the importance of identifying diverse talent with specific skill sets. This has driven demand across the attract-train-deploy consulting market and amongst crowdsourced consulting firms, where clients hire piecemeal from niche firms or freelancers to deliver services at a lower price, with little or no overhead



Multi-sourcing opportunities for smaller players

The consulting sector continues to move towards a multi-sourcing model, with clients demanding specialist capability from its consulting providers. As a result there is an increasing trend towards large generalist firms partnering with small niche specialists, academic institutions, digital agencies and technology companies. We expect this to continue further going forward, from a geographic reach and capability perspective, with partnerships ultimately leading to future M&A activity

Select recent M&A activity






Source: Factset, Mergermarket, Management Consultancies Association, Investec analysis

Financial performance and outlook

Recent performance of select listed players and future economic outlook

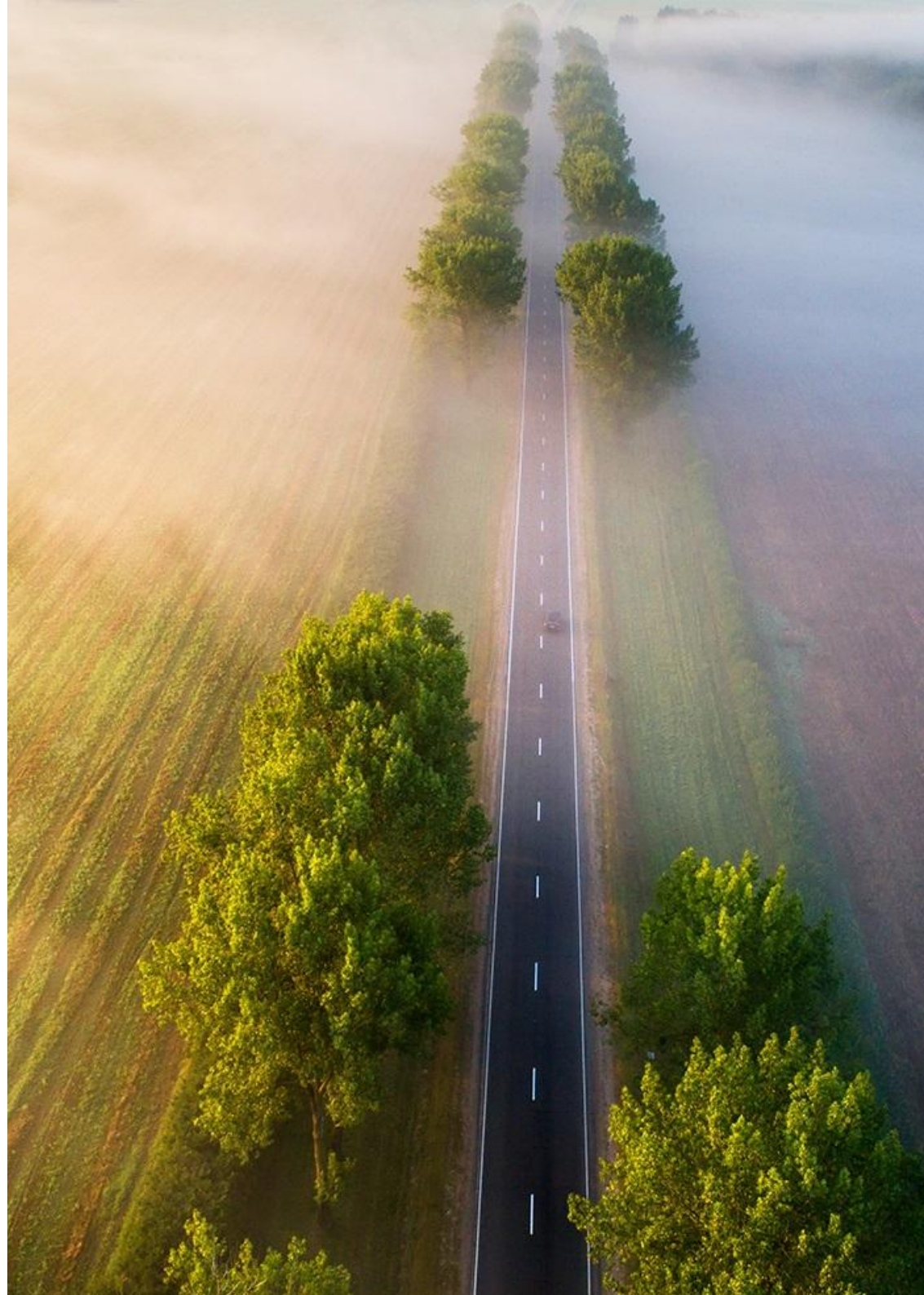


Company	Trading and highlights	Outlook
 <p>Year end 31st August</p>	<ul style="list-style-type: none"> Revenues for Q3 FY21 increased 21% in US dollars and 16% in local currency compared to the same period in FY20 Revenue growth was strong in outsourcing and consulting with sectors such as Health & Public Service, Communications, Media & Technology performance strongly Utilisation was 93% in Q3 FY21 against Q3 FY20, driving an increased gross margin of 33.2% versus 32.1% in the comparative period This profitability improvement flowed through to a 16% operating margin 	<ul style="list-style-type: none"> Business outlook for FY21 raised with full-year revenue growth over 10% Accenture have executed 39 acquisitions in the year to date, extending capability and driving growth. The business will continue to identify and invest significantly in M&A going forward Significant investment made in people, promoting 117,000 people, including almost 1,200 to managing directors in the current fiscal year Recognition that additional headcount and investment in leadership required to create value for clients, people, shareholders, partners and communities
 <p>Year end 31st March</p>	<ul style="list-style-type: none"> Revenue and net fee income grew in all geographic regions reflecting both average consultant headcount growth globally and utilisation averaging ahead of target levels, the prior year and first half of the year. Consultant fee rates were relatively resilience overall The business added twice as many new clients in FY21 as it did in FY20, as revenue reached £98.0m, up 10% from £88.9m Alpha's acquisition of Lionpoint expands the businesses North American and Alternative Investment industry capability 	<ul style="list-style-type: none"> Despite the ongoing impact of COVID-19, the company expects to trade strongly going forward across key markets, with a strong new business pipeline The industry trends of cost reduction, increasing regulation and growth in assets under management, will continue to drive ongoing change programmes globally for which Alpha's expanding range of consulting services is well placed to advise and best assist clients A clear strategy focussed on high quality growth markets means the business is well positioned to make further progress BlackRock's June 2021 announcement, that it will move to 20% Alts allocation from virtually zero provides an additional and compelling tailwind
 <p>Year end 31st March</p>	<ul style="list-style-type: none"> FY21 revenue down 18% on prior year, despite strong bounce back in second half of the year following initial impact of COVID-19 Successful pivot to virtual delivery, leading to improved gross margin performance of 87.4% in FY21 against 79.9% in FY20 Cash conversion strong and capex invested in developing new digital offer, with two products to launch in FY22 No dividends paid, owing to continued investment in three priority areas. These include digital, market-leading innovation and infrastructure 	<ul style="list-style-type: none"> Strong start to FY22, with Q1 well ahead of the same period in the prior year, with live delivery remaining 100% virtual, although prepared for a return to face-to-face delivery when clients are Commitment to continued investment in digital, marketing, innovation and infrastructure to support long-term revenue growth Adjusted profit before tax expected to be break-even in FY22, with recovering profits from existing and traditional business funding start-up losses on new digital products being launched later this year

Source: Company investor information, Investec analysis

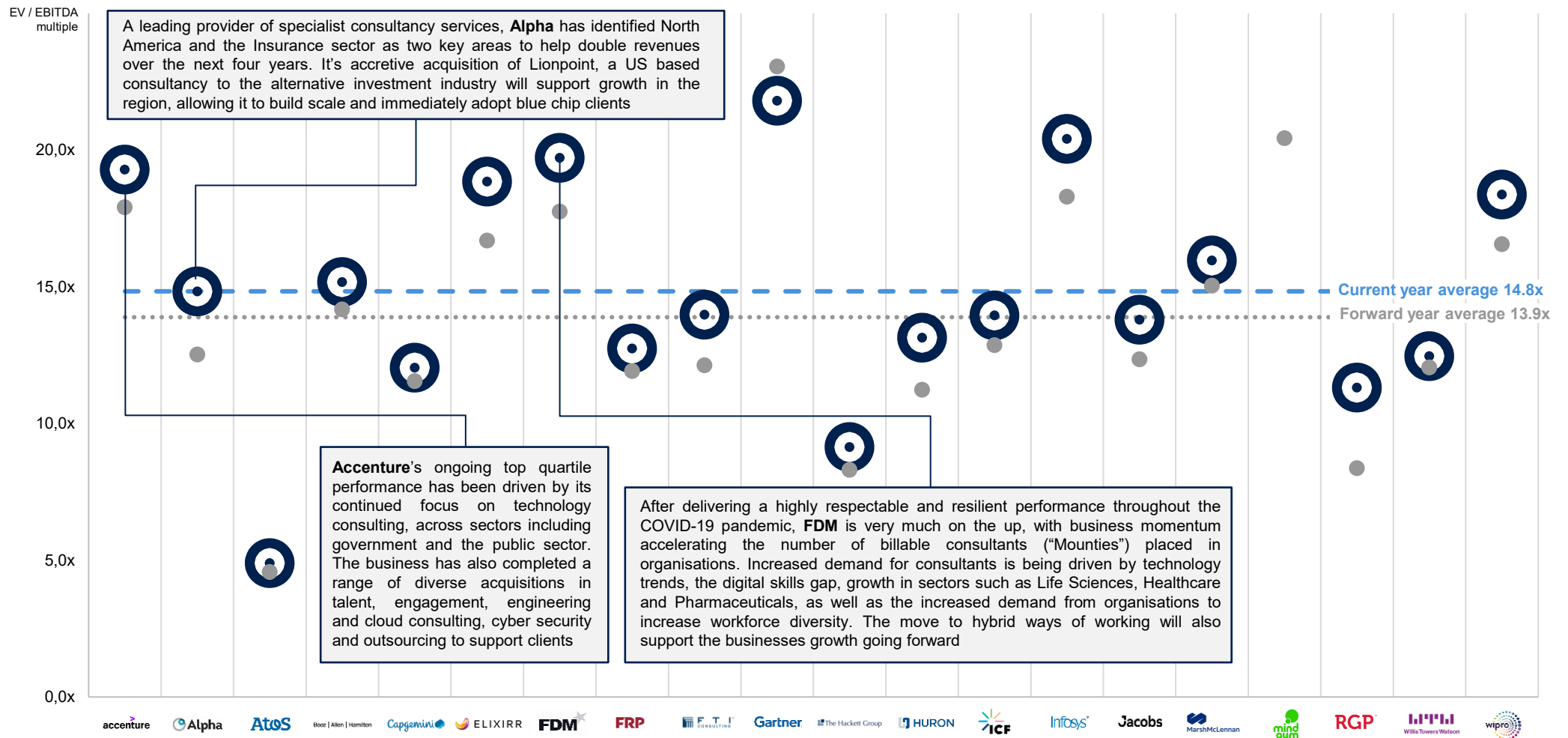
Valuation analysis

Current multiple metrics



EBITDA multiples

Current market valuation metrics in the global consulting sector



Source: Factset, Mergermarket, Investec analysis Note: when assessing the valuation of private companies, a discount will be required to reflect differences in liquidity and risk. Data accurate as at June 2021, calendarised to December YE

Appendix



A. Select M&A activity detail



Buyer	Target	Date	Overview
Accenture	Umlaut	14 June 2021	Umlaut is an engineering consulting and services firm headquartered in Aachen, Germany. The acquisition will significantly scale Accenture's deep engineering capabilities to help companies use digital technologies like cloud, artificial intelligence, and 5G to transform how they design, engineer and manufacture their products as well as embed sustainability. Umlaut will add more than 4,200 industry-leading engineers and consultants across 17 countries to Accenture's Industry X services and expand the company's capabilities across a range of industries, including automotive, aerospace & defence, telecommunications, energy and utilities.
	Entropia	03 June 2021	Founded in 2016 and based in Kuala Lumpur, Entropia has a team of more than 210 employees skilled in scaling unique digital experiences for brands. The addition of Entropia will help Accenture Interactive transform and reimagine their clients' entire business through the lens of experience. The acquisition will also expand the creative talent pool within Accenture Interactive and create more learning and growth opportunities for people across both organisations. It is the first acquisition by Accenture Interactive in Southeast Asia.
	Industrie & Co	27 May 2021	Industrie&Co is a technology consultancy that designs and creates cloud native solutions for enterprises and "born in the cloud" fast emerging companies. The acquisition expands Accenture's Cloud First capabilities in delivering cloud native services for clients, particularly within financial services, as they increasingly transform into digital businesses and build new digital products and services. Founded in 2007, the business has 173 employees and is headquartered in Sydney, with offices in Melbourne, Hong Kong and Singapore.
	Homburg & Partner	18 May 2021	Homburg & partner is a strategic management consulting firm with deep specialisation in commercial strategy, sales and pricing. The business is Headquartered in Mannheim, Germany with 73 employees. Homburg & Partner has a proven track record of increasing sales, market share and profitability with in-depth industry knowledge primarily for clients in the industrial goods, healthcare, and chemical industries.
	Electro80	04 May 2021	Electro 80 is a leading provider of operational technology (OT) for resources clients in Australia, including mining, energy, engineering, construction and utilities companies. The acquisition expands Accenture's local digital OT capabilities, which help asset-intensive companies make manufacturing and production operations safer and more efficient. The acquisition also strengthens Accenture's local capabilities for Industry X, which helps clients digitise their manufacturing, operations and engineering.
	Root	23 April 2021	Root is a consultancy with 30 years of experience helping Global 2000 organizations activate strategies and transform cultures using creative and visual methods to accelerate employee engagement and change effectiveness. The business and its 178 employees join Accenture's Talent & Organization / Human Potential team, strengthening its organizational change management capabilities with multiple new experiential and digital assets designed to engage people intellectually and emotionally and do so rapidly and at scale.
	Fable+	10 March 2021	Fable+ is a consulting firm specializing in business agility and analytics-driven transformation, located in Mannheim and Berlin. Fable+'s team of 50 professionals have joined Accenture's Talent & Organization / Human Potential team, adding highly specialized expertise focused on organizational transformation. The business has a proven track record of enabling viable, innovation-promoting work environments. By leveraging their proprietary cloud-based app to measure psychological safety and team performance, fable+ can quantify key culture factors that drive performance across different levels of an organization.
	Cirrus	01 March 2021	Cirrus is a UK headquartered leadership and talent consultancy with 70 employees working from the UK and Australia. It joins Accenture's Talent & Organization / Human Potential team and strengthens its development and coaching capabilities for leaders seeking business transformation.

Source: Mergermarket

A. Select M&A activity detail (cont.)



Buyer	Target	Date	Overview
Alpha	Lionpoint	20 May 2021	UK-based Alpha Financial Markets Consulting entered into an agreement to acquire Lionpoint Holdings for up to USD 90m on 20 May 2021. Lionpoint Holdings is a New York-based provider of specialist consultancy services to the Alternative Investment industry. It is majority owned by its founders, with a minority investment held by Blackstone.
ERM	E4tech	08 June 2021	E4tech is an energy and sustainability strategy consultancy specializing in innovative and disruptive low-carbon technologies. The business brings deep expertise and new capabilities in emerging low-carbon energy technologies to ERM. It will enhance ERM's ability to advise clients seeking to shift towards a lower-carbon future. E4tech's fast-growing team of 35 employees, based primarily in the UK and Switzerland, join ERM's 1,600 experts in the Europe, Middle East and Africa (EMEA) region.
Jacobs	PA Consulting	03 March 2021	Jacob's acquisition of PA Consulting completed on 03 March 2021, with institutional investor The Carlyle Group exiting its stake in PA, bringing a successful five-year investment period to an end. A global innovation and transformation consultancy, PA's EBITDA more than doubled over the period of Carlyle's investment, with a compound annual revenue growth of 12% since 2016.
Elixirr	Retearn	12 April 2021	Retearn is a UK-based procurement, transformation and insights consultancy with 35 full-time employees and a broad specialist associate network. In the year ended 30 June 2020, Retearn recorded revenue of £5.65 million and profit before tax of £0.92 million. The Acquisition brings specialists in self-funded transformation and allows Elixirr to meet demand from clients to find savings to fund strategic initiatives. This is Elixirr's second acquisition since IPO in July 2020 and is in line with it's 'House of Brands' growth strategy.
Bain & Co	Tech Economy	14 June 2021	Tech Economy is a specialist consultancy serving private equity clients in due diligence of technology infrastructure, processes and businesses. The business helps investors to assess the underlying technology of the assets they are seeking to acquire. Tech Economy's team of professionals and technologists have completed more than 200 assignments for technology investors and strategic buyers and built strong relationships with clients in Europe and North America.
Heidrick & Struggles	Business Talent Group	06 April 2021	Heidrick & Struggles acquired BTG in 2021 to become the first global leadership advisory firm offering the full spectrum of executive and high-end talent solutions—from on-demand independent professionals to interim executives to permanent placements – together with its consulting services. It supports the wider Heidrick & Struggles strategy to expand its leadership solutions and capabilities.
Savills	T3 Advisors	13 June 2021	T3 is a leading real estate and workplace solutions advisor to many of the world's most innovative companies, becoming the consultant of choice for life sciences and technology firms seeking unbiased, holistic, and strategic advice on all aspects of the real estate decision-making process.
FTI	Rhodes Group	03 May 2021	The Rhodes Group provides construction advisory, forensic accounting and expert testimony services to clients throughout the entire project lifecycle, from preconstruction through formal dispute resolution, with a focus on the power, oil and gas, industrial, infrastructure and commercial building sectors. The acquisition further enhances FTI Consulting's leading advisory, dispute resolution and expert testimony capabilities in North America and provides The Rhodes Group's existing clients with access to FTI Consulting's global, diversified platform.

Source: Mergermarket

B. Valuation data



Company	Market cap (£m)	EV (£m)	EV / Sales		EV / Gross Profit		EV / EBITDA		EV / EBIT		P/E	
			FY21	FY22	FY21	FY22	FY21	FY22	FY21	FY22	FY21	FY22
Accenture	135,494	131,742	3.6x	3.4x	11.5x	10.6x	19.3x	17.9x	23.9x	22.1x	31.9x	29.0x
Alpha	412	381	3.3x	2.8x	8.8x	7.4x	14.8x	12.5x	16.4x	13.7x	22.4x	19.5x
Atos	4,894	6,510	0.7x	0.7x	1.2x	1.1x	4.9x	4.6x	7.0x	6.5x	7.4x	6.7x
Booz Allen Hamilton	8,504	9,725	1.6x	1.5x	4.1x	4.2x	15.2x	14.2x	16.9x	15.8x	21.0x	19.3x
Capgemini	22,662	27,918	1.9x	1.8x	7.1x	6.7x	12.0x	11.5x	16.1x	14.7x	20.1x	17.8x
Elixirr	261	248	5.5x	4.8x	16.2x	14.5x	18.8x	16.7x	20.1x	17.6x	28.7x	25.7x
FDM	1,077	1,032	3.9x	3.6x	7.9x	7.5x	19.7x	17.8x	22.1x	19.5x	31.9x	28.2x
FRP	313	302	3.6x	3.4x	n/a	n/a	12.7x	11.9x	13.6x	12.9x	17.4x	16.6x
FTI Consulting	3,392	3,535	1.8x	1.7x	5.9x	5.1x	14.0x	12.1x	16.0x	13.7x	21.3x	18.4x
Gartner	14,526	16,085	4.9x	4.3x	7.2x	6.6x	21.8x	23.1x	29.9x	31.6x	36.3x	37.4x
Hackett Group	374	343	1.8x	1.7x	5.1x	4.6x	9.1x	8.3x	12.8x	11.4x	15.6x	14.2x
Huron Consulting	804	955	1.5x	1.4x	5.2x	4.6x	13.1x	11.2x	18.3x	14.9x	19.5x	16.6x
ICF International	1,271	1,542	1.4x	1.3x	3.7x	3.5x	14.0x	12.9x	17.7x	16.1x	20.4x	18.2x
Infosys	62,310	59,952	5.5x	4.9x	15.7x	13.9x	20.4x	18.3x	23.0x	20.6x	29.6x	26.3x
Jacobs	12,231	13,288	1.2x	1.2x	6.1x	5.6x	13.8x	12.3x	14.9x	13.3x	20.2x	17.6x
Marsh McLennan	49,471	57,877	4.3x	4.1x	n/a	n/a	16.0x	15.0x	19.3x	17.9x	23.8x	21.8x
Mind Gym	172	158	3.4x	2.8x	4.0x	3.4x	58.9x	20.4x	539.0x	55.7x	1,545.8x	88.6x
Resources Connection	340	368	0.8x	0.7x	2.0x	n/a	11.3x	8.4x	16.5x	n/a	17.9x	13.0x
Willis Towers Watson	21,038	24,395	3.4x	3.3x	n/a	n/a	12.5x	12.1x	16.4x	15.1x	17.7x	16.5x
Wipro	31,114	28,725	4.2x	3.7x	13.4x	12.1x	18.4x	16.6x	23.0x	20.7x	29.0x	26.0x
		Minimum	0.7x	0.7x	1.2x	1.1x	4.9x	4.6x	7.0x	6.5x	7.4x	6.7x
		Average	2.9x	2.7x	7.4x	7.0x	14.8x	13.9x	44.2x	18.6x	98.9x	23.9x
		Median	3.3x	2.8x	6.1x	6.1x	14.4x	12.7x	17.3x	15.8x	21.2x	18.8x
Excluded from average		Maximum	5.5x	4.9x	16.2x	14.5x	58.9x	23.1x	539.0x	55.7x	1,545.8x	88.6x

Source: Factset Note: Data accurate as at June 2021, calanderised to December YE

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