

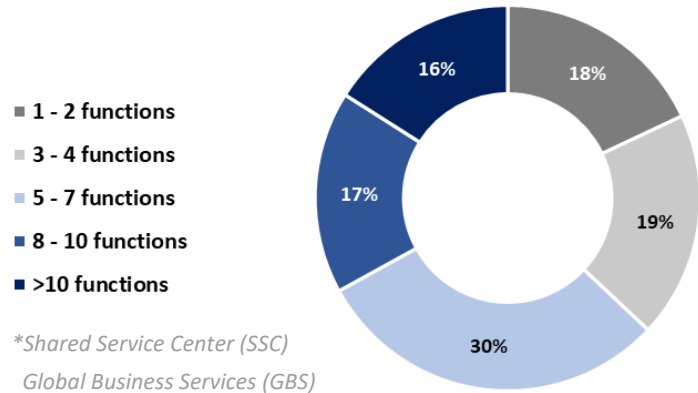
BPO & CONTACT CENTERS M&A ACTIVITY—Q2 2021

EVOLVING VALUE-ADDED CAPABILITIES

In Carleton McKenna & Co's *BPO & Contact Centers M&A Activity* report, our Team explores the ever-evolving business process outsourcing (BPO) environment. Decisions to outsource services, such as payroll and customer support were historically driven by cost reduction strategies, as these services were predominantly offshored to less developed nations with low-wage workers. Fast forward 20 years to the current business environment, and BPO services are delivering value-added capabilities such as robotic process automation (RPA), descriptive analytics and reporting to multiple organizational functions (e.g., Customer Service, Finance, Human Resources, Information Technology, and Legal, among others). As business process outsourcing companies position themselves as a partner in client success, multifunctional support is becoming the standard.

According to a recent survey conducted by Deloitte¹, nearly 82% of BPO respondents support more than three organizational functions. Outsourcing has transformed from pure back-office work transfer, to a technological change agent guiding progressive organizations into the future of work. As such, cost reduction motivations have taken a back seat to (i) seamless process implementation, and (ii) organizational standardization across geographies.

How many functions are performed in your SSC or GBS*?¹



Adoption of New Technologies

Robotic process automation is the leading technology adopted and implemented by business process outsourcing firms to handle rules-based (e.g., if *this* then *do this*) task handling. More advanced organizations are also turning to artificial intelligence capable of natural language processing to deliver faster, more accurate solutions.

RPA bots are driving agility in (i) contact center automation, (ii) back-office processes, and (iii) front-office augmentation². For example, **automation allows contact center agents to prioritize attention on customer interaction while bots handle data processing.**

Examples of specialized capabilities across different industries¹

Consumer	Financial & Insurance Services	Life Sciences and Healthcare	Technology, Media and Telecom (TMT)
<ul style="list-style-type: none"> Manufacturing and plant accounting Asset protection and retail loss intelligence 	<ul style="list-style-type: none"> Billing, claims and underwriting Anti-money laundering 	<ul style="list-style-type: none"> Clinical trials Medical management 	<ul style="list-style-type: none"> Manufacturing and plant accounting Operationalized transfer pricing

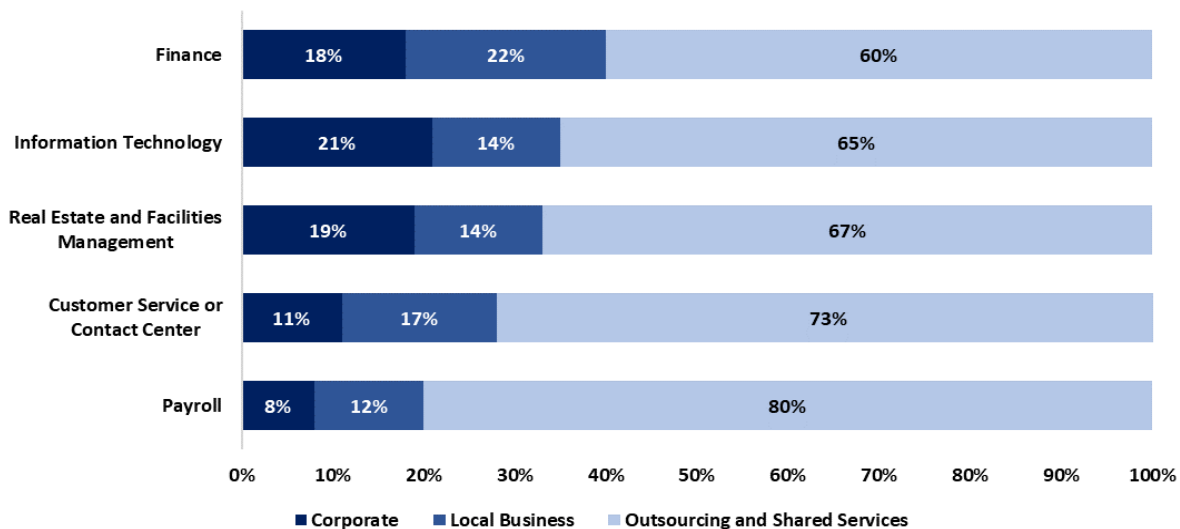
(1) Deloitte GSS and Outsourcing Survey, (2) Automation Anywhere

Integrated Business Model

BPO firms deliver significant value to end-market clients, especially as the breadth of employed outsourced services crosses organizational functions. Outsourcing scope has proliferated from a few traditional functions, namely contact centers and payroll processing, to multifunctional capabilities as a result of layered functions, such as Finance, IT and insurance third party administrators (TPAs). Recent trends to layer “non-core”, but essential, supporting services has led to a deepening of integrated outsourced services within organizations. Interestingly, organizations are encouraging BPO partners to innovate on behalf of the organization which, in turn, drives overall business value.

To incentivize BPO-driven innovation, organizations are aligning mutual interests in one or a combination of the following¹: (i) rewarding BPOs with additional services, (ii) explicitly outlining innovation clauses in the contract, and (iii) increasing compensation as innovation is demonstrated.

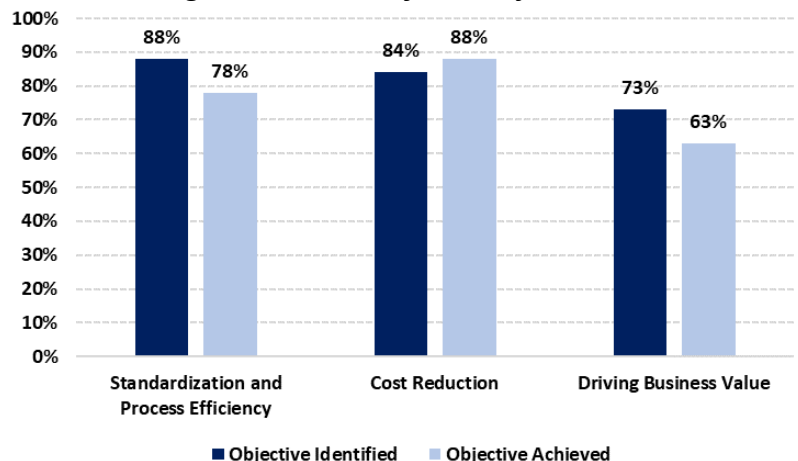
What percentage of FTEs (approx.) are located in the local business, at corporate, or in an outsourcing and shared services model?¹



Standardization of Process Efficiencies

Standardization of process efficiencies has been reported as the No. 1 strategic objective in 2021, largely fueled by the pandemic’s “winners” demonstrating an ability to quickly respond to changes in respective markets. As businesses increasingly expand beyond domestic borders, process efficiency standardization is critical for organizations to gain market share.

Objectives of Investing in GBS and SSC Capabilities, and Progress Toward Defined Objectives¹



Source: (3) NextTarget

Contact Centers

When brick-and-mortar retail shuttered during the pandemic, contact centers emerged on the frontline to service customer experiences. **In fact, during a four-month period in 2020, contact center volumes rose as much as 20%⁴.** Such volume pressures have accelerated contact center migration from location-bound roles and services to the cloud, resulting in greater flexibility and process efficiencies. Additionally, cloud migration has alleviated significant fixed costs and overhead required to service on-premise server hosting³.

Cloud migration has allowed contact center agents to process high volume customer inbound requests irrespective of location. Remote work permits flexibility and leads to lower turnover among contact center agents; a shift from high headcount turnover which has been an industry norm.

Investor Attraction

Businesses are turning to international markets to tap future growth, driven in part by slowing domestic growth, while looking to reduce corporate footprints as the work-from-home lifestyle carries forward in hybrid applications. These trends are tailwinds for BPO and contact center firms as organizations look to outsource non-core business processes for efficiency. **Buyers have demonstrated particular interest in those companies with: (i) successful implementation of new technologies at scale; (ii) sticky, recurring revenue models; and (iii) capex-light business models.**

2012 to Present Private Equity Multiples— Business Support Services

\$ in millions *TEV = Total Enterprise Value*

TEV Range	TEV \$	Revenues \$	TTM Rev		TEV / EBITDA	N
			Growth %	EBITDA Margin %		
\$10 - \$25	\$17	\$24	15%	22%	1.3x	24
\$25 - \$50	\$35	\$23	27%	28%	2.1x	16
\$50 - \$100	\$76	\$73	11%	23%	1.7x	8
\$100 - \$250	\$121	\$63	17%	30%	2.8x	3
Total	\$38	\$34	18%	24%	1.7x	51

Source - GF Data [®]

2012 to Present Private Equity Multiples— Telemarketing Bureaus & Other Contact Centers

\$ in millions *TEV = Total Enterprise Value*

TEV Range	TEV \$	Revenues \$	TTM Rev		TEV / EBITDA	N
			Growth %	EBITDA Margin %		
\$10 - \$100	\$42	\$67	13%	15%	0.7x	3
Total	\$42	\$67	13%	15%	0.7x	3

Source - GF Data [®]

Sources: (4) RingCentral

Public Company Trading Data

BUSINESS PROCESS OUTSOURCING (BPO)⁵

Company Name	Market Data*				LTM**			EV/LTM**	
	Price 7/21/2021	%52 Wk High	Market Cap (\$M)	Enterprise Value (\$M)	Revenue (\$M)	EBITDA (\$M)	Margin (%)	Revenue x	EBITDA x
Ceridian HCM (NYS: CDAY)	\$95.7	85%	\$14,274.6	\$15,114.3	\$854.3	\$149.4	17%	18x	101x
ExlService Holdings (NAS: EXLS)	\$109.4	99%	\$3,554.9	\$3,507.6	\$973.9	\$247.2	25%	4x	14x
TaskUS (NAS: TASK)	\$29.6	83%	\$2,667.7	\$2,775.8	\$528.5	\$115.1	22%	5x	24x
Sykes Enterprises (NAS: SYKE)	\$53.4	99%	\$2,125.9	\$2,230.6	\$1,757.0	\$205.8	12%	1x	11x
Conduent (NAS: CNDT)	\$6.9	81%	\$1,410.3	\$2,923.3	\$4,140.0	\$173.0	4%	1x	17x
Ibex (NAS: IBEX)	\$22.5	88%	\$421.1	\$469.8	\$435.7	\$56.2	13%	1x	8x
StarTek (NYS: SRT)	\$6.8	69%	\$276.1	\$511.5	\$644.2	\$41.1	6%	1x	12x
ServiceSource (NAS: SREV)	\$1.4	64%	\$135.3	\$150.2	\$189.5	\$1.0	1%	1x	157x
DLH Holdings (NAS: DLHC)	\$10.7	81%	\$133.6	\$216.1	\$221.5	\$19.9	9%	1x	11x

*Market data as of 7/21/2021

**LTM data as of Q1 2021

Mean	12%	4x	39x
Median	12%	1x	14x
Harmonic	3%	1x	16x
Maximum	25%	18x	157x
Minimum	1%	1x	8x

CONTACT CENTERS—EXCLUSIVELY VOICE AND COMMUNICATION TECHNOLOGY SERVICES⁵

Company Name	Market Data*				LTM**			EV/LTM**	
	Price 7/21/2021	%52 Wk High	Market Cap (\$M)	Enterprise Value (\$M)	Revenue (\$M)	EBITDA (\$M)	Margin (%)	Revenue x	EBITDA x
Avaya (NYS: AVYA)	\$25.1	74%	\$2,064.4	\$4,573.4	\$2,957.0	\$736.0	25%	02x	06x
Twilio (NAS: TWLO)	\$379.1	83%	\$65,462.1	\$61,263.1	\$1,986.9	\$40.7	2%	31x	1,505x
RingCentral (NYS: RNG)	\$257.0	57%	\$23,354.4	\$24,336.0	\$1,168.4	\$166.2	14%	21x	146x
8x8 (NYS: EGHT)	\$24.8	63%	\$2,733.3	\$2,984.3	\$496.0	\$25.4	5%	06x	117x

*Market data as of 7/21/2021

**LTM data as of Q1 2021

Mean	12%	15x	444x
Median	10%	13x	132x
Harmonic	5%	4x	23x
Maximum	25%	31x	1,505x
Minimum	2%	2x	6x

Sources: (5) PitchBook Data

Select M&A Transactions

Date	Target	Target Description	Acquirer	Deal Value
4/21	PeopLease	HR and payroll management services	SE Capital	N/A
3/21	E3 Outsource	Outsourced employee benefits management	Alera Group	N/A
2/21	SupportNinja	Middle- and back-office support services	BV Investment Partners	N/A
2/21	Premier Adjusting	First- and third-party P&C claims handler	Colonial Claims	N/A
2/21	Senture	Contact center services	Kingswood Capital Management	N/A
1/21	SourcePointe	Outsourced HR services	Acquiline Capital Partners	N/A
1/21	Prestige Employee Administrators	Outsourced HR services	TriSpan	N/A
12/20	Personiv	Back-office support services	eClerx Services	N/A
12/20	KM2 Solutions	Back-, middle- and front-office support services	H.I.G. Capital	N/A
10/20	DRS Services USA	Healthcare and medical contact center services	Valor Global	N/A
7/20	Apex Reps	Environmental services contact centers	Avision Sales Group	N/A
7/20	Moonlight BPO	Provider of print to mail services	Lakewind Investments	N/A
6/20	BenefitMall Payroll	Outsourced payroll processing services	Automatic Data Processing (NAS: ADP)	N/A
4/20	Channel Blend	Contact center support services	Delaware Nation Investments	N/A
3/20	Proservice Boise	Middle- and back-office support services	Valor Global	N/A
3/20	Ryan Edwards Communication	Supplier of print services to the cruise industry	Diversified Global Graphics Group	N/A
1/20	Knoah Solutions	Contact center support services	24-7 Intouch	N/A
1/20	Great Falls Marketing	Front-office support services	Support Services Group Holdings	N/A

Source: Pitchbook

CARLETON MCKENNA & CO:

We believe businesses are the economic engine of our society, and that business owners deserve and require a proactive advocate throughout life changing transactions.



FIRM OVERVIEW:

Carleton McKenna & Co. is an independent investment banking firm providing M&A Advisory, Capital Raising, and Pre-Transition Advisory services. We deliver hands-on transaction execution, with clear, insightful strategy to drive extraordinary success.

We work with middle market closely-held businesses, multi-generational family businesses, portfolio companies of financial sponsor firms and divisions or subsidiaries of public companies focusing in Manufacturing & Specialty Chemicals, Consumer Products, SaaS, Healthcare and B2B Services.

Our Team is made up of finance and accounting experts, operators, C-Suite and Board professionals, lawyers, consultants, and marketing professionals. These diverse experiences and skills drive extraordinary results for our clients.

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Source: CapitalIQ as of January 11, 2021