

# BPO & CONTACT CENTERS M&A ACTIVITY—Q3 2021

## EVOLVING VALUE-ADDED CAPABILITIES

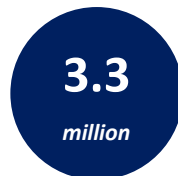
Business process outsourcing (BPO) firms furthered their relevant positioning through Q3 2021 as these businesses continued to deploy sticky, value-added solutions to clients and end customers—these efforts have not gone unnoticed by capital allocators. Completed deals during the quarter particularly favored back-office support services across multiple organizational functions including finance, insurance (both carriers and ancillary services) and legal as secular calls to safeguard proprietary data collection are here to stay. Contact centers with a focus on customer experience prioritization, tech-enablement, and cloud-based solutions continue to notch favorable deal volume as well.

COVID-19 has transformed the way businesses look to outsource services. The pandemic’s macroeconomic implications have accelerated the adoption of outsourced services as businesses turn to creative solutions to alleviate immediate operational concerns, such as (i) stretched supply chains, (ii) inflationary pressures and (iii) widespread labor shortages.

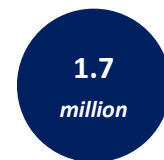
*Workers that have left the labor market since Feb. 2020*



*Lost labor force participants over the age of 55*



*Lost labor force participants deemed prime age (25—54)*



### Back-office Support Functions Come to the Forefront

The rise in sensitive client and proprietary data processing and handling has led businesses, namely financial institutions, insurance providers and law firms, to outsource support services. Professional services firms demand robust back-office headcount to support record maintenance, settlement and regulatory compliance functions. BPO providers have increasingly moved online to deliver flexible back-office functional support, alleviating repetitive overhead commonly found in professional firms and enabling service execution in a more efficient manner.

US & Canada <sup>2</sup>	Nearshore <sup>2</sup>	Offshore <sup>2</sup>	Europe <sup>2</sup>	
			Eastern	Western
Large BPO Pricing <b>\$32 to \$40/hr</b>	Large BPO Pricing <b>\$14 to \$20/hr</b>	Large BPO Pricing <b>\$13 to \$17/hr</b>	Large BPO Pricing <b>\$25 to \$30/hr</b>	Large BPO Pricing <b>\$28 to \$34/hr</b>
Mid-Size BPO Pricing <b>\$26 to \$34/hr</b>	Mid-Size BPO Pricing <b>\$11 to \$17/hr</b>	Mid-Size BPO Pricing <b>\$7 to \$13/hr</b>	Mid-Size BPO Pricing <b>\$19 to \$26/hr</b>	Mid-Size BPO Pricing <b>\$26 to \$30/hr</b>

Sources: (1) Barron's, (2) Outsource Consultants

Contact Center Highlights

With much of the world working from home, questions and concerns around home entertainment services and ecommerce orders have taken on new importance; and it is likely these questions are fielded through a remote contact center workforce. This customer-brand interaction is beneficial because companies can log direct customer feedback that would otherwise have gone unnoticed. However, the more a customer interacts with a company (e.g., advertising, service and returns), the less profitable that customer becomes. BPO models have allowed clients to indirectly service customer inquiries amidst unparalleled volumes, providing omnichannel service delivery otherwise unattainable for the client given financial and operational constraints.

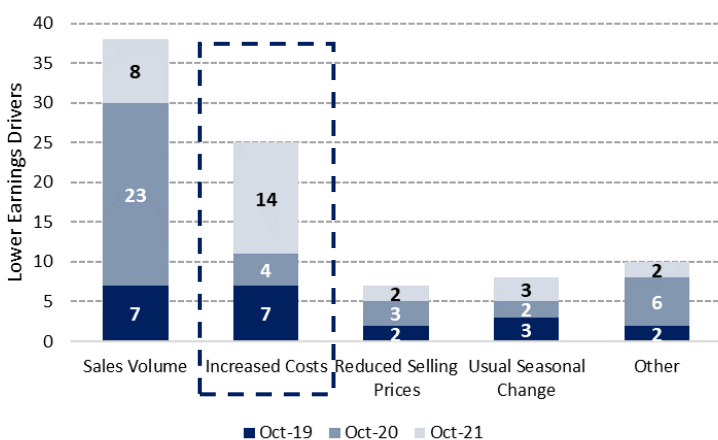
The pandemic forced companies to adopt a more technologically advanced approach to managing customer service. Increasingly, BPO providers have turned to customer experience solutions to improve client-customer interactions, further enhancing value-added capabilities. The gradual shift to cloud-based, AI-driven operations and away from legacy on-site hardware systems has charted new opportunity paths in the space.

Macroeconomic Effects

During a time of unprecedented labor shortages, BPO solutions have never been more critical to client success. According to Barron’s, roughly 5 million individuals have left the labor market since February 2020. The National Federation of Independent Businesses (NFIB) cited a lack of workers for unfilled positions, along with supply shortages, as the biggest problems in its October survey. This is forcing small businesses to boost compensation to the highest level since 1984<sup>2</sup>.

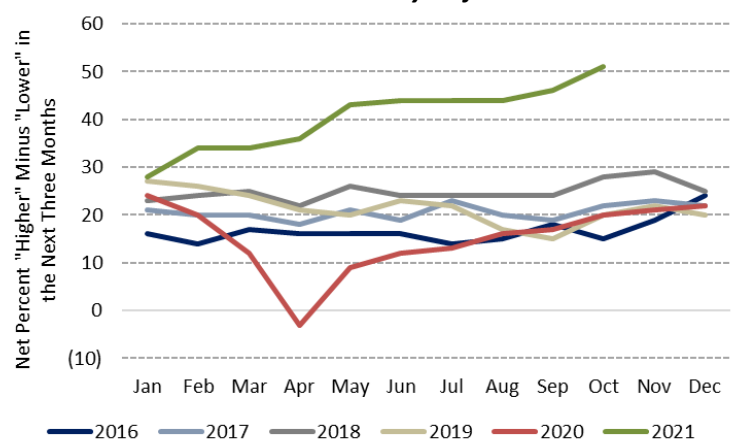
A recent survey<sup>3</sup> asked business owner participants if profitability during the last calendar quarter was higher or lower and what the most important reason was influencing the deviation (below left). Additionally, the survey<sup>3</sup> assessed expectations over the next three months regarding planned selling price changes of goods and/or services (below right). With increased operating and non-operating costs on the rise, including labor, materials, financing costs, taxes and regulator costs, BPO services provide businesses with viable solutions to the labor market’s current inefficiencies. Moreover, as businesses continue to face labor pressures and supply chain constraints, BPO services allow clients to focus on delivering creative solutions for their customers, such as alternative sourcing, distribution methods, and product and service mix.

Profitability Headwinds  
October 2021








Source: NFIB  
Sources: (2) Barron’s; (3) The National Federation of Independent Businesses

Planned Selling Price Changes  
Seasonally Adjusted



Source: NFIB

Transaction	Target Description	Transaction Rationale
 <p><b>Acquired by</b></p> 	<p>Full-service strategic outsourcer, IT systems integrator and managed service provider delivering services and solutions to enable, run and secure government contractors, commercial entities and nonprofit organizations. The NeoSystems team enables clients to improve vital operations, reduce overhead costs and manage compliance.</p>	<p>The acquisition of NeoSystems will allow High Street Capital to expand current service offerings and optimize market opportunities to better drive customer success, meeting increased appetite for strategic outsourced and managed IT services.</p>
 <p><b>Acquired by</b></p> 	<p>Provider of accounts receivable management (ARM) and call center management (CCM) services intended to provide business process outsourcing to financial institutions, commercial clients, debt buyers and private schools.</p>	<p>The deal will allow the company to accelerate its inorganic growth strategy while continuing to grow and expand its debt purchasing and collection servicing footprint.</p>
 <p><b>Acquired by</b></p>	<p>Framework Solutions is a provider of outsourced business and consulting services for companies in the life sciences and pharmaceutical industry. The company specializes in promotional review committee (PRC) and medical-legal review (MLR) process and offers a variety of services which include strategic, coordination, editorial, digital asset management and agency services.</p>	<p>The acquisition of Framework Solutions allows WestView Capital Partners to broaden its capabilities, resources and bandwidth as well as increase growth opportunities.</p> <p>“We believe Frameworks’ extensive industry knowledge positions the Company for sustained success” -Greg Thomas, Partner, Westview Capital.</p>

**Private Equity Multiples: Business Support Services**

\$ in millions		(2012-Present)			TEV = Total Enterprise Value		
TEV Range	TEV \$	TTM Rev		Margin %	TEV/Revs	TEV / EBITDA	N
		Revenues \$	Growth %				
\$10 - \$25	\$17	\$24	15%	22%	1.3x	5.9x	25
\$25 - \$50	\$35	\$23	24%	28%	2.0x	7.4x	17
\$50 - \$100	\$76	\$73	11%	23%	1.7x	7.1x	8
\$100 - \$250	\$121	\$63	17%	30%	2.8x	8.7x	3
<b>Total</b>	<b>\$38</b>	<b>\$33</b>	<b>17%</b>	<b>24%</b>	<b>1.7x</b>	<b>6.7x</b>	<b>53</b>

Source - GF Data <sup>®</sup>

**Private Equity Multiples: Telemarketing Bureaus & Other Contact Centers**

\$ in millions		(2012-Present)			TEV = Total Enterprise Value		
TEV Range	TEV \$	TTM Rev		Margin %	TEV/Revs	TEV / EBITDA	N
		Revenues \$	Growth %				
\$10 - \$100	\$42	\$67	13%	15%	0.7x	4.9x	3
<b>Total</b>	<b>\$42</b>	<b>\$67</b>	<b>13%</b>	<b>15%</b>	<b>0.7x</b>	<b>4.9x</b>	<b>3</b>

Source - GF Data <sup>®</sup>

Sources: PitchBook Data

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## Public Company Trading Data

## BUSINESS PROCESS OUTSOURCING (BPO)

Company Name	Market Data*				LTM**			EV/LTM**	
	Price 11/16/2021	%52 Wk High	Market Cap (\$M)	Enterprise Value (\$M)	Revenue (\$M)	EBITDA (\$M)	Margin (%)	Revenue x	EBITDA x
Ceridian HCM (NYS: CDAY)	\$120.4	92%	\$18,069.0	\$18,866.5	\$964.9	\$156.9	16%	20x	120x
ExlService Holdings (NAS: EXLS)	\$136.3	98%	\$4,539.2	\$4,532.6	\$1,075.8	\$283.2	26%	4x	16x
TaskUS (NAS: TASK)	\$64.0	75%	\$6,282.0	\$6,461.6	\$672.7	\$164.7	24%	10x	39x
Conduent (NAS: CNDT)	\$5.7	68%	\$1,244.8	\$2,663.8	\$4,147.0	\$505.0	12%	1x	5x
Ibex (NAS: IBEX)	\$18.3	72%	\$323.3	\$377.9	\$443.7	\$58.2	13%	1x	6x
StarTek (NYS: SRT)	\$4.7	47%	\$196.3	\$425.6	\$700.8	\$55.5	8%	1x	8x
ServiceSource (NAS: SREV)	\$1.2	56%	\$122.8	\$131.1	\$191.0	\$9.6	5%	1x	14x
DLH Holdings (NAS: DLHC)	\$15.9	95%	\$202.2	\$275.2	\$231.6	\$24.8	11%	1x	11x

\*Market data as of 11/16/2021

\*\*LTM data as of Q3 2021

Mean	15%	5x	27x
Median	13%	1x	12x
Harmonic	11%	1x	11x
Maximum	26%	20x	120x
Minimum	5%	1x	5x

## CONTACT CENTERS—EXCLUSIVELY VOICE AND COMMUNICATION TECHNOLOGY SERVICES

Company Name	Market Data*				LTM**			EV/LTM**	
	Price 11/16/2021	%52 Wk High	Market Cap (\$M)	Enterprise Value (\$M)	Revenue (\$M)	EBITDA (\$M)	Margin (%)	Revenue x	EBITDA x
Avaya (NYS: AVYA)	\$20.9	61%	\$1,768.5	\$4,307.5	\$2,968.0	\$731.0	25%	1x	6x
Twilio (NAS: TWLO)	\$304.5	67%	\$54,240.5	\$50,136.0	\$2,547.2	\$3.8	0%	20x	13,066x
RingCentral (NYS: RNG)	\$265.1	59%	\$25,812.7	\$26,901.3	\$1,368.4	\$268.2	20%	20x	100x
8x8 (NYS: EGHT)	\$23.0	59%	\$2,550.2	\$2,810.3	\$541.0	\$54.8	10%	5x	51x

\*Market data as of 11/16/2021

\*\*LTM data as of Q3 2021

Mean	14%	11x	3,306x
Median	15%	12x	76x
Harmonic	1%	4x	20x
Maximum	25%	20x	13,066x
Minimum	0%	1x	6x

Source: PitchBook Data

## Select M&amp;A Transactions

Date	Target	Target Description	Acquirer	Deal Value (\$ in millions)
9/30/21	Paydata Payroll Services	Provider of payroll, human resources and timekeeping services	Evolution Payroll Processing	\$15
9/28/21	NextLevel	Provider of strategic, operational and financial management services	E78 Partners	N/A
9/16/21	SilkRoad Technology	Provider of strategic human resources services	HighBar Partners	N/A
9/8/21	NeoSystems	Provider of strategic back-office services and solutions	High Street Capital	N/A
9/1/21	Blue Marble Payroll	Provider of a cloud-based payroll solution intended to manage international payroll	Paylocity (NAS: PCTY)	N/A
8/31/21	Madison PEO	Provider of outsourced human resources services to SMEs	Tandem HR	N/A
8/31/21	NCB Management Services	Provider of accounts receivable management (ARM) and call center management (CCM) services	Trive Capital	N/A
8/27/21	Sykes Enterprises (NASDAQ: SYKE)	Provider of multichannel demand generation and global customer engagement	Sitel Group	\$2,200
8/23/21	Related Risk	Provider of third-party administration services	Alera Group	N/A
8/18/21	Framework Solutions	Provider of outsourced business and consulting services for companies in life sciences	Westview Capital Partners	N/A
8/12/21	Light Networks	Provider of advanced data analytics, voice and contact center telecom services	Anexinet	N/A
8/2/21	Aviocode	Provider of outsourced medical coding and compliance services	Gebbs Healthcare Solutions	N/A
8/2/21	North Woods Capital Benefit	Provider of employee benefits and human resources advisory services	SDN Insurance Agency	N/A
7/23/21	Fallon Benefits Group	Provider of employee benefits brokerage and consulting services	NFP	N/A
7/20/21	Workforce Insight	Developer of workforce optimization and human capital management solutions	Accenture (NYS: CAN)	N/A
7/18/21	Five9 (NAS: FIVN)*	Provider of intelligent cloud software for contact centers	Zoom Video (NAS:ZM)	N/A
7/6/21	Unifyhr	Provider of employee benefits administration and compliance services	Ascensus	N/A

\*The company was to be acquired by Zoom Video Communications (ZM) for \$14.7 billion on July 18, 2021. The acquisition would have helped ZM enhance its platform for customer engagement. The deal was cancelled on September 30, 2021 due to Five9's lack of stockholder support.

Source: PitchBook Data



**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.*



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