THE KNOWLEDGE ECONOMY

Global Buyers Report 2022

Equiteq

Contents

Executive Summary

I am delighted to once again present the findings from our annual survey - now in its seventh year - of global Strategic buyers and Private Equity investors across the Knowledge Economy.

The 2022 Knowledge Economy Global Buyers Report provides unique insights into the M&A trends that buyers expect to take shape in the next 12 months, backed by rigorous data and contextualized by insights from Equiteq's global team. Once again, we collate the opinions of decision makers and senior leaders from across the Knowledge Economy's core verticals: technology services and outsourcing, management consulting, software, engineering consulting and human capital management.

Twelve months ago, M&A activity in the Knowledge Economy sat atop a rapidly rising wave, having recovered sharply from the shock caused by the COVID-19 pandemic. Today, as both valuations and deal volumes have grown ever larger in the intervening year, we have a market that 72% of buyers say is overheating.

However, given that activity has risen from quarter to quarter, and with 40% of buyers agreeing that the pandemic will only strengthen their need for M&A in the long-term, we have a searing hot market intensity that a small majority of buyers (55%) believe will persist for at least the next 2-3 years.

Such activity though is of course contingent on the underlying demands of buyers, who are increasingly seeking out competitive advantage and growth through the broadening of service lines and delivery models. It is, of course, also dependent upon the supply of willing sellers, and there is no shortage of high-growth companies in the space, both founder held and in PE portfolios, to continue to support high deal volumes.

With nearly all buyers (98%) expecting more or the same volume of M&A capital next year, it's clear that competition is likely to intensify as buyers seek to out-gun one another in acquiring advisory skills and capabilities across a mix of emerging technologies (see page 9).

Add to this both a broadening of geographical areas of interest and the added incentive to complete transactions before possible changes to capital gains tax treatment in the US, and we have an almost perfect storm of converging interests that will drive even more activity in the coming year. Given the buyer sentiments expressed in our research, the takeaway is clear: M&A activity in the Knowledge Economy is unlikely to retreat anytime soon.

As ever, I would like to extend my thanks both to those who participated in this year's survey, as well as to my colleagues around the globe. You have all provided exceptional real-world insights into the activities of buyers throughout the Knowledge Economy and, in doing so, have demonstrated the value that the Equiteq team can offer to our global clients.

David Jorgenson
CEO, Equiteq

98%

expect more or the same volume of M&A capital next year

Market Heat

Has there ever been a greater volte-face within the Knowledge Economy M&A space than the one we have witnessed over the past 12-18 months? From the overnight disappearance of activity in H1 2020 to its electric return in H2, through to the ferocious heat we see in the market today, you can be sure that this ranks as one of the all-time great comebacks.

Everywhere we look in the Knowledge Economy, the market is overheating. It's a common consensus among the vast majority of buyers too, with 70% of Private Equity investors and 74% of Strategics in agreement with this sentiment.

"There's been a kind of rising frenzy towards the end of this year," says Paul Dondos, Managing Director, Global Buy-side & Market Intelligence at Equiteq. "It's a gradient that's been playing out from the middle of the year as buyers look to get deals done by the year-end - especially in North America with changes to capital gains tax imminent. It's as if the market heat itself is a positive feedback loop that has encouraged businesses to take part so as not to miss out."

With a buy high, sell high arms race in full effect, more than a quarter of buyers (28%) say they have reduced their participation in the market. Strategic Acquirers appear more likely to have quelled their activity, with our data showing an overall drop in net participation of -15% despite a sizable majority reporting no impact on overall participation. On the other hand, Private Equity participation is sitting way up with a net increase of +22%, a swell in activity potentially driven by accumulated funds and the sense of opportunity as Strategics hint at retreat.

"We see this throughout the Knowledge Economy, especially in the digital services and management consulting space, which has been invested in by Private Equity more than ever," suggests Jerome Glynn-Smith, Managing Director at Equiteq in London, UK. "Private Equity's 'bolt-on and build-up' thesis means we're seeing more and more smaller companies empowered to participate in processes and make deals - and that hasn't typically been the case."

Navigating the heat

With participation high, valuations increasing and activity scorching hot, it's no surprise that buyers have had to take significant actions to navigate the current market. Private Equity buyers in particular (70%) are putting more focus on originating their own deals to minimise competition despite the challenges they face in closing a deal off-market in the current heat.

Successful examples of such off-market deals include Silverfleet Capital's dual acquisition of two European digital transformation companies in March 2021, uniting German firm ec4u and the Bulgarian firm BULPROS to form DIGITALL, a provider of next-gen digital Cloud experiences.

Yet while Private Equity have looked to conclude deals both on and off-market, more than half (60%) of Strategics say they are instead concentrating their M&A efforts on the most synergistic and strategic targets. As such, market capacity

Proportion of buyers that think the market is overheated

70%

Private Equity

74%

Strategic Acquirers

Silverfleet Capital buys ec4u and BULPROS

- Digital transformation consultancies, ec4u and BULPROS, have agreed to merge with the backing of Silverfleet Capital to form the new brand DIGITALL.
- Combining ec4u, a 160-person consultancy based in Germany, with 290-person Bulgarian headquartered firm BULPROS, is expected to accelerate growth for both firms, whilst unlocking future areas for expansion.
- The deal strengthens Silverfleet's foothold in the cloud-based digital business solutions market and gives them access to several strong technology partners including Salesforce, Microsoft, SAP, Oracle, IBM, Cisco, and Snowflake.

remains a source of stress for buyers, and the extreme heat is driving both Strategics (40%) and Private Equity (70%) towards greater selectivism.

"It's a flight towards the most winnable opportunity," notes Glynn-Smith. "With the heat and participation we're seeing, buyers are only running at the opportunities they know they can win."

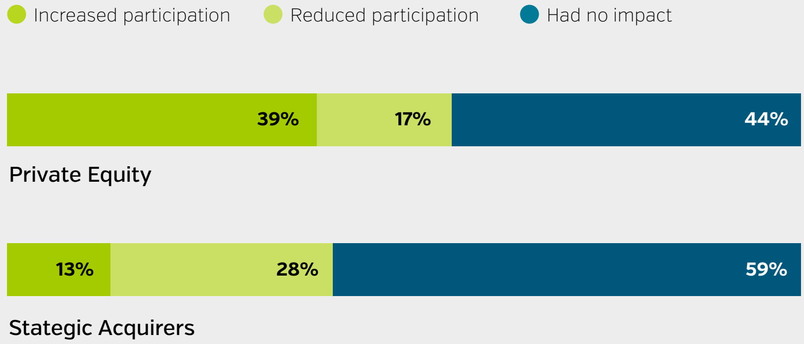
In short, why fight through the noise to pay a sky-high price when you have other deals you could focus on?

It's a sentiment that Dondos agrees with, adding "we're certainly seeing buyers needing greater confidence in assets because, due to the high demand and estimates in the market, they know that they're going to need to stretch beyond their prior principles around what a viable valuation could be."

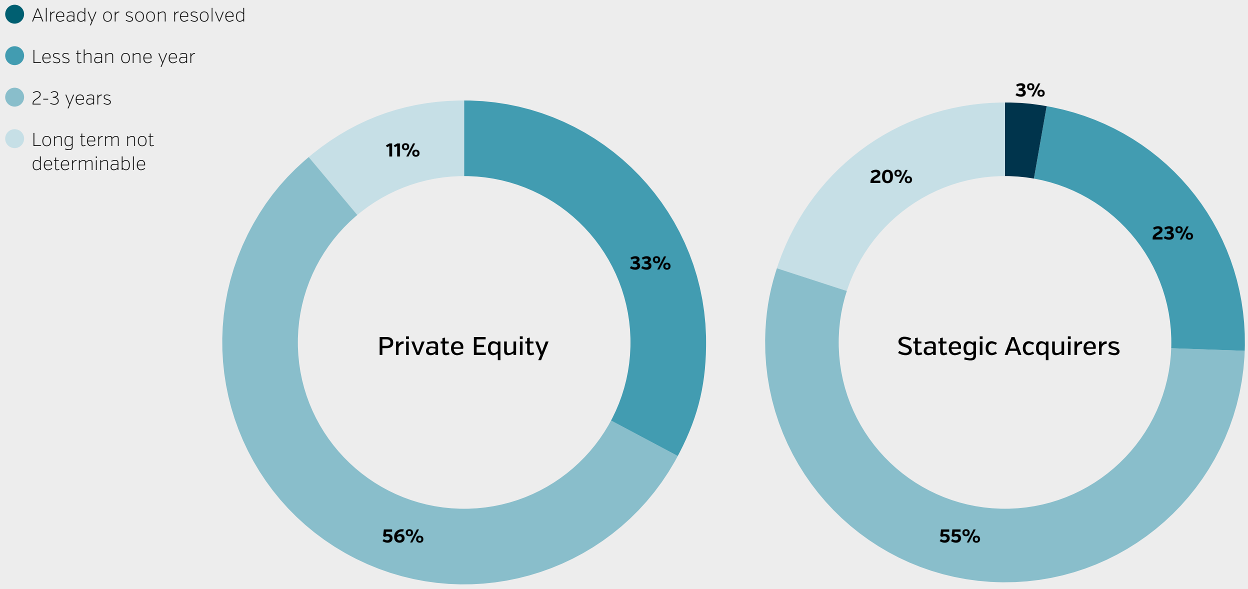
Yet this appears to be the new normal - at least for the time being. With the majority of survey respondents (55%) holding the belief that these overheated conditions will last for at least another 2-3 years, it suggests that buyers may need to act smarter as well as faster in the short-to medium-term.

> "With the heat and participation we're seeing, buyers are only running at the opportunities they know they can win"

The impact of market heat on buyers' plans



How long buyers anticipate overheated conditions will persist...



Propensity for **Acquisitions**

One of the major drivers behind the sustained growth in market activity that we've seen over the past 12 months is undoubtedly the seemingly endless funds available to buyers, especially among Private Equity investors. It's a driver that appears to be de rigueur in the current market with almost all buyers expecting more, or the same, available capital for M&A in the next year.

Two-thirds of Private Equity expect an increase in available capital – a significant increase on last year (66% vs 25%) - while the proportion of strategics also seeing an increase in capital available is also higher year-on-year (50% vs 33%).

"The market is certainly healthier and more balanced compared to last year," says Jeff Becker, Managing Director, Head of M&A - North America at Equiteq. "Strategics took a little bit longer after the onset of the pandemic to get comfortable moving forward with acquisitions as they sought more assurance that the worst was over - especially among larger players. But now they're feeling increasingly confident and aggressively looking for growth opportunities."

It's this growing confidence and level of available capital that has helped propel Accenture to become the world's most acquisitive company in the technology space, deploying over $4 billion in capital on acquisitions during the last 12 months (see Appendix). In the wake of such bullish acquisitive propensities, we've seen new optionalities and different strategic directions arise for sellers, who are increasingly - and proactively - looking to demonstrate not only their value but their affordability to buyers seeking to broaden service offerings and deepen expertise through inorganic growth.

> **"There's a sense amongst Strategics that the innovation frontier is getting out of their reach because Private Equity are driving it forward so quickly"**

Growing volumes of deals

Accordingly, this translates into an expectation of more deals, with just over half of all buyers expecting to increase their deal volume in the coming year. The expectations of Private Equity buyers, in particular, have recovered significantly from the concerns expressed in last year's survey, with those expecting to complete more deals rising from 65% to 90%. We see this positive sentiment among Strategics too, 90% of whom expect to make more acquisitions in the coming year, up from 78% last year.

Despite this, we do see a degree of tentativeness beyond a 2-3 year outlook as despite more than half of buyers expecting to increase activity over this time period, the overall proportion is slightly down on last year's findings suggesting early signs of moderation - the first such signs emerging from our research in the past three years. Similarly, we see a degree of moderation surrounding deal sizes, with 60% of Private Equity investors expecting deals to remain of similar size. However, there are faint signs that Strategics expect their deal sizes to increase.

Yet, with the working world forever changed by the pandemic, digital skills, capabilities, and platforms remain in high demand among Knowledge

98%

of respondents expect more or the same amount of capital to be available next year

Economy buyers. Add to this the march of innovation and progress, and it's clear that a sense of underlying urgency is pushing buyers to seek out more new opportunities.

"There's a sense amongst Strategics that the innovation frontier is getting out of their reach because Private Equity are driving it forward so quickly with available capital," explains Dondos. "So Strategics are realising that if they don't make deals, there's a real risk that this momentum will continue, and they could be left behind."

Vertical interests

With digital innovation the name of the game, it's interesting to note the verticals that are capturing buyer interest - as well as those where interest has cooled. Unsurprisingly, as the worst of the pandemic recedes, buyer interests in Healthcare and Life Sciences have also normalised, dropping from a 'first choice' spike for 50% of buyers last year to just 23% of buyers this year.

As healthcare has dropped back, other verticals have moved forward, namely Financial Services, which has returned to the position of vertical with most overall interest - now a 'first choice' priority for 38% of buyers. Elsewhere, we have seen a significant interest in the Energy vertical, which has grown as both a 'first' and 'second choice' among buyers driven by energy pricing and utilities factors, but even more so by climate issues that have grown in both significance and prevalence in the past year.

"We've definitely seen the emergence of all things related to sustainability," says Sylvaine Masson, Director, M&A Services for Equiteq in APAC. "Anything sustainable is now automatically more attractive, especially opportunities related to ESG and environmental rating businesses. This has grown much higher in terms of priorities and interests for most Knowledge Economy buyers."

A further cross-vertical trend that has emerged over the past year, especially in recent months, is a shift in attitude towards the public sector - formerly a pariah among many buyers but now increasingly appealing thanks to its resilience in the face of uncertainty - including recessions, pandemics, and the like. As such, we're seeing a high-water mark for deals as buyers invest vast amounts to add such assets to their portfolio.

Deals indicative of this trend include Tyler Technologies $2.3bn acquisition of the digital payment services NIC in February - one of the biggest public sector deals to date - and Rock Solid Technology's acquisition of PrimeGov, a public meeting technology provider.

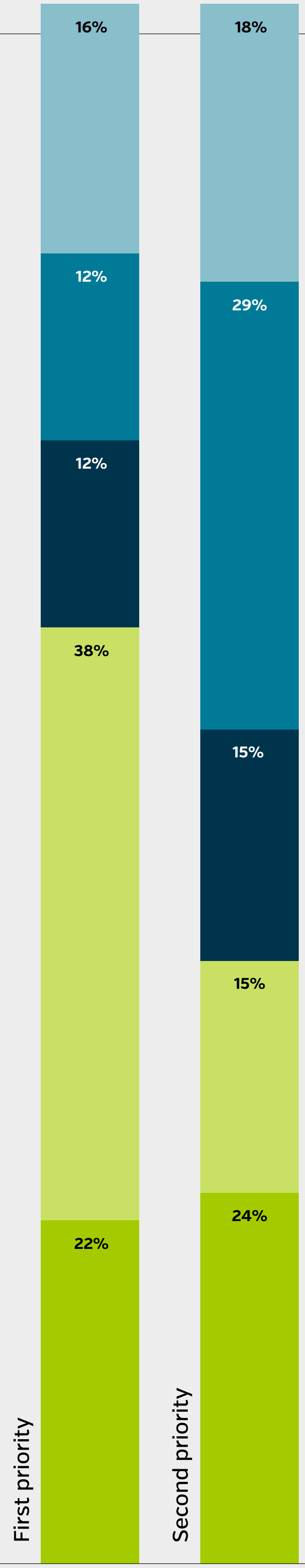
BUYER DEMAND

"Climate change and sustainability consulting is a top priority"

Multinational professional services network, 2021

Acquisition priorities by vertical sector

- Healthcare and Life Sciences
- Financial Services
- Retail
- Energy
- Heavy Iindiustries [e.g. Manufacturing]



Due to rounding figures may exceed 100% total

Geographical interests

North America remains the region of most interest to buyers, although there is moderate to high interest across all geographies. Just over a third of respondents named North America as the most important market for acquisitions, which is consistent with last year but is a drop in overall proportion (33% in 2022 vs 47% in 2021). Beyond this, Europe remains the second most important market (within which Continental Europe and UK are almost identical) but has seen interest as a 'first choice' grow from 32% last year to 41% this year.

Further abroad, interest in LATAM has continued to increase slightly, suggesting that the nearshoring trend is still developing among buyers in search of low-cost labour and high-quality skillset acquisitions.

Driving this widening of global interest is a shift in buyer interests away from simply augmenting with new digital capabilities to making larger and more strategic moves into new areas (which also points to the growing propensity among buyers to seek out even more specific, strategic and synergistic opportunities).

> **"Anything sustainable is now automatically more attractive, especially opportunities related to ESG and environmental rating businesses"**

"We're talking about buyers looking for flagship investments in a geography that they may already be present in to really drive another level of operation in those areas capability-wise. That has developed over the last six to nine months. It wasn't the case before," says Dondos.

Masson suggests that the global shift in working habits, namely the acceleration and proliferation of remote working is further driving the more geographically disparate interests of buyers: "We're seeing greater interest in countries where there are lot of skill sets, inexpensive labor, and employees who can work from a distance - countries in LATAM, Eastern Europe and South-East Asia. If a company has a strong training center and can ramp up resources in a specific area in geographies that they would not have considered before, then that's also quite attractive and expands the scope of opportunities for buyers."

Tyler Technologies buys NIC

- Tyler Technologies, a 5,300-person Texas-based provider of software and technology services to the public sector, has acquired NIC, a leader in digital government payments services based out of Kansas.
- The $2.3bn deal sees the addition of NIC's 430-strong team to Tyler, alongside digital and payment services that will be combined with Tyler's sizable client base to capitalize on growing demand in the market.
- As one of the largest public sector deals to date, it evidences the shift in attitude amongst buyers as more investors are enticed by the unwavering strength of the sector.

Rock Solid Technology buys PrimeGov

- Rock Solid Technology, a Puerto Rican GovTech SaaS company, has acquired PrimeGov, a firm offering GovTech tools to manage public meetings, livestreams, and audience participation.
- Client access provided a strong rationale for the deal, as the combined client base offers extensive reach across the US, to over 180 local governments.
- The pandemic has stimulated demand for GovTech, meaning the combination of Rock Solid and PrimeGov produces a uniquely positioned firm with highly sought-after capabilities.

Digital & Industry **Disruption**

At this point, it's quite clear that the necessary acceleration of broad strokes digital transformation precipitated by the pandemic has become an entrenched trend. With years' worth of roadmaps condensed into a mere 18 months, the robustness of interest in 'digital' is beyond challenge. However, we are now beyond the initial 'dash to digital' seen in 2020 and early 2021 as buyers turn their attention to what's next - namely a long-standing imperative to broaden their service lines.

Digital demand drivers

The acquisition of digital technology remains a major demand driver of M&A, especially with regards to the acquisition of digital advisory capabilities and service enhancing digital tools, and we have seen a clear development towards buyers taking sizable steps into new markets and new capabilities over the past year.

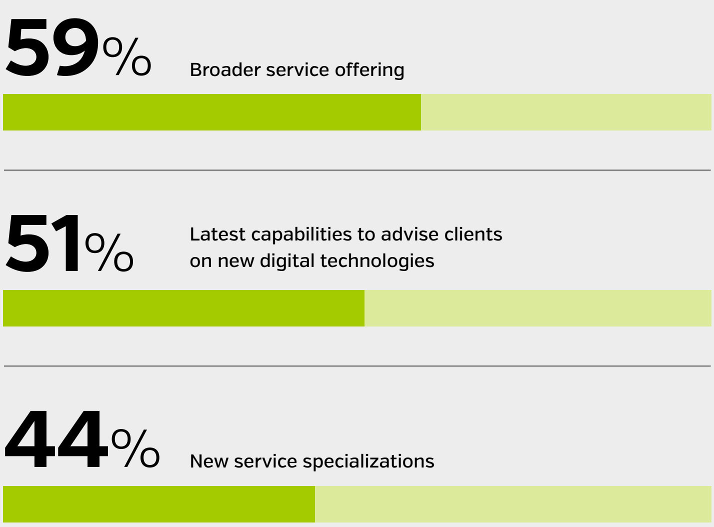
"The nice-to-haves have become basic fundamentals," explains Dondos. "We've seen a shift in what's required to play in the new paradigm that means things have become more sophisticated. Buyers and investors are now looking beyond purely data capabilities and showing ever more interest in proprietary data and the value that a company is getting from selling that - it's more about building an asset now rather than simply buying a capability bolt-on."

Accordingly, the majority of respondents (60%) indicated that the main business objective for digital M&A is to drive revenue growth, with secondary areas of focus including the use of digital to drive productivity and comply with cybersecurity regulations. We do see variations in the market though, with Private Equity buyers seeking out bigger, more sizable transactions that will enable rapid growth, whereas Strategics seem a little more interested in opportunities to acquire interesting, synergistic skills not necessarily backed by an evident, unifying thesis.

Over 70% of Strategic acquirers said they are interested in acquiring digital advisory capabilities, a small reduction on last year, but still an impressively high proportion. Buyers are particularly interested in digital advisory capabilities that bring service-enhancing tools, but are less interested in those tools without advisory capability.

"The desire for digital skills and advisory capabilities is stronger than ever," says Masson. "IT services, Cloud, and Analytics are all areas experiencing high demand from buyers because there is a huge skills

Top three demand drivers for M&A within buyers' organisations



gap in the market. This is creating an emphasis on acquiring the right skills, which is why companies with strong recruitment, onboarding, training, and overall human capital development capabilities will stand out to buyers compared to firms that are unable to effectively develop talent internally and so need to recruit at a more senior level. Buyers are looking to build a machine that brings people to scale faster as it's a solution to the shortage of skills in the market."

Glynn-Smith concurs, adding: "We're seeing strategic consulting firms look at technology and development shops in a completely different way. Players like McKinsey and BCG are increasingly active because they can't build these critical capabilities organically - and the same is true the other way round. We're seeing players from the tech space now acquiring consulting capabilities and Accenture are probably the best example globally of that, having done so much of it, that they're now a de facto consultancy." [See Appendix]

Capabilities aside, there continues to be broad interest in a whole suite of digital technologies from both Strategics and Private Equity. Data analytics remains a key priority for both with 76% of respondents naming it a technology of focus. Demand also remains high in a range of other technologies including Artificial Intelligence and Machine Learning (AI/ML), Cloud, Robotic Process Automation (RPA), and Cybersecurity with particular spikes in interest from Private Equity in next-gen technologies such as RPA, Blockchain and IoT. This convergence of interests feeds into the broadening of services narrative that we have identified, as buyers seek out specific, niche expertise across multiple areas rather than in one or two areas, which we have seen in previous years.

"Specific areas of innovation are particularly attractive right now," says Glynn-Smith. "We keep talking about Cloud, for example, but buyers are increasingly interested in those firms that only do Cloud because they offer better value for money compared to, say, a larger business that does a bit of Cloud - even if their offering is bigger. When it gets diluted it's not as good - and buyers are becoming more and more aware of this."

> **"Buyers are looking to build a machine that brings people to scale faster as it's a solution to the shortage of skills in the market"**

Digital investment

With interest broadening, it is reassuring to see that most buyers expect to increase their investment in digitally-focused businesses in the coming year. Almost a third expect to significantly increase their investment, with 44% expecting to increase somewhat, representing an acceleration towards 'significant' from last year. Private Equity investors, as might be expected, appear more aggressive than their strategic counterparts who remain more interested in synergistic deals rather than the high-price/even-high-reward mode of thinking embraced by Private Equity.

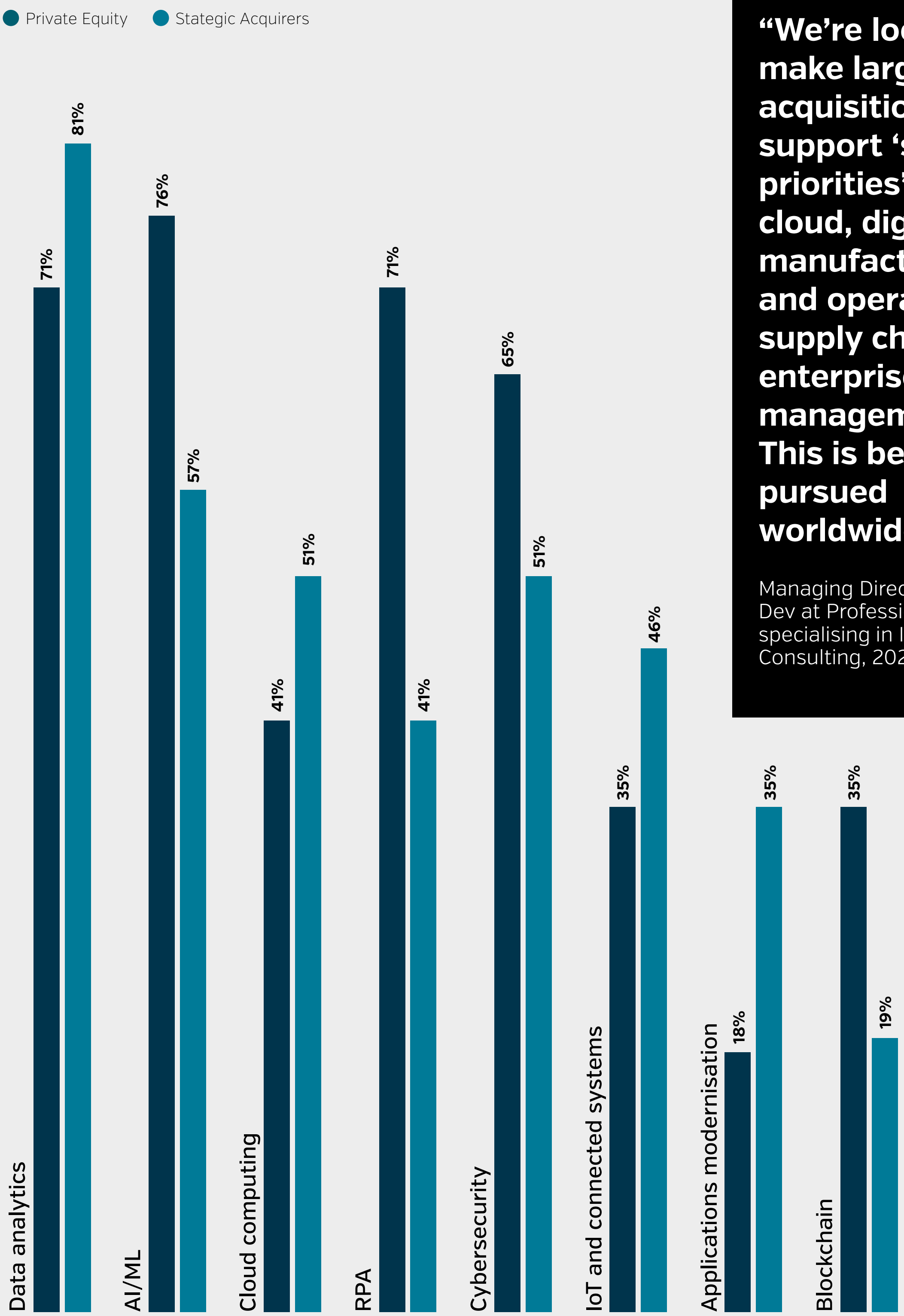
This acceleration in investment is likely driven by several factors. One, as aforementioned, is the desire to complete deals before changes to capital gains tax are rolled out in 2022. A second is the emergence of new, alternative, and increasingly attractive technology partners.

"Platforms like Quantum, Anaplan, and Workplace are all increasingly attractive to buyers," explains Masson. "There are a lot of emerging technology platforms that weren't completely on the map last year that are now becoming more appealing. But as they're relatively new, there aren't that many companies available on the market with the right skills and capabilities. Consequently, even though they are a bit smaller in size, in terms of transaction, they are very attractive and being rapidly acquired."

Looking long-term, the emergence of new technology partners for growing platform ecosystems will likely sustain high levels of investment, with 41% of buyers expecting to significantly increase investment in digital over the next five years. Almost none expect to reduce investment. This indicates that long-term interest in digital remains a strong and durable 'mega trend' within Knowledge Economy M&A – and one that appears to have been 'brought forward' by the pandemic. The question then is whether this acceleration means that the trend will burn itself out sooner or will rapid adoption cycles render the innovation curve steeper and push the frontier even further out of reach?

"There's a long way to go yet," says Dondos. "Right now it's an unprecedented race to acquire digital assets, IP, capabilities and scale. What does that mean 'in 2-3 years' time? I'd be tempted to say we've got longer, but if there's one thing to come out of the last 12 months it's uncertainty. At the least though, I don't think we're anywhere near this activity playing itself out."

Buyer interest across digital technologies



BUYER DEMAND

"We're looking to make large digital acquisitions to support 'super priorities': cloud, digital manufacturing and operations, supply chain, enterprise asset management. This is being pursued worldwide."

Managing Director, Corp Dev at Professional services specialising in IT Services & Consulting, 2021

Evaluating Deals

Despite the exceptional heat, high levels of activity and need to be more strategic in their choice of processes, our findings suggest that while buyers may be approaching deals with savvier tactics in mind, the key criteria they use for evaluating targets remain consistent.

> **“Buyers are looking for new propositions enabled by IP, tools or software - all things that differentiate a company’s offering and make it stand out”**

Qualitative criteria

Qualitative assessment criteria are in line with previous survey findings, centring on a prospect’s client base, uniqueness of proposition, strategy and quality of management. Both Strategics and Private Equity are in accord on this point, with the largest shift coming in the form of management quality, which was designated an even higher priority in this year’s research (>80% c.f. >70%).

This is perhaps a residual knock-on effect of the pandemic, in which resilience and the ability to navigate uncertainty have both become critical factors that buyers have borne in mind over the last 12 to 18 months. For many buyers, strong leaders are an increasingly attractive part of the package when it comes to assessing prospects.

Interestingly, our data also suggests that Private Equity investors have become more stringent in their assessment criteria over the past twelve months, applying higher thresholds and additional diligence as they seek out the highest quality assets; the rub here being that aside from hard metrics, the idea of what constitutes ‘quality’ is also evolving.

“There is a greater acceptance of the importance that Knowledge Economy assets play in achieving a competitive advantage, so a flight to quality makes sense,” says Dondos. ”But what does ‘quality’ mean? It can still mean an asset that’s getting bigger or growing robustly, but it can also be inherent to businesses that have had to reorganize, and done so successfully, or those that have progressed without top-line growth but who may actually have the strongest story going forward.”

Despite respondents indicating increased stringency when assessing potential targets, we are also seeing buyers display interest in businesses that may on some level look like they’ve stood still (i.e. financially), but have in fact been reworking their propositions, organisation, and operations to benefit from the current environment. This may expand the pool of interesting opportunities for buyers going forward but with bandwidth an issue for both Private Equity and Strategics as we head into a busy Q4, such businesses are likely to be overlooked for more strategic and higher priority acquisitions in the short-term.

The availability of IP also remains an important consideration for buyers, with respondents suggesting that it is important in both supporting indirect revenue generation through service differentiation as well in enabling scalability. Proprietary methodologies are the most important type of IP in the eyes of respondents, valuable to both Private Equity and Strategics, although software is nearly as important to PE buyers – much more so than it is to Strategics.

“A lot of buyers have acquired new skills in the past year and a half, so now they want to acquire companies that are doing something specific, a bit unique, that can help them grow even faster,” says Masson. “Buyers are looking for new propositions enabled by IP, tools or software - all things that differentiate a company’s offering and make it stand out.”

Quantitative assessment

While buyers seek out more specific indicators of quality among soft evaluation factors, respondents remain steadfast in the hard metrics that matter most. Growth and margins are still the most important quantitative criteria that buyers examine when evaluating an acquisition target, with Private Equity again applying higher and more stringent thresholds than Strategics. However, with well in excess of a trailing 12 months in the rear view mirror, sympathy for a pandemic-stricken bottom line is in some cases starting to run out.

"It's not even a tolerance at this point," says Dondos. "There's more than enough businesses benefiting all over the economy for buyers to find some quality. So, if you've been affected by the pandemic, you better have a strong story ready about how you've reorganized in order to benefit and how that is already showing signs of being realized."

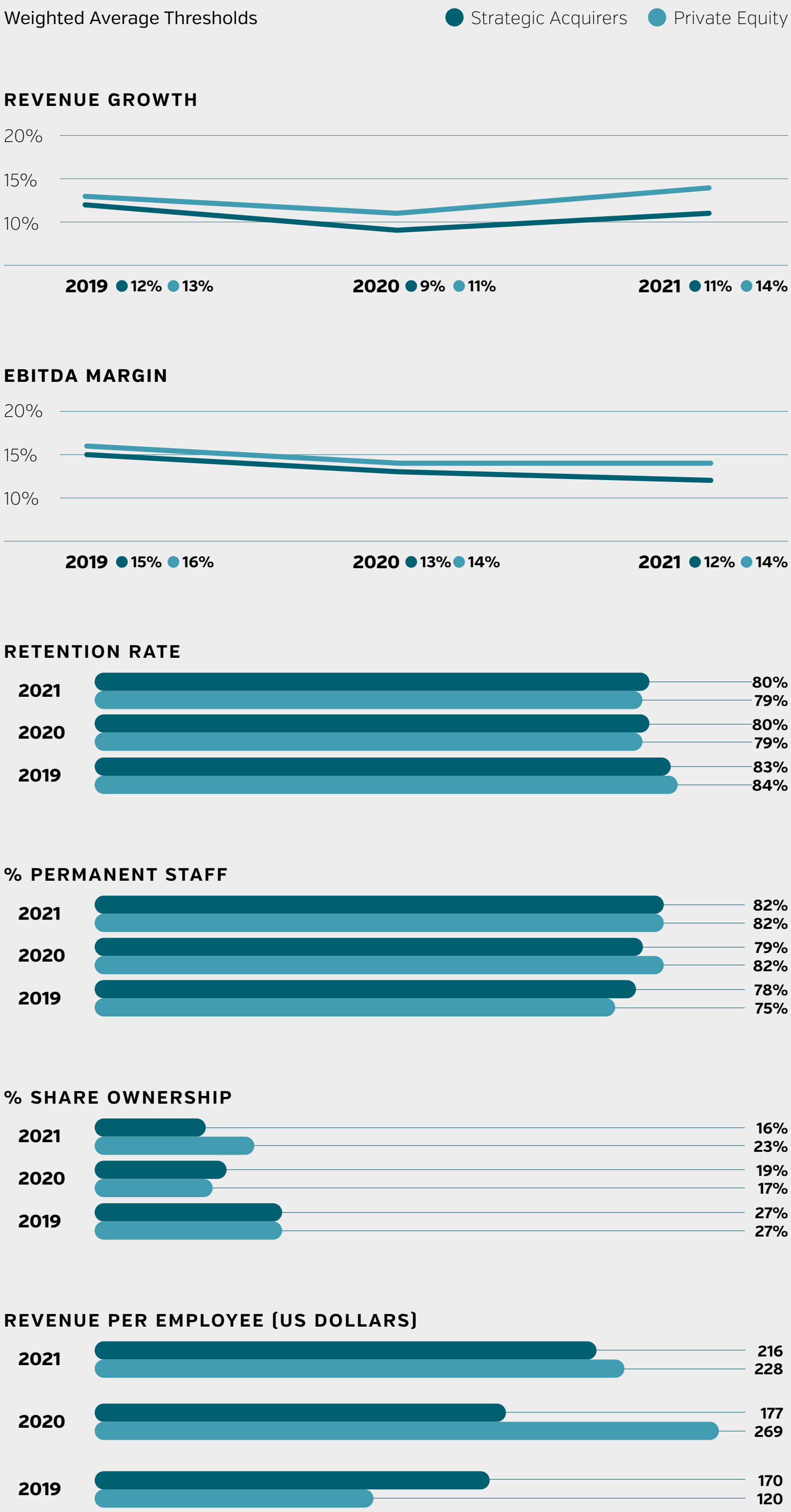
Our findings suggest that while buyers are placing slightly less emphasis overall on EBITDA growth than in the past, they are still seeking growing businesses with strong EBITDA margins. In fact, 58% of Strategic buyers and more than 80% of Private Equity buyers would question an acquisition with an EBITDA margin lower than a 10-15% threshold. Similarly, nearly 60% of all buyers see revenue growth of 10-15% as a minimum threshold - this is up on last year and is indicative of the emerging long-term trend as Private Equity buyers again apply more stringent thresholds than Strategics (14% vs 11% minimum revenue growth).

In terms of people, the vast majority of Strategics want at least 75% permanent staff but the picture with Private Equity is more mixed. Our findings suggest a third of Private Equity buyers will tolerate fewer than 75% of staff being permanent, with another third looking for more than 90% being permanent.

There also remains a stark cut-off for staff retention – buyers will not accept retention levels lower than 70% and ideally expect retention of ~80%, consistent with previous years. However, Glynn-Smith rightly flags that while people metrics and retention levels are consistent, there are pandemic-influenced factors still at play too:

"Retention is still important for buyers and the more difficult thing is that it's getting harder to replace people you lose in the wake of a transaction. Talent is a problem and there's a lot of demand, which is true across professional services and many other areas. This has accelerated the attraction of academy-centric business models, like those at FDM, Scarva and TenTen in the UK. But if you don't have access to a talent academy model - retention becomes even more important instead."

What KPI threshold values are buyers considering?



Valuing and Structuring Deals

If there is some solace for buyers amid the tumultuous market activity of the past year and a half, it's that they can still rely on deal structures to afford some stability as we enter 2022 despite increasing valuations, shortening earn-outs and heightened competition.

Following the same broad trend of recent years, buyers' expectations for an 'average' deal structure are to deliver just under 60% of consideration as upfront cash, with Strategics eyeing simple structures based on this upfront cash plus a deferred consideration in the form of an earn-out linked to performance metrics with little use made of equity. Conversely, as might be expected, Private Equity opt for deal structures that utilize equity much more, although the 'average' private equity deal does include ~25% of deferred consideration, according to our findings.

"Valuations have gone up, but I think we're generally closer to last year in terms of deal structures," says Dondos. "Yes, there's a greater propensity among some buyers to pay more upfront in order to win processes - but given the market heat that's normal."

Our research also suggests a continuation of the slow, downward trend of 'average' earn-out periods too, now down to 2.0 years compared to 2.3 years in 2021 and 3.2 years in 2019. In general, Private Equity investors are pushing for shorter earn-outs around the 1.6-year mark, while Strategics are more in line with the overall weighted average at 2.1 years. This reduction in earn-out periods chimes with the greater activity we are seeing within Knowledge Economy M&A as buyers look to make deals more appealing.

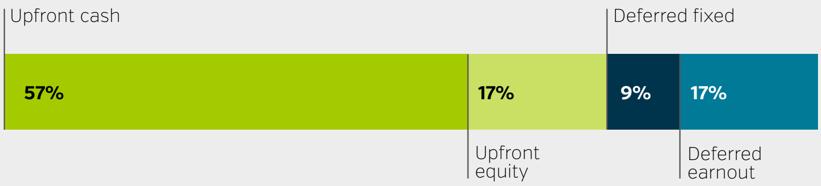
Regardless of length, respondents indicate that earn-outs are still predominantly based on EBITDA and revenue metrics, with the achievement of EBITDA targets featuring in over 60% of all combinations and revenue targets used in more than half. A slight divergence from last year's findings is that the prevalence of usage of these two metrics by PE has dropped a little with a corresponding increase in usage of gross margin targets. As flagged in the previous section, talent retention remains critical, and this is reflected in its use as an additional metric among Strategics in earn-outs.

Buyer interest in high growth businesses has pushed EBITDA multiples higher over the past 12 months, with a profitable business growing earnings at 10-20% likely to attract a 'record' multiple of 9-10x EBITDA in 2022 (compared to 8-9x EBITDA a year ago).

However, such multiple premiums seem to be concentrated on moderate growth assets, with high growth companies already attracting high levels and low growth companies simply not of interest.

"As well as high revenue growth, the type of revenue is important. We've seen the attraction of recurring revenue models and subscription models grow significantly over the last year or so, but that's effectively the way that many Knowledge Economy - and especially Software - companies operate," says Becker. "What buyers are interested in now is what kind of visibility and predictability an asset has into forward revenue streams - that will help maximize any outcome."

The average deal structure in 2022



Expected EBITDA multiples by growth rate (weighted year-on-year)

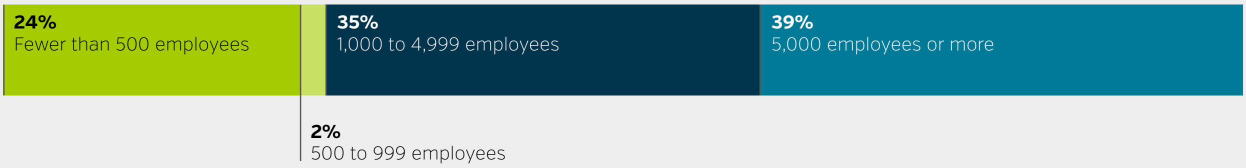
	2022 bottom	2022 top	2021 bottom	2021 top
Not growing	5.1x	5.9x	5.1x	5.8x
Growing 0-10%	6.6x	7.5x	6.2x	7.1x
Growing 10-20%	8.9x	9.9x	7.8x	8.8x
Growing 20-30%	10.5x	11.6x	9.7x	10.7x
Growing 30%+	11.1x	12.2x	10.8x	11.8x

Demographics

Overview of survey respondents

Seniority

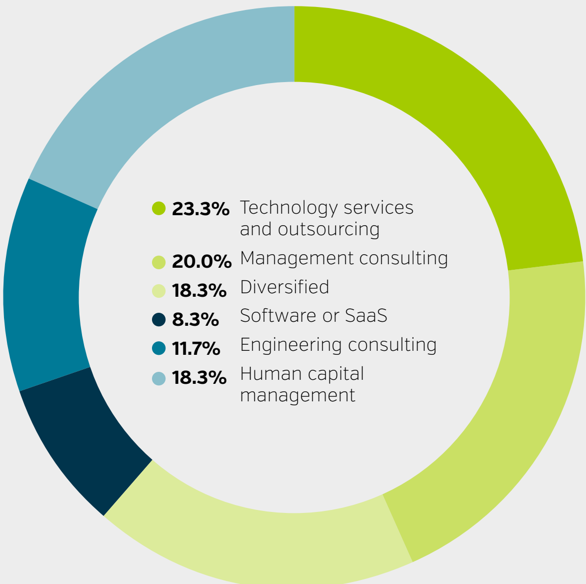
Firm size (Strategics)



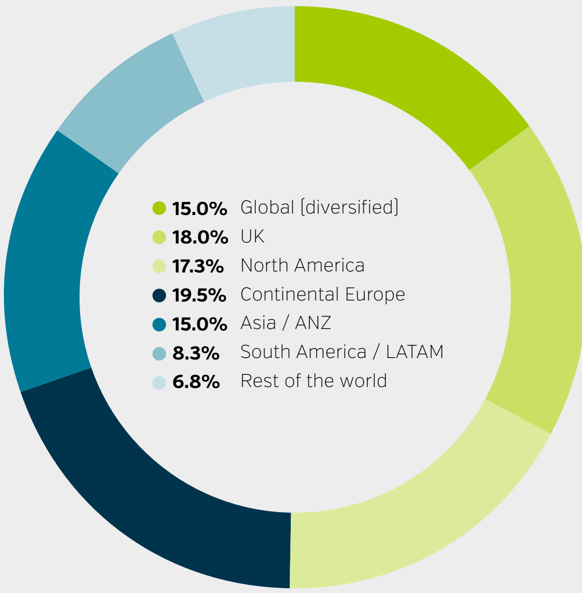
Type of buyer

Fund size (Private Equity)

Primary sector of focus



Geographies that respondents operate or invest in



Contributors

DAVID JORGENSON
CEO

During David's 20 year career as technology consultant and investment banker, he has advised business owners, shareholders, boardrooms and C-level executives on growth and value realization. David is an expert at every aspect of corporate financial advisory, from valuation, strategic financial advisory, public and private equity and debt financing, exit planning, M&A strategy and execution.

david.jorgenson@equiteq.com

JEFF BECKER
MANAGING DIRECTOR,
HEAD OF M&A - NORTH AMERICA

Jeff has over 25 years of investment banking experience, advising a variety of growth and middle-market companies on well over 100 strategic advisory or capital raising transactions. Jeff focuses on the software, tech-enabled services, and human capital management sectors.

jeff.becker@equiteq.com

PAUL DONDOS
MANAGING DIRECTOR
GLOBAL HEAD OF STRATEGIC ADVISORY AND MARKET INTELLIGENCE

Paul advises listed corporations, owner-managed businesses, private equity and portfolio companies on their approach to M&A. He leads Equiteq's strategic advisory practice – serving acquirers and investors on M&A origination, and business owners on growing their equity value – and Equiteq's market intelligence service, analysing and publishing data and perspectives on the global knowledge economy. He has 20 years' experience in corporate finance, consulting, digital services, and as a business owner.

paul.dondos@equiteq.com

Contributors

GREG FINCKE
MANAGING DIRECTOR

Greg is a Managing Director at Equiteq for North America. Greg works with owners to understand their goals for both themselves and their firms. He then brings together the necessary resources to deliver solutions to meet their objectives. Greg draws on his diverse business background to help owners think through what they want to achieve and when.

greg.fincke@equiteq.com

JEROME GLYNN-SMITH
MANAGING DIRECTOR

Jerome is a Managing Director at Equiteq and leads end-to-end sell-side and buy-side transaction advisory work, as well as active engagement and coverage of entrepreneurs and private equity in Europe. Jerome's expertise and value to clients stem from a combination of extensive enterprise technology services domain knowledge with strong transaction execution experience.

jerome.glynn-smith@equiteq.com

SYLVAINE MASSON
DIRECTOR, ASIA PACIFIC

Sylvaine is a specialist corporate advisor with a diverse background in the professional services sector, working with clients on M&A transactions, growth and strategic advisory. She has assisted companies in this sector to undertake strategic reviews, develop their businesses, facilitate international market entry strategies, prepare for sale and successfully complete sell-side and buy-side transactions.

sylvaine.masson@equiteq.com

Appendix
2021 Deals List

Table 1: Accenture

COMPANY	DESCRIPTION	YEAR
Real Protect	Brazil-Based Information Security Company	Jan-21
Wolox	Cloud First and Digital Transformation Capabilities	Jan-21
Businet	Salesforce commerce and cloud	Feb-21
Future State	Change Management	Feb-21
Edenhouse	SAP Cloud Capabilities	Feb-21
Infinity Works	Cloud first and engineering	Feb-21
Cirrus	Leadership and Talent Consultancy	Mar-21
Pollux	Industrial Robotics and Automation Solutions Provider	Mar-21
GRA	Supply Chain & Operations Capabilities	Mar-21
REPL Group	Retail Technology and Supply Chain Capabilities	Mar-21
Fable+	Analytics-Driven Transformation and Workplace Cultures	Mar-21
Imaginea	Global Cloud First Capabilities	Mar-21
Cygni	Cloud First Strategies With Software Engineering Services	Mar-21
Core Compete	AI-powered Supply Chain, Cloud and Data Science	Apr-21
Openminded	Cybersecurity	Apr-21
Root	Strategy activation consulting. Change	Apr-21
Electro 80	Operational Technology	May-21
Linkbynet	Cloud Services Provider	May-21
Homburg & Partner	Commercial Strategy, Sales and Pricing	May-21
Industrie&Co	Cloud native	May-21
Nell’Armonia	EPM solutions consulting	Jun-21
Novetta	AI, Cyber and Cloud Capabilities	Jun-21
Entropia	Experienced-led transformation	Jun-21

2021 Deals List

Table 1: Accenture cont.

COMPANY	DESCRIPTION	YEAR
Umlaut	Engineering consulting	Jun-21
DI Square	PLM and ALM	Jun-21
Exton Consulting	Strategy and Business Management Consulting	Jun-21
Sentor	Cyber Defense and Managed Security Services in Sweden	Jun-21
Bionic	Digital transformation, Growth and Innovation	Jun-21
Trivadis AG	IT Services Provider including Data and AI Capabilities to Help Companies Accelerate Data-Driven Transformation	Jul-21
Ethica Consulting Group	SAP Services provider in Italy	Jul-21
CS Technology	Cloud First Infrastructure Engineering Capabilities	Jul-21
Wabion	Cloud First Strategies with Expanded Google Cloud Capabilities	Jul-21
Cloudworks	Oracle Services provider in Canada	Jul-21
Workforce insight	Enterprise Workforce Management Capabilities	Jul-21
HRC Retail Advisory	Retail Strategy	Jul-21
Openmind	Commerce Experiences improvement, Cloud	Jul-21
LEXTA	IT Benchmarking, Sourcing and Advisory	Jul-21
Blue Horseshoe	Customer-Centric Supply Chain Transformation Capabilities	Aug-21
Gevity	Health Transformation	Sep-21
BENEXT	Independent French Product Management Consulting	Sep-21
King James Group	One of the Largest Independent Creative Agencies in South Africa	Sep-21
Experity	Experience and Commerce Platform Capabilities Across Latin America	Sep-21
Advoco	Intelligent Asset Management Solutions	Sep-21
BRIDGEi2i	Capabilities in Data Science, Machine Learning and AI-Powered Insights	Sep-21
Glamit	Digital Commerce Transformation in Argentina	Sep-21
Xoomworks	Procurement, Digital Transformation, Technology consulting	Oct-21
BCS Consulting	UK F.S Consulting and Technology services	Oct-21

2021 Deals List

Table 2: McKinsey

COMPANY	DESCRIPTION	YEAR
Candid Partners	Provider of cloud consulting services to large organizations	Jan-21
Hypothesis	Digital-focused consulting firm specializes in four lines of work: designing digital products and concepts, data science, developing tools and solutions including software engineering and product interface, and the adoption of agile ways of working.	Feb-21
Venturetec	Boutique consultancy specialized in digital innovation and venture building	Feb-21
Vivid Economics	Consultancy specialized in strategic advisory and economic policy for sustainability topics	Mar-21
Planetrics	Subsidiary of Vivid Economics that provides data analytics services and solutions for climate change scenario planning in the financial services industry	Mar-21

Table 3: Quantum

BUYER	TARGET	DESCRIPTION	YEAR
Ross Video	Primestream	Operator of a media management company intended to develop systems that optimize media creativity	Jun-21
Scale AI	SiaSearch	Developer of a software platform intended to accelerate the autonomous driving revolution	Nov-21

2021 Deals List

Table 4: Anaplan

BUYER	TARGET	DESCRIPTION	YEAR
Alpha FMC	Lionpoint	Operator is a consulting firm intended to help private market firms accelerate their growth	May-21
Accenture	Nell'Armonia	Provider of technology consulting services focused on enterprise performance management	Jul-21
Cognizant	Servian	Provider of data, analytics, digital, artificial intelligence and cloud technology services based in Sydney, Australia	Apr-21
ShoreView Industries	8020 Consulting	Provider of financial services intended for large companies to middle-market and venture-backed firms	Aug-21

Table 5: Workplace

BUYER	TARGET	DESCRIPTION	YEAR
Accenture	Cloudworks	Provider of cloud implementation services catering to the transportation, healthcare, manufacturing, retail, mining, oil & gas, utilities and financial services industries	Jul-21

Meet **Equiteq**

We are the leading global investment bank for the Knowledge Economy

Equiteq is a fast-growing global M&A specialist. We buy and sell the world's smartest knowledge-based and technology firms. Being close to active buyers and investors helps us to understand their acquisition needs and this informs how we can add value to founders who want to sell their businesses.

We are the recognized specialist advisor in the Knowledge Economy where intellectual property has historically been delivered through people in consulting firms, but more and more is delivered in combination with technology.

Our benchmarking studies – produced for the last 15 years – have become the industry standard and are supported with detailed insight reports on a range of disciplines within our sector.

Services

Our services in the Knowledge Economy cover four key areas:

Buy Advisory

Equiteq supports strategic acquirers and financial sponsors seeking to dramatically increase their returns on M&A in knowledge-based and technology services businesses. After 15 years exclusively advising owners of firms towards exit, we have the assets, systems, and experience to help you enhance and execute your M&A strategy.

Sell Advisory

Equiteq supports owners of innovative knowledge-based and technology firms seeking to realize equity value. We advise on all aspects of M&A, from helping ambitious owners find capital to inject into their business to accelerate growth, through to a full company sale. We use our unparalleled understanding, experience, and access to find you the right buyer or investor, at the best price and terms.

Corporate Divestitures

We work with corporations to meet their divestiture objectives, including disposal of non-core or underperforming assets that either have synergistic potential within other businesses or could form part of a private equity portfolio investment. By combining our team of experienced people, rigorous processes, deep sector insight and market access, Equiteq is a global specialist at delivering transactions at the right price and with preferred deal terms.

Strategic Deal Origination

We work with strategic acquirers and financial sponsors to develop detailed, insight-driven plans for investment into new markets. By leveraging our sector insight and purpose-built methodology, we can rapidly convert an attractive investment thesis 'on paper' into an actionable plan to realize the opportunity, helping you to exploit key innovation trends through a less crowded, lower risk route.

Locations

Boston, USA
1 International Place
1400,
Boston, MA 02110
+1 (212) 256 1120

London, UK
4th floor
8 Angel Court
Copthall Avenue
London, EC2R 7HP
+44 (0) 203 651 0600

Asia Pacific
15 Beach Road
2nd Floor
Singapore, 189677
+65 3109 1955

New York, USA
122 East 42nd street
35th floor
New York, NY 10168
+1 (212) 256 1120

Paris, France
7 rue Meyerbeer
75009 Paris
+33 (0) 173 053 941

Australia and New Zealand
Customs House
Level 3, 31 Alfred Street
Sydney
NSW 2000
Australia
+61 2 9051 9007

info@equiteq.com

Equiteq

To learn more, please visit
www.equiteq.com